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8

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THE INTERNATIONALIZATION OF FOREIGN-OWNED ENTERPRISES IN ESTONIA: AN EXTENDED NETWORK PERSPECTIVE

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TABLE OF CONTENTS

THE LIST OF AUTHOR'S PUBLICATIONS AND CONFERENCE PRESENTATIONS

I. Chapters in monographs

1. **Vissak, T.** (1998), Otseste välisinvesteeringute mõju ekspordile, in U. Varblane (ed.), *Otsesed välisinvesteeringud Eesti majanduses*, Tallinn: Eesti Välisinvesteeringute Agentuur, pp. 103–119.
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3. **Vissak, T.** (2002), The role of FDI in outward internationalization of Estonian firms: A network perspective, in: J. Larimo (ed.), *Entry and Marketing Strategies into and from Central and Eastern Europe*, Proceedings of the University of Vaasa, Report 87, pp. 266–285.
4. **Vissak, T.** (2002), The role of inward FDI in internationalization of six affiliates in Estonia: A network perspective, in M.V. Jones and P. Dimitratos (eds), *Emerging Paradigms in International Entrepreneurship*, Aldershot, UK: Edward Elgar, forthcoming.

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INTRODUCTION

The motivation for the research

The internationalization[2] process of the firm has been widely researched for over the last four decades. During the period, many different views about the companies' increasing foreign involvement have emerged. Some of them have described internationalization as a sequential process, while the others have stressed the importance of network[3] relationships, foreign direct investments[4], managers' entrepreneurial behavior[5] and several other aspects. Despite the variety of concepts, there is still no holistic approach to internationalization.

There is no common theory concerning the interaction between trade, FDI and international production networks (Ernst and Guerreri 1998). There is also still much to be learned from examining the network approach in the context of an entrepreneurial firm (Coviello and Munro 1995). The foreign direct investment theory, the internationalization models or the network perspective, when examined independently, cannot fully describe the (foreign-owned) companies' complex internationalization process. Consequently, future research should attempt to develop an all-inclusive perspective (Coviello and McAuley 1999). By viewing internationalization as a holistic process, we should be more likely to develop theory with predictive ability, rather than fragmented explanations of specific components of internationalization (Jones and Coviello 2002).

The need to understand the factors affecting the firms' internationalization process is especially important in the case of transition economies. In Estonia,

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[2] In this thesis, **internationalization** is defined as "the process of increasing involvement in international operations" (Welch and Luostarinen 1988, p. 36).

[3] **A business network** is a set of connected "relationships between actors controlling business activities" (Forsgren and Johanson 1992, p. 5).

[4] **Foreign direct investments** (FDI) reflect the objective of obtaining a lasting interest by a resident entity in one economy in an entity resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the latter. The numerical guideline of ownership of 10 percent of ordinary shares or voting stock determines the existence of a direct investment relationship (OECD 1999, pp. 7-8). The management dimension distinguishes foreign direct investments from portfolio investments in stocks, bonds and other financial instruments (WTO 1996, p. 6).

[5] **Entrepreneurial behavior** is a combination of innovativeness, proactivity, risk-seeking, autonomy and competitive aggressiveness (Lumpkin and Dess 1996, p. 136).

the foreign trade deficit is relatively high. In 2002, it was 18.5 billion EEK[6] (Bank 2003a). The size of the country (a population of less than 1.4 million) means that even very young enterprises have to internationalize quickly. This is not easy especially for recently established smaller local companies, as they lack resources, capabilities and contacts. For older and/or larger firms, internationalization has also been relatively difficult: after the dissolution of the Soviet Union, many trading arrangements broke down and most of them were forced to find new foreign buyers and suppliers. Consequently, to enter foreign markets successfully, both older and newer enterprises may often require external assistance.

The Estonian government tries to reduce the country's foreign trade deficit by attracting as much foreign direct investments as possible. By the end of 2002, the country had received 63.1 billion EEK of FDI inflows (Bank 2003c). It has been demonstrated in earlier studies (for example, Varblane and Ziacik 1999) that in Estonia, foreign-owned firms export more than local enterprises. Still, the mechanism of the impact of FDI on the internationalization of foreign-owned companies in Estonia has received relatively little attention. It has yet to be shown, how the foreign-owned enterprises' initial situation, the managers' behavior and participating in (the foreign owners') networks might influence their internationalization process. The smallness of the country, the firms' need to internationalize (at the same time, facing difficulties) and a large dependence on foreign direct investments make Estonia a very interesting research subject.

The focus of this thesis is not only on the importance of joining the foreign owners' networks for firms' internationalization, but also the companies' internationalization before becoming foreign-owned and their (owners') characteristics and behavior both before and after the investment. Without understanding the initial situation, it would be difficult to examine how linking into foreign owners' networks might influence the foreign-owned enterprises' internationalization process. For example, the impact might depend on whether they were already internationally successful before the investment or not. The firms' and their foreign owners' other characteristics are also important to examine. For instance, the companies with passive managers and weak foreign owners might internationalize differently from those whose foreign owners are strong and whose managers are interested in internationalization. Including the pre-network internationalization and the factors influencing the impact of networks on it should improve the understanding of the impact of networks on the internationalization process of foreign-owned firms not only in Estonia, but also in the world in general. We believe that this subject has not been studied before in this form.

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[6] In June 1992, the Estonian currency, *Kroon* (**EEK**) was pegged to the German Mark at the rate 1DM= 8EEK. Since January 1999, it has been pegged to the Euro at the rate 1EUR=15,65EEK, an equivalent to the former exchange rate.

In addition to offering a different theoretical perspective of the foreign-owned enterprises' internationalization, an understanding of the process and the factors influencing it should be helpful for practitioners. Consequently, at least to some extent, the results of this thesis could be used for drawing managerial implications and making suggestions for policy-makers.

The aim and research tasks

The aim of this thesis is to prove that networks and the network members' characteristics[7] influence the internationalization of foreign-owned companies in Estonia. To achieve the aim, the following three research tasks have been set:

- Based on the theoretical literature and the conclusions about the Estonian economic environment, to draw research propositions about the foreign-owned firms' initial internationalization and the impact of network membership and the firms' characteristics on it.
- To test the propositions by using a case study analysis about seven foreign-owned enterprises in Estonia.
- To analyze the importance and limitations of different theoretical concepts in the context of the internationalization of the seven case companies and to create a general framework for understanding how the internationalization of foreign-owned firms in Estonia depends on the enterprises' and their owners' characteristics and network relationships.

Research methodology

In Estonia, mostly surveys have been used to study firms' internationalization. Unfortunately, due to a limited space, mainly closed-ended questions[8] have been asked, which has constrained the comprehension of this process. In the other countries, case studies[9] have been widely used for analyzing different aspects of companies' internationalization. Recently, some Estonian authors have also applied this method (for example, see Reiljan 2002 and Roolaht 2002). Still, providing a more detailed overview of the importance and limi-

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[7] Under the latter, we mainly mean these firms' and their foreign owners' characteristics: for example, the enterprises' internationalization before the foreign direct investment (including through previous network relationships) and their managers' behavior.

[8] For example, a closed-ended question is "Does your firm export to Finland?" An open-ended question is "Why did the company start exporting to Finland?" or "How do you find new export markets?"

[9] A **case study** is a "history of a past or current phenomenon, drawn from multiple sources of evidence" (Leonard-Barton 1990, p. 248).

tations of this methodology seems to be necessary as the empirical part of this thesis will be primarily based on case study data.

Case studies are often used as they allow deeper understanding of the subject. This method is generally accepted for generating new theory or criticizing and specifying already researched topics. It allows the researcher to study a topic as a dynamic process. Using this method, theoretical reading and empirical research can be done simultaneously. If necessary, new theories can be added during the study. This type of research can also provide richly detailed information from a variety of sources, both qualitative and quantitative. In addition, it allows the researcher to better understand the causality between elements and study a firm from multiple perspectives rather than the influence of a single variable. Although case studies have several limitations,[10] we could conclude that for examining this subject, the positive aspects of the case study methodology seem to prevail.

In the thesis, seven foreign-owned firms in Estonia from different industries, having different foreign owners and levels of internationalization will be examined. This should ensure theoretical replication[11]. At first, each company is examined separately. Then, inter-case comparisons will be made and compared with the conclusions and three propositions based on the theoretical part of the dissertation. The interview data are verified by survey data and several other sources of information: for example, newspapers, the enterprises' homepages and annual reports. This allows triangulation[12] and secures construct validity[13].

The structure of the thesis

This thesis is composed of two parts, both of them consisting of three chapters with three subsections per chapter. The main framework of the dissertation is presented in Figure 1. The first part of the thesis provides a theoretical context of the role of networks and the characteristics of the network members in the internationalization of foreign-owned companies. The first chapter analyzes four wide-known approaches to firms' (pre-network) internationalization process: the Uppsala, innovation-related and the Finnish models and the literature on born globals. It demonstrates how enterprises internationalize, what

[10] The limitations are more thoroughly presented in subchapter 2.1.3. For example, case studies are expensive, time-consuming and lead to a small sample. In addition, their results may depend on the interviewer, the selection of interviewees and case firms.

[11] **Theoretical replication** means producing "contrasting results but for predictable reasons" (Yin 1994, p. 46).

[12] **Triangulation** is the approach of using different data-collection methods. When the results converge (agree), it can be concluded that we are getting a true understanding of the reality (Gillham 2001, p. 13).

[13] **Construct validity** means that selected measures are suitable to study the specific concepts (Yin 1994, p. 34).

steps they take and which factors determine this process. In addition, the models' importance and limitations are examined.

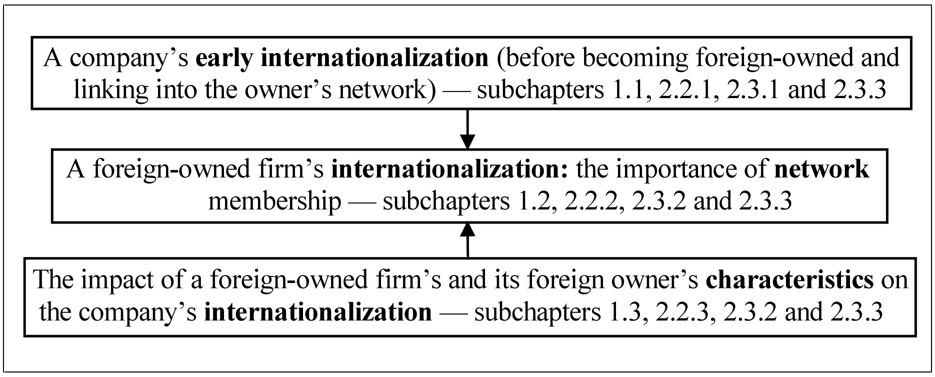

Figure 1. The main framework of the thesis

In the second chapter, the literature on the importance of networks (for internationalization) is studied. It is shown, why companies participate in networks and why they avoid them, what they can gain from a network membership and how their internationalization process can advance or slow down as a result of having foreign owners or other network partners. Thereafter, it is examined why this approach is important and what are its main limitations.

The third chapter concentrates on two subjects: the role of firms in their foreign owners' networks and the importance of entrepreneurial behavior. It indicates that in their foreign owners' networks, enterprises can have different roles depending on their actions. The chapter also demonstrates how entrepreneurial behavior can affect subsidiaries' internationalization and autonomy inside the network. The importance and limitations of these studies are analyzed as well.

The second part of the thesis studies the internationalization of seven foreign-owned companies in Estonia. The first chapter demonstrates the background of Estonian firms' internationalization. This can help us to understand the factors that have influenced the case enterprises' actions. Later, based on the previous chapters, three propositions are drawn. The final subchapter introduces the research methodology. It examines both the importance and the limitations of the case study approach, and explains why this method was chosen and how the seven case studies were conducted.

In the second chapter, the case analysis is implemented. Based on personal interviews and secondary data, it is shown how the case companies internationalized, how their membership in (the foreign owners') networks has influenced this process and how it has depended on the firms' and their owners' characteristics. In addition, is examined, whether the three propositions have received support or not.

The third chapter discusses the case study results more thoroughly. It examines each of the theoretical conclusions that were used for drawing the three research propositions. We then attempt to build a general theoretical framework for understanding the impact of networks and their members' characteristics on the internationalization of foreign-owned companies. In the concluding section, further research directions are recommended.

Theoretical limitations

Below, we will concentrate on the theoretical limitations. The limitations and advantages of selecting the case study approach and a sample of seven case firms are introduced in the methodological section (subchapter 2.1.3).

In this thesis, we attempt to integrate several main research streams examining the impact of network relationships and the network members' characteristics on the foreign-owned firms' internationalization. We are aware that this might be a limitation as some important aspects of these approaches (including the network approach to internationalization) might be left out. On the other hand, our approach might provide a richer perspective on the impact of networks on the internationalization of foreign-owned companies — the subject that is still relatively under-researched. Consequently, the integration of the other themes besides the network approach seems to be justified.

It is also understood that the limited content of the thesis and the need to absorb the theories' importance, limitations and validity in the context of Estonia leads to the need to limit the number of different approaches. Thus, although several research streams are included, some others have to be left out.

As the thesis is mostly focused at the firm level and does not seek to provide economic-political recommendations[14] — like how Estonia should change its foreign trade and investment policy — several macro-theories, including the trade and foreign direct investment theories have not been included. Still, some important aspects of the latter are mentioned in some of the subchapters.

In addition, in the thesis, we do not examine the theory of the growth of the firm and the behavioral theory of the firm. Some approaches studied in the thesis, for example, the Uppsala model and, partly, the network approach (to internationalization), are based on them and should contribute more to the understanding of the internationalization process. For the same reason, the resource-based view, for instance, incorporated in the latter approach and the literature on international entrepreneurship, is also only shortly mentioned.

In addition, the thesis only deals with the direct impact of foreign direct investment inflows: that is, with the internationalization of foreign-owned enterprises in Estonia. We do not examine very thoroughly if and how the foreign affiliates of the latter firms have internationalized.

[14] An attempt to do so can be found, for example, in Vissak 2002.

In conclusion, in this thesis, we attempt to include all the main research streams related to this topic and exclude the ones contributing relatively less for studying this particular subject: the impact of (foreign owners') networks and their members' characteristics on the internationalization of foreign-owned companies in Estonia.

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Finally, my special thanks go to my family for their support and understanding.

I am fully responsible for all the mistakes and errors found in this thesis.

1. THE THEORETICAL CONTEXT OF THE INTERNATIONALIZATION OF FOREIGN-OWNED FIRMS

1.1. The models of pre-network internationalization

1.1.1. The Uppsala and innovation-related internationalization models

In this subchapter, we examine two wide-known approaches to internationalization: the Uppsala and the innovation-related internationalization models. The main conclusions of these two research streams will be used in the second chapter for drawing research propositions.

A large quantity of research has been based on the **Uppsala** (or the **U-** or the **internationalization process**) **model**. J. Johanson and J-E. Vahlne (1990) have stated that the model has been primarily based on the behavioral theory of the firm (Aharoni 1966; Cyert and March 1963), the theory of the growth of the firm (Penrose 1959) and empirical research about Swedish companies competing internationally (Carlson 1966, 1975). The Uppsala model focuses on the development of the individual enterprise (Johanson and Vahlne 1977). The authors make the following assumptions (Johanson and Vahlne 1977, 1990; Johanson and Wiedersheim-Paul 1975; Vahlne and Johanson 2002).

- Internationalization is usually a long, slow and incremental process.
- Experiential market knowledge, for example, about how to do business in a specific foreign country, generates business opportunities and consequently is the driving force of the internationalization process.
- Lack of knowledge about foreign markets and operations is an important obstacle to the development of international operations. The necessary knowledge can be acquired mainly through operations abroad.
- The acquisition, integration and use of knowledge about foreign markets and operations are gradual.
- Knowledge also reduces market risk and uncertainty. Consequently, in a specific country, companies are expected to make stronger commitments to foreign markets and operations incrementally as they gain experience from current activities in the market.
- Because of a lack of knowledge about foreign countries and a propensity to avoid uncertainty, firms first begin to export to neighboring countries or those that are comparatively well known and similar.

These assumptions lead to two directions of internationalization. The first direction means that companies are supposed to enter new markets with successively greater psychic distance[15]. The second direction is that the market investments develop according to an establishment chain (Johanson and Vahlne 1990). In other words, the enterprises pass through a number of logical steps from a situation of no regular export activities to export via independent representatives or agents, overseas sales subsidiaries and production/ manufacturing units (Johanson and Wiedersheim-Paul 1975).

The basic mechanism of internationalization is shown in Figure 2. As knowledge is also a resource, the better knowledge about the country increases the value of the resources and leads to a stronger commitment to the market. Knowledge and experience, in turn, can be acquired through a long learning process in connection with current business activities. For this reason, the internationalization process is often slow. Commitment decisions also depend on experience gained from current business activities. As a result, additional commitments will be made in small steps (Johanson and Vahlne 1977).

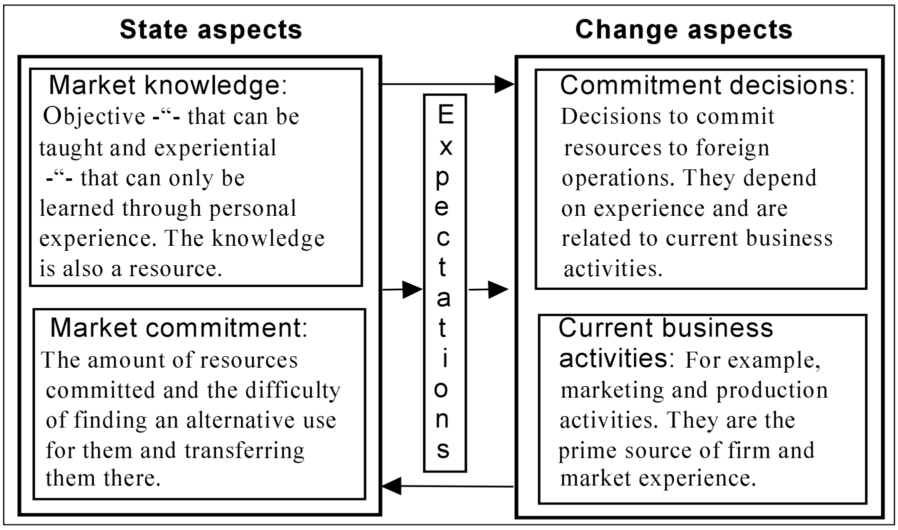

Figure 2. The basic mechanism of internationalization: state and change aspects (Sources: based on Johanson and Vahlne 1977 and Hadjikhani and Johanson 2002)

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[15] **Psychic distance** — a combination of factors inhibiting or disturbing the flow of information between the firm and its market: language, culture, political systems, education and industrial development levels (Johanson and Vahlne 1990, p. 13).

In 2002, A. Hadjikhani and M. Johanson added a fifth dimension — expectations — to explain why some firms internationalize faster than the U-model suggests. They proposed that if a company expects a favorable change in its business environment, it might take more risks in its internationalization: for example, invest more resources. Negative expectations, in turn, should slow down the internationalization process (Hadjikhani and Johanson 2002). There are also three other exceptions to the Uppsala model (Johanson and Vahlne 1990). Large enterprises or those with substantial resources can more easily internationalize. In stable market conditions, the relevant market knowledge can be obtained in other ways than through experience. When a company has considerable experience in similar markets, it may make use of it in a specific country. In 1993, it was shown that in addition to the firm characteristics, the Uppsala model's ability to explain the patterns of internationalization process depends on industry characteristics (see Table 1).

Table 1. The internationalization in different companies and industries

	National industry	**Regional industry**	**Global industry**
Global firm	The firm is much stronger than its competitors. It can enter whatever markets in whatever order it prefers.	The enterprise is more powerful and experienced than its competitors. The choice of markets, entry modes and timing may vary.	Any market entry form is possible. The company's strategy and choice of foreign markets depends on its competitive position.
Regional firm	The enterprise is a strategic inventor and has strong firm-specific advantages. It can internationalize faster than the national firm: enter more markets at once and leapfrog some stages.	The company can internationalize in a traditional way if it follows a focused strategy and has limited resources. In some cases, it may internationalize faster than the U-model traditionally predicts.	This firm is not very powerful but can be perceived as a threat. Competitors may take countermoves to threaten it. The company's internationalization depends on its competitive position.
National firm	Internationalization is based on a set of firm-specific advantages. The company enters the neighboring market and uses local agents/distributors first.	The firm goes international from a niche position. It enters the areas or product segments of less interest to main competitors. The entry process is slow and sequence traditional.	The enterprise mostly relies on a focus or niche strategy. It has a weak competitive position and thus enters the foreign markets or market segments unattractive to large competitors.

Source: based on Vahlne and Nordström 1993

The U-model is most appropriate for national firms in national and regional industries and regional companies in national industries. It is least appropriate — the exceptional case prevails — for global enterprises in regional and global industries and regional firms in global industries (Vahlne and Nordström 1993).

J.-E. Vahlne and J. Johanson studied 15 non-IT and eight IT companies in 2002 and noted that the main assumptions of the U-model — the gradually increasing geographical extension and deepening commitment to the markets entered — were not the same as in the 1970s. On the other hand, the differences seemed to be a matter of degree rather than of kind (Vahlne and Johanson 2002).

- The psychic distance still has an impact on the order in which national markets are entered but it has probably decreased while firms' ability to cope with it has increased. Although the Internet is widely used and that has made the world appear smaller, the non-IT enterprises mostly follow the traditional sequence of starting close to home and then gradually entering more culturally distant markets. The IT companies also begin from their home market but internationalize almost at once.
- The enterprises still gradually increase their commitment in foreign markets. The non-IT firms proceed from ad hoc types of exporting to more regular, routine business. Some companies may also form sales subsidiaries. The IT firms enter by "greenfield" or by acquisition very rapidly. Then, they increase their commitment by continued investments in building competence and capacity in the local organizations.
- On the whole, the enterprises develop according to the model. Those that perform almost no current activities in the foreign markets; do not also learn anything about the customers and markets. In the good times, the companies may expand rapidly to exploit what they consider a first mover advantage, which, however, is no advantage at all if they do not invest in relationships with the customers.

From the Uppsala model, the following four conclusions can be drawn. First, a lack of foreign market knowledge leads to a slow internationalization process. Second, companies usually enter similar countries first. Third, enterprises will progress from simpler to steadily more demanding market operation forms. Fourth, this model mostly applies to smaller and less experienced firms that have fewer resources.

Innovation-related internationalization (or I-) models focus on the learning sequence connected with the adoption of an innovation. They are derived from the stages of the individual adoption process: awareness, interest, evaluation, trial and adoption of an innovation (Rogers 1962). K. Simmonds and H. Smith (1968) were among the first to study export behavior as a marketing innovation.[16] They considered that entry into exporting could be traced to an "innovator", an individual possessing aggressive and competitive traits, with greater tolerance of risk than his/her counterpart in the firm and motivated by perceived rewards stemming directly from exporting as a strategy of its growth. K.J. Miesenböck (1988) even stated that in small business internationalization, the decision-maker of the enterprise is the key variable. In I-models, several other factors and agents influencing enterprises' export initiation and behavior patterns have also been demonstrated (see Table 2): for example, firm characteristics, national policies, competitors' actions and market conditions.

Table 2. The determinants of export marketing behavior

Internal	**External**
• General firm characteristics: size, goals; background, past performance, ownership structure and reputation. • Differential company advantages: the nature of its products, markets, technological orientation, financial resources and information about foreign markets. • Decision-maker characteristics: age, country of birth, value system, past history, experience in foreign markets and behavior in uncertain situations. • The strength of managerial aspirations for various business goals: for example, growth, profit and market development. • Management expectations about the effects of exporting on business goals. • The level of organizational commitment to export marketing, including willingness to learn and devote adequate resources to export-related activities.	• National policies: for example, export incentives, export support services, provision of information about foreign market opportunities and currency devaluation. • Regional trading agreements. • Home country conditions: size, domestic demand, competition, the workforce's education level, production and transport costs, linkages between industries, legislation, infrastructure and institutional framework. • Industry characteristics, including foreign and domestic competition and market demand. • Foreign market conditions: size, competition, tariff and non-tariff trade barriers, product standards; geographic and cultural distance from the host country. • Marketing activities by competitors in foreign markets. • Industrial and trade associations. • Unsolicited export orders.

Sources: Bilkey 1978; Bilkey and Tesar 1977; Calof and Viviers 1995; Cavusgil 1984; Cavusgil and Nevin 1981; Lee and Brasch 1978; Leonidou and Katsikeas 1996; Miesenböck 1988; Pinney 1970; Pavord and Bogart 1975; Reid 1981, 1983; Simmonds and Smith 1968; Wiedersheim-Paul et al. 1978; Wind et al. 1973.

[16] Actually, it was already noted in 1961 that an innovation could lead to internationalization because it takes time for the foreign competitors to adjust to a new competitive situation and to assimilate the new product or process (Posner 1961).

It has been demonstrated that some forces influence foreign-owned firms' internationalization more than that of their domestic counterparts. For example, the initial decision to start exporting could be taken in the headquarters as a result of a global marketing decision and sales might be organized through a global marketing network (Wiedersheim-Paul et al. 1978).

Although the U- and I- models differ in terms of the factors influencing international expansion, they have some similarities. The authors agree that companies internationalize step-by-step (see Appendix 1). Each new step represents more experience/involvement than the earlier stages (Andersen 1993). They state that a company proceeds abroad through temporally defined, sequential and stage-wise process. Foreign market expansion is incremental and dependent on an enterprise's experiential learning and uncertainty regarding the decision to internationalize (Fina and Rugman 1996; Morgan and Katsikeas 1997).

In different I-models, the number of internationalization stages varies from three (Leonidou and Katsikeas 1996; Moon and Lee 1990) to eight (Reid 1983). Although the researchers have brought out different stages of the firm's export development process, they all portray a common idea that its decision to go international is a gradual process that can be subdivided (Czinkota 1982). Based on the I-models showed in the Appendix 1, the following hypothetical internationalization process can be pictured.

1. *The domestic firm*: there is no international activity. The company's management is not interested in exporting; it does not collect any export information. It would not even accept an unsolicited export order.
2. *Passive activity*: the enterprise does not actively seek export opportunities but will accept unsolicited export orders. It starts collecting information about foreign markets but may still lack basic data about costs, exchange risks and distribution.
3. *The exploring stage*: the management actively explores the feasibility of exporting and makes export plans. It collects more export information.
4. *Indirect exporting via domestic agents, manufacturing representatives, commission agents*. Exports per turnover are low.
5. *Indirect exporting via foreign distributors*. Exports per turnover are low-medium.
6. *The experimental direct exporting stage*: the firm exports directly a small amount on an experimental basis to some psychologically close country. It acquires basic export experience.
7. *The stage of increasing direct exporting*: The company is semi-experienced but still exports relatively little to a single foreign market. It has a favorable attitude and active involvement in exporting.
8. *The stage of experienced direct exporting:* the enterprise is an experienced exporter to that country and adjusts exports optimally to changing exchange rates, tariffs and other factors. It makes future export plans.

9. *The stage of export growth*: the management tries to export to some other countries that are psychologically farther away. A suitable organizational structure is created to support these activities.
10. *The stage of substantial export involvement*: the firm depends heavily on exports. It concentrates on the most attractive markets and develops them in depth.
11. *The stage of seeking alternative entry modes:* the enterprise tries to use licensing or some other entry modes.
12. *The stage of foreign sales subsidiaries:* the company establishes foreign sales subsidiaries.
13. *The stage of foreign production:* the firm founds a production subsidiary.
14. *The regional company*: the enterprise views the entire region as a potential market.
15. *The global company*: the company views the entire world as a potential market.

From the innovation-related internationalization models, it can be concluded that the firms' export development process can be divided into three broad phases. They are the following (Leonidou and Katsikeas 1996).

- *The pre-engagement* phase includes three types of companies: those selling their goods solely in the domestic market and not interested in exporting; those involved in the home market but seriously considering export activity; and those that used to export in the past but no longer do so.
- During *the initial phase*, the enterprise is involved in sporadic export activity and considers various options. Here, companies can be classified as having the potential to increase their overseas involvement, and as being unable to cope with the demands of exporting, leading to marginal export behavior or withdrawal from selling abroad altogether.
- Finally, in *the advanced phase*, the firms are regular exporters with extensive overseas experience and frequently consider more committed forms of international business.

From the 15 stages shown above, stages 1-3 could be classified to the pre-engagement phase, 4-7 to the initial phase and 8-11 to the advanced phase. The last four stages represent the phase of a higher international commitment left out from this classification. As it was demonstrated in the three broad phases, developed by Leonidou and Katsikeas (1996), the I-models do not exclude a possibility for a company to withdraw from export operations, for example, because of some negative experiences or because export operations were used only as a temporary help to domestic operations (Wiedersheim-Paul et al. 1978). It is also possible that an enterprise uses some entry modes simultaneously (Reid 1981).

From the I-models, we can conclude besides knowledge, many other factors influence firms' internationalization. Individual decision-makers may considerably affect a company's internationalization process. In addition, we can say that foreign-owned firms' internationalization could be influenced by different factors and thus differ from local companies' internationalization.

1.1.2. The other approaches to pre-network internationalization

In this subchapter, we will mainly concentrate on two approaches to internationalization: the Finnish model and the literature on born globals. Some conclusions from the transaction-cost/internalization approach are also included.

The Finnish model[17] agrees with the Uppsala and the innovation-related internationalization models that firms start their internationalization from culturally similar countries.[18] In this model, cultural distance is defined as the "sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to the knowledge flow and hence also for other flows between the home and target countries" (Luostarinen 1979, pp. 131–132).

Like the U-and I-models, the authors of this model show that at first, firms tend to penetrate the countries that are closest in physical, political, economic and cultural terms. As they gain confidence, the companies might seek more distant markets. The Finnish model also agrees with the above- mentioned two models that as the enterprises internationalize, they may change the method of operating, for example, move from the stage of no exporting to exporting via an agent, then, creating a sales subsidiary, and finally, founding a production subsidiary (Luostarinen 1979; Luostarinen and Welch 1997; Welch and Luostarinen 1988).[19]

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[17] Another term, the target country internationalization process model, has been used in Gabrielsson et al. 2002. The model has also been called the Finnish variant of internationalization (Törnroos 2002b).

[18] A similar conclusion can be made from the transaction-cost/internalization approach, stating that companies choose the least cost location for each activity they perform. They internalize the markets until the benefits for further internalization are outweighed by the costs. The costs of internalization will be lower, the less different the foreign market is from the home market. Consequently, firms start their internationalization in nearby markets (Buckley 1988, 1996; Buckley and Casson 1976; Buckley and Pearce 1979; Caves 1982; Hennart 2001; Luo 2001; Rugman 1981).

[19] For its relative similarity to the U- and I-models, this approach has been often considered as belonging to either category. For example, in Björkman and Forsgren (2000, p. 11) it has been called an extension of the U-model. Andersson (2000) has classified it as an I-model. Chetty (1999), Eriksson et al. (1997) and Westhead et al. (2001), in turn, have examined the three models together. In this thesis, the Finnish model is examined separately as besides similarities, there are also significant differences from the U- and I-models.

In addition to the two dimensions — markets and market operation modes — already examined in the previous two internationalization models, the authors of the Finnish model add four more (see Figure 3): sales objects, firm characteristics, decision-maker characteristics and firm competencies.[20] Consequently, the model implies that internationalization is not a one-dimensional concept (Luostarinen 1994). A company can internationalize in some categories more than others. For example, it can increase its internationalization not only in terms of depth of operational mode as the U- and I- models suggest, but also through diversity, by using various operational forms, offering a varied product range and penetrating dissimilar markets (Chetty 1999; Luostarinen and Welch 1997).

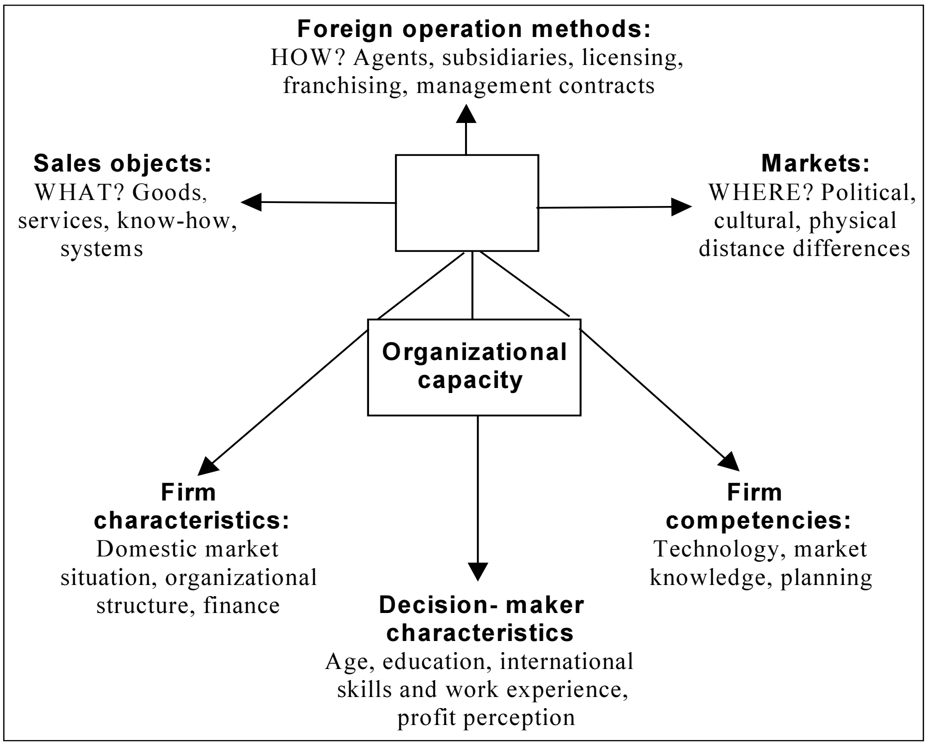

Figure 3. Six dimensions of internationalization (Sources: based on Chetty 1999 and Welch and Luostarinen 1988)

The model also suggests that firms can leapfrog some stages and speed up their internationalization (Chetty 1999). The most frequent two-staged penetration

[20] Chetty (1999) added the latter two. In the work of Welch and Luostarinen (1988), the organizational capacity was divided into organizational structure, personnel and finance.

processes are export → direct investment, licensing → direct investment, and assembling → direct investment. Three-staged internationalization is also common (Luostarinen 1970). Similarly to the U-model, the Finnish model implies that large companies, based in large domestic markets, should reveal more advanced involvement far earlier and generally move through the internationalization process at a faster rate than smaller enterprises from smaller countries (Luostarinen and Welch 1997).

The authors of the Finnish model recognize that during their internationalization, firms use a wide variety of operation modes. While the other studies usually include traditional export operations, licensing and FDI, the Finnish model examines in total 15 investment and non-investment, marketing and production operations (see Table 3).

Table 3. Categories of outward operations

	Marketing operations — MOS	**Production operations — POS**
Non-investment operations — NIOS	Non-investment marketing operations — **NIMOS** • Export operations: indirect, direct and own exporting[21]. • Marketing and management contracts. • Distribution and service franchising.	Non-investment production operations — **NIPOS** • Licensing. • Production management contracts. • Production franchising. • Contract manufacturing. • Project operations. • Co-production.
Direct investment operations — DIOS	Direct investment marketing operations — **DIMOS** • Marketing units. • Warehousing units. • Service units. • Sales units.	Direct investment production operations — **DIPOS** • Assembly units. • Manufacturing units.

Sources: based on Luostarinen 1970, 1979 and Luostarinen and Welch 1997.

According to this model, most companies start their internationalization from goods and then move to services, systems and know-how. Using the terminology of Table 3, they usually start with NIMOS and then move to DIMOS,

[21] In the first case, another company located in the home country carries out export activities on its behalf. In the second case, the producing firm exports to the intermediary located in the target country. In the third case, there are no intermediaries: the producer serves the customers directly (Luostarinen and Welch 1997).

NIPOS and DIPOS (Luostarinen 1979) but the sequence NIMOS → NIPOS → DIMOS → DIPOS has also been observed (Korhonen 1999). In addition, most enterprises at first move to very close markets and afterwards select close, medium, distant and very distant countries (Luostarinen 1979). This combination of deepening commitment of resources and diversity of operation method, products and markets may help the firms to leapfrog some stages and speed up their internationalization (Chetty 1999; Luostarinen and Welch 1997).

The model also claims that internationalization is a two-way phenomenon. This means that in addition to the outward operations, shown in Table 3, inward internationalization and cooperative modes should be studied (see Table 4). The inward internationalization process might precede and influence the development of outward activities and vice versa (Fletcher 2001; Korhonen 1999). For example, many companies have their first international contacts as potential customers of foreign enterprises. This may lead to imports of machinery, technology or some other products, which are part of an initial inward internationalization process (Luostarinen and Welch 1997; Welch and Luostarinen 1993). Sometimes, firms may acquire foreign market knowledge, reduce risk and uncertainty and the time required to establish new international operations (Karlsen et al. 2003). In addition, they may develop contact networks that may afterwards result in an outward selling or investment move (Luostarinen and Welch 1997; Welch and Luostarinen 1993). These relationships, in turn, can be later used for sourcing (Korhonen 1999).

Table 4. Inward, outward and cooperation modes

Outward operation modes	Inward operation modes	Cooperation modes
• Indirect/direct/own export. • Licensing, selling. • Know-how agreement. • Franchising. • Subcontracting. • Contract manufacturing. • Project exporting. • Joint/mixed venture.	• Indirect/direct/own import. • Licensing, buying. • Know-how agreement. • Franchising. • Subcontracting. • Contract manufacturing. • Project exporting. • Joint/mixed venture.	• Cooperation on manufacturing. • Cooperation on purchasing. • Cooperation on R&D.

Sources: based on Luostarinen 1994 and Luostarinen and Welch 1997

In the same way as the outward side, international inward operations are assumed to develop in the order of non-investment buying operations → direct investment buying operations → non-investment production operations → direct investment production operations (Korhonen 1999). After successfully testing its competitive capabilities and reaching a dominating market share, the firm usually starts its outward internationalization process. Finally, the enterprises realize the need of cooperation with foreign companies, that is, different types of strategic alliances[22] and networks. They may start cooperating on technological know-how, production, marketing, purchasing and transporting (Luostarinen 1994; Luostarinen and Hellman 1994).

In addition, similarly to the I-models, the Finnish model shows that a firm does not inevitably move to the last step of development: the reverse of the process, or de-internationalization[23], may occur at any of the stages, particularly in the early steps of export development (Welch and Luostarinen 1988). The backward process may be followed again by advancing steps. That means internationalization may be followed by de- and re-internationalization (Luostarinen 1994).

From the Finnish model, we can draw the following conclusions. First, inward internationalization (for example, inward FDI or imports from foreign suppliers) can have a considerable impact on firms' outward internationalization. Second, the internationalization process may also include de- and re-internationalization. Third, sometimes, firms can leapfrog some stages and speed up their internationalization. Fourth, an enterprise can increase its internationalization in some dimensions more than others.

The interest in **born globals** has arisen in the early 1990s (Moen and Servais 2002). This subject has received considerable attention in the international entrepreneurship literature[24]. From start-up, these enterprises view the world as their marketplace (McDougall et al. 2003). Consequently, they leapfrog into internationalization rather than move cautiously through a series of incremental steps as suggested by the stage theories (Knight and Cavusgil 1996; Rennie 1993), examined before. This happens despite the fact that the companies' resources are constrained by their young age and small size, their markets are most volatile and these firms, by definition, have little or no experience in any market (Oviatt and McDougall 1994). Consequently, the exceptions to the Uppsala model, introduced in the previous subchapter, do not include this type of firms.

Numerous studies have been made on this phenomenon using different terms: *born globals* (Andersson and Wiktor 2001; Autio et al. 2000; Bell et al. 2001; Harveston et al. 2000; Knight and Cavusgil 1996; Madsen and Servais 1997; Madsen et al. 1999; McKinsey & Co 1993; Moen and Servais 2002;

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[22] A **strategic alliance** is an interfirm cooperative agreement aimed at achieving competitive advantage for the partners (Das and Teng 1999, p. 50). For information about networks, see Chapter 1.3.1.

[23] **De-internationalization** can take the form of reducing operations in a market, completely withdrawing from it or switching to modes of operation that entail a lesser commitment of resources (Fletcher 2001).

[24] The other aspects of this research stream will be examined in the subchapter 1.3.2.

Rasmussen and Madsen 2002; Rennie 1993), *global start-ups* (Oviatt and McDougall 1994, 1995), *international new ventures* (Knudsen and Madsen 2002; McDougall et al. 1994, 2003; McDougall and Oviatt 1996; Oviatt and McDougall 1994, 1997), *new international ventures* (Knight 2001), *high technology start-ups* (Jolly et al. 1992), *infant multinationals* (Lindqvist 1997), *instant multinationals* (Litvak 1990), *instant internationals* (Preece et al. 1999), *instant exporters* (McAuley 1999) and *virtual instant global entrepreneurs* (Katz et al. 2003). As the term born global seems to be more widely spread than the others, it will be also used in this thesis.

A born global is a company that has reached a share of foreign sales of at least 25 percent within three years after its birth and seeks from inception[25] to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries (Andersson and Wiktor 2001). In contrast to organizations that evolve gradually from domestic firms to multinationals, born globals begin with a proactive international strategy. However, these companies do not necessarily own foreign assets: FDI is not a requirement (Oviatt and McDougall 1994). Consequently, some enterprises may not complete the internationalization process (Crick 1995) as it was viewed in the U- and I-models. Moreover, instead of establishing sales or production subsidiaries, they may arrange strategic alliances to use foreign resources such as manufacturing capacity or marketing (Oviatt and McDougall 1994).

Several recent trends have given rise to the emergence of born globals: the increasing role of niche markets, specialized and customized products, shorter product life cycles, larger domestic and international competition, global networks, advances in process and communication technology and inherent advantages of small companies: for example, quicker response time, flexibility and adaptability (Coviello and Munro 1995; Knight and Cavusgil 1996; Rennie 1993). Some other factors have also influenced the emergence of these firms: the background of the founder (including family background, education, experience from living abroad, experience from other internationally oriented jobs and business skills), product and industry characteristics, the country where the enterprise is located (Madsen and Servais 1997; McAuley 1999), firm size, unique resources, financial strength, R&D spending, the firm's reputation and network (Zahra and George 2002). The born globals may be able to compensate the lack of a broad resource base by using a narrow but critical set of skills. Internationally experienced managers may also allow them to effectively compete in a broader domain (Wolff and Pett 2000). It has been found that born globals are generally the firms where the top management has a desire and commitment to export. The companies, which compete on value (mainly

[25] The **inception** is a point where major observable resource commitment is carried out to sell the output upon completion of development (Oviatt and McDougall 1994, p. 49).

quality, technology and product design) and those with a strong customer orientation, belong to this category as well (McKinsey & Co 1993).

A new term, born-again global, has been created to refer to the firms that have been well established in their domestic markets, with apparently no great motivation to internationalize, but which have suddenly embraced rapid and dedicated internationalization. Mostly, this change has been caused by a critical incident: for example, takeover by another enterprise, acquisition of a company with international connections or the internationalization of a domestic client (Bell et al. 2001).

From the research on born globals, it can be concluded that some firms can internationalize very quickly despite being small, having limited resources, no market experience and acting in most volatile markets. A critical incident (for example, a change in ownership) may trigger a company's internationalization.

1.1.3. The importance and limitations of the literature on pre-network internationalization

In this subchapter, the importance and limitations of the Uppsala, innovation-related and the Finnish models will be demonstrated.[26] Thereafter, some similarities and differences between the importance and critiques of the three models will be analyzed. The results of this subchapter will be used in chapter 2.3 for examining a new theoretical framework for analyzing the impact of (foreign owners') networks and network characteristics on the internationalization of foreign-owned firms.

The Uppsala model, examined in the subchapter 1.1.1, has been widely used in the internationalization literature (Andersen 1993; see also Table 5). This model is simple and easily understandable. At the same time, it can explain the total internationalization process (Pedersen 1999): from initially small export activities in a couple of the nearest countries to the establishment of foreign production subsidiaries in more distant regions. In addition, the Uppsala model has received both empirical and theoretical support (Björkman and Forsgren 2000; Johanson and Vahlne 1990), especially for smaller and medium-sized (Korhonen 1999) firms in the earlier stages of development (Forsgren 1989), acting in national industries (Petersen and Pedersen 1997) and small domestic markets (Korhonen 1999). The U-model emphasizes the importance of knowledge and business experience in the enterprises' internationalization

[26] The importance and limitations of the literature on born globals will be examined in the subchapter 1.3.3 together with the studies in international entrepreneurship, as the latter also includes the former (for example, from the view of Arenius 2002; McDougall and Oviatt 2000; Rialp-Ciado et al. 2002, Young et al. 2003 and Zahra and George 2002).

(Pedersen 1999). As we concluded from the subchapter 1.1.1, the lack of knowledge should lead to a slow internationalization process.

Table 5. The importance and limitations of the Uppsala model

Importance	Limitations
• Dynamic. • Well-known. • Introduces the importance of know-ledge and business experience. • Makes clear the importance of cautious and incremental steps. • Valid for firms of any size. • Got considerable empirical and theoretical support. • Simple and easy to understand. • Analyzes the total internationalization process.	• Overemphasizes the role of market-specific knowledge. • Does not include all (hybrid) entry modes. • Too deterministic: leaves no strategic choices for individuals. • Does not explain "leapfrogging" behavior and decreasing foreign commitment. • Ignores the costs and the beginning of internationalization. • Is less suitable for services. • Its simplicity could hamper developing other explanations of internationalization.

Sources: Andersen 1993, 1997; Andersson 2000; Arenius 2002; Autio et al. 2000; Axinn and Matthyssens 2002; Bell 1995; Björkman and Eklund 1996; Björkman and Forsgren 2000; Björkman and Kock, 1997; Cantwell and Narula 2001; Chetty 1999; Coviello and Martin 1999; Crick and Jones 2000; Eriksson et al. 1997; Forsgren 1989, 2001; Hadjikhani 1997; Hedlund and Kverneland 1985; Johanson and Mattson 1988; Knight and Cavusgil 1996; Lam and White 1999; Luostarinen and Welch 1997; Madsen and Servais 1997; McDougall et al. 1994; Melin 1992; Moen and Servais 2002; Morgan and Katsikeas 1997; Oviatt and McDougall 1999; Pedersen 1999; Pedersen et al. 2001; Petersen and Pedersen 1997; Reid 1983; Rennie 1993; Sullivan and Bauerschmidt 1990; Törnroos 2002b; Turnbull 1987; Westhead et al. 2001; Wolff and Pett 2000

Several authors have criticized the U-model for overemphasizing the difficulty of acquiring knowledge (Forsgren 1989; Hedlund and Kverneland 1985). Even the authors of the Uppsala model have admitted that in the later stages of the internationalization process, the firms have already acquired the necessary knowledge and consequently do not have to enter closest countries first (Johanson and Vahlne 1990). In addition, the Uppsala model has been often criticized for being too deterministic (Melin 1992; Turnbull 1987) — it proposes that companies move through four stages: no export activities, exporting, foreign sales and production/manufacturing units. As we concluded from the subchapter 1.1.1, for this model, skipping some stages is an exception, not a rule. The model also excludes "leapfrogging" behavior (Bell 1995) and some foreign market entry modes[27] and does not explain why firms inevitably have to move from the exporting stage to foreign sales and production subsidiaries (Pedersen 1999). In addition, it underemphasizes the role of individuals (Arenius 2002) — for example, the top management (Andersson 2000) and several other important factors in the companies' internationalization (Andersen 1993; Pedersen 1999). Moreover, the Uppsala model offers little managerial advice (Lam and White 1999); does not explain how the internationalization process will start (Andersen 1993; Lam and White 1999), is less suitable for services (Axinn and Matthyssens 2002) and does not include the costs of internationalization (see Table 5).

The innovation-related internationalization models, examined in the subchapter 1.1.1, have also received general acceptance and considerable empirical support in the international business literature (Andersen 1993; Gankema et al. 2000; Leonidou and Katsikeas 1996). As it was shown in Table 2, besides knowledge, these models identify a large number of other variables (both internal and external) that influence the companies' export behavior. Size, the nature of their products, the decision-makers' past experience, management expectations, national export policies and industry characteristics are among them. By demonstrating the importance of learning and evolution (Lam and White 1999), the I-models provide a clear understanding of the firms' internationalization process (Crick 1995; Moen and Servais 2002). Unlike the U-model, they demonstrate the importance of the firms' managers for their internationalization (see Table 2). As it was concluded from Appendix 1, these models also include several other foreign market entry modes besides the ones introduced in the Uppsala model. In addition, the authors of the I-models have synthesized several internationalization concepts, used different analytical methods and given advice for tailoring export stimulation programs (Leonidou and Katsikeas 1996; see also Table 6).

On the other hand, the I-models have been relatively often criticized for being static (Leonidou and Katsikeas 1996) and deterministic (Reid 1983), providing only a partial explanation of the export development process (Moen and Servais 2002; Sullivan and Bauerschmidt 1990), having limited geographical and industrial scope (for example, neglecting service-based companies) and under-emphasizing (but not excluding) the importance of individuals' strategic choices and the companies' resources (Leonidou and Katsikeas 1996; Turnbull 1987). In addition, the models are based on a relatively limited amount of empirical work (Moen and Servais 2002), do not explain or predict the firms' movement from one stage to the next (Andersen 1993; Gankema et al. 2000) and are mainly concentrated on exports (Gankema et al. 2000). In the

[27] These market operation forms are also difficult to place on the U-model's scale: for example, to decide whether license production needs a greater commitment than an agreement with an export agent (Pedersen 1999).

beginning, only a couple of authors (Bilkey 1978, Cavusgil 1980 and Reid 1983) considered the possibility of licensing and foreign affiliates. In addition, as it can be concluded from the Appendix 1, since the middle of 1990s, this type of research has not been carried out so extensively as before.

Table 6. The importance and limitations of innovation- related internationalization models

Importance	Limitations
• Provide a clear understanding of the internationalization process and the variables influencing it. • Help to tailor export stimulation programs. • Show the importance of individual learning, top managers and incremental decisions. • Accepted in the international business literature. Received considerable empirical support. • Synthesize various theoretical concepts and use relatively sophisticated analytical methods.	• Relatively stagnating importance. • Based on a limited amount of empirical work. • Relatively similar to each other. • Provide only a partial explanation of the export development process. • Limited geographical scope; ignore some industries and firm types. • Mostly concentrate on exports. • Do not explain or predict firms' movement from one stage to the next. • Mostly static and deterministic in nature. Leave no strategic choices for individuals. • Offer almost no managerial advice.

Sources: Andersen 1993; Andersson 2000; Barrett and Wilkinson 1985; Bilkey 1978; Crick 1995; Fina and Rugman 1996; Gankema et al. 2000; Lam and White 1999; Leonidou and Katsikeas 1996; McAuley 1999; Moen and Servais 2002; Morgan and Katsikeas 1997; Reid 1983; Sullivan and Bauerschmidt 1990; Turnbull 1987

The Finnish model, examined in the subchapter 1.1.2, analyzes various dimensions of internationalization: for example, sales objects, firm and decision-maker characteristics and firm competencies (see Figure 3). Thus, it proposes a broader framework for the evaluation of internationalization than the U- and I-models (see Table 7), examined in the subchapter 1.1.1: they concentrated on markets and foreign operation methods. The model also complements the two previous models (Chetty 1999; Petersen and Welch 1999) as it includes less conventional entry modes (for example, contract manufacturing and project exporting). Moreover, it suggests that firms can de- and re-internationalize and internationalize in some dimensions more than the others. In addition, it can explain movements from one stage in the internationalization process to another (that the I-model was incapable of) and deviations from the patterns expected by traditional internationalization models (Karlsen et al. 2003). The Finnish model has also received empirical support (Korhonen 1999). In addition, it focuses on inward internationalization and draws important governmental implications. Consequently, it overcomes several weaknesses of the previous two models (Chetty 1999; Korhonen 1999; Welch and Luostarinen 1993).

Table 7. The importance and limitations of the Finnish model

Importance	Limitations
• Based on a substantial empirical sample. • Proposes a broader framework for evaluating internationalization than the U- and I-models. • Looks at a firm's internationalization along various dimensions and implies that in some dimensions, it can be more international than the others. • Includes exogenous variables. • Includes leapfrogging. • Admits de- and re-internationalization. • Includes less conventional market entry modes: for example, licensing, assembling subsidiaries and cooperative modes. • Turns attention to the role of inward activities and shows their links with outward operations. • Draws important governmental implications, shows the importance of promoting inward activities.	• Has attracted less attention than the U- and I-models. • Little empirical evidence on inward-outward connections. • Has ignored some dimensions of internationalization. • Does not concentrate on the context where interactions are emerging and developing. • Does not show how companies could speed up their internationalization process. • Does not show what factors inhibit switching from one market operation mode to another. • Does not include the history of the enterprise and its founders. • Pays little attention to service firms and large companies. • Does not study different connections in MNCs. • Does not give many suggestions how to promote inward internationalization.

Sources: Arenius 2002; Chetty 1999; Fletcher 2001; Freeman 2002; Gabrielsson et al. 2002; Jaklič 1998; Jones 1999, 2001; Korhonen 1999; Luostarinen 1994; Luostarinen and Welch 1997; Pedersen et al. 2002; Petersen and Welch 1999; Petersen et al. 1999; Welch and Luostarinen 1993

While the importance of the Finnish model has been emphasized in several studies, it has also received some criticism (see Table 7). The model has attracted less attention in the literature than the U-and I-models (Jones 1999). This can be partly explained by the fact that Reijo Luostarinen has not published extensively outside Finland. The Finnish model also does not study connections in the multinationals (Korhonen 1999), pays little attention to service firms (Freeman 2002), some dimensions of internationalization (Chetty 1999) and the history of the company and its founders (Jones 2001). Moreover, it does not show how enterprises could quicken their internationalization process (Korhonen 1999), what factors inhibit them from switching from one market operation mode to another (Petersen and Welch 1999), what should be done to promote inward internationalization: for example, importing (Korhonen 1999) and how exactly this could stimulate outward internationalization (Fletcher 2001).

In conclusion, all the three approaches (especially, the first two) have received general acceptance and considerable empirical support in the international business literature. They all provide a clear understanding of the internationalization process, but from a somewhat different perspective. The U-model emphasizes the importance of knowledge and previous business experience in the firms' internationalization. The I-models demonstrate the relevance of several other important factors. The Finnish model identifies a large number dimensions for evaluating this process. While the first two research streams are especially suitable for the earlier stages of international development (indirect and direct exporting), the Finnish model includes less conventional entry modes and turns attention to inward internationalization. It also suggests that firms can de- and re-internationalize and "leapfrog" some stages during their international development.

On the other hand, the first two approaches have been often criticized for being too deterministic (the I-models also being static), providing only a partial explanation of the internationalization process, not including all foreign market entry modes and not explaining why and under what conditions firms move from one stage to the next. Both the U- and the Finnish model under-emphasize the importance of individuals: managers and founders. In addition, all the three models are less suitable for service companies and offer little managerial advice: for example, how to quicken the internationalization process. Moreover, they do not demonstrate the impact of (foreign owners') networks on the enterprises' internationalization. This will be done below.

1.2. The importance of networks for foreign-owned companies' internationalization

1.2.1. The literature on the importance of networks

In this subchapter, we will examine how a company could gain from network membership. For this, we will concentrate on the **network approach** (mainly from the IMP[28] perspective) and its predecessors. In the next subchapter, the impact of network relationships on firms' internationalization will be shown.

[28] **IMP** — Industrial Marketing and Purchasing Group, created in 1976, is one of its main developers (Blankenburg Holm and Johanson 1995).

Interest in the network approach has increased since the 1980s. This approach has been widely applied in a large number of disciplines, including sociology, organization theory, social policy, innovation studies, political science, industrial marketing and purchasing, economic geography and entrepreneurship studies (Araujo and Easton 1996). Consequently, the term "network" is being used to describe very different phenomena, ranging from national economic systems and multinational corporations to small entrepreneurial firms, professional and career networks, service organizations, electronic data and communication systems and social networks (Achrol 1997). In this thesis, it will be used in terms of a business network and defined as a set of connected relationships between actors controlling business activities (Forsgren and Johanson 1992, p. 5).

This chapter mainly concentrates on the *industrial networks*, *IMP or markets-as-networks approach*.[29] The approach is based on several research streams. The social exchange perspective (Blau 1964; Cook 1977; Cook and Emerson 1978; Cook et al. 1983; Emerson 1972; Homans 1958; Johannisson 1987; Thibaut and Kelley 1959; Tichy et al. 1979; Willer and Anderson 1981) stresses two important features. First, a relationship is developed only if the parties consider it profitable. Second, cooperation in business relationships is an informal process of coordinated action between firms (Blankenburg Holm et al. 1996). The social capital perspective (Brass and Burkhardt 1992; Burt 1997; Gargiulo and Benassi 2000; Lin 1999; Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998; Walker et al. 1997) is also close to the network approach. It is concerned with the patterns of relationships among network members and how those relationships are created and used as resources to accomplish individual and organizational tasks (Maznevski et al. 2000).

There are also growing links between the network approach and the resource-based view (Foss 1999; Tavares and Young 2002). The latter suggests that a company's unique resources and capabilities can generate competitive advantage (Barney 1991) and competence development may accumulate from interaction with other parties and relationship building (Grant 1996). Relationships with other business actors are therefore important parts of a firm's critical resources (Andersson and Forsgren 2000). As it has been noted (Foss 1999; Håkansson and Snehota 1989, 2000), the network approach has also been inspired by the more institutional marketing theory (Alderson 1965; Arndt 1979, Reve and Stern 1979), organization theory (Aldrich 1979; Grabher 1993; Weick 1969), industrial organization (Bain 1968; Scherer 1970), transaction cost approach (Williamson 1975, 1985), industrial economics (Chandler 1962; Porter 1980, 1985) and evolutionary economics (Dosi et al. 1988; Nelson and Winter 1982).

[29] In the chapter 1.3, by the classification of Araujo and Easton (1996), we will examine two other types of network approaches: network organizations and entrepreneurship studies.

In the beginning, the IMP Group analyzed the continuity of dyadic relations against the background of characteristics of the parties and products exchanged (Blankenburg Holm and Johanson 1995). It stressed the importance of understanding the interaction[30] between active buyers and sellers in continuing business relationships (Gadde and Håkansson 2001). The authors demonstrated that business organizations often had continuous exchange relationships with a limited number of entities, each of them influencing the organization considerably (Håkansson 1982, 1989). It also became clear that buyers might take an active role in seeking out suppliers and influencing the interaction (Turnbull et al. 1996).

In the mid-1980s, the IMP Group recognized the necessity of seeing the relationship with a supplier in its network context. It focused on interdependencies in and between the relationships and their effects on the companies involved (Håkansson and Snehota 2000) and showed that to comprehend the process of exchange in one relationship, it is necessary to understand the wider network of relationships within which the exchange takes place (McLoughlin and Horan 2000). For example, it is very important how an individual supplier's capability is combined and integrated with other suppliers' capabilities. Focusing too much on single chains might make the buying firm overlook the opportunities and constraints residing in the intersection with other relationships of suppliers and customers (Gadde and Håkansson 2001).

Currently, the network approach provides a means for understanding the totality of relationships among firms engaged in production, distribution and the use of goods and services in what can be described as "industrial systems" (Andersson 1992). Basically, this view tries to understand systems of relationships both from a focal firm and a network perspective. It looks into a network from an aggregate, holistic viewpoint where the unit of the analysis is the network of inter-organizational relationships, not an individual firm or relationship (Möller 1994; Salmi 1996; Turnbull et al. 1996). It studies a flexible network organization — composed of a cluster of different organizations (see Appendix 2) — with floating boundaries but built around some strong relationships (Håkansson and Snehota 2000).

A fragment of a hypothetical network is presented in Figure 4. Firm A has direct relationships with B, C, D and E. Through the relationships with B, it is connected to four companies: G, H, F and I. It can be also seen that Firm A could contact F through its relationship with C and there is a connection between H and I, and D and E. In addition, the enterprises could have several other relationships with the companies outside the fragment. They could, in

[30] An **interaction** comprises complex parts of information exchange, concerning the firms' needs, capabilities and strategies with regard to, for example, production, logistics, development and quality (Cunningham and Homse 1986). It is a matter of coordinating activities and resources between two firms (Håkansson and Snehota 1995).

turn, be connected to the other actors. Consequently, the network has no clear boundary. To ease the research, the view of the network could be limited. For example, it is possible to include all the firms in the fragment and ignore their relationships with the companies from outside. Another way could be to concentrate on the direct and indirect relationships of one enterprise — for example, A — or to examine how a firm's position changes if it links to another company: for instance, how B gains from linking to A. In this dissertation, we will mostly examine the latter.

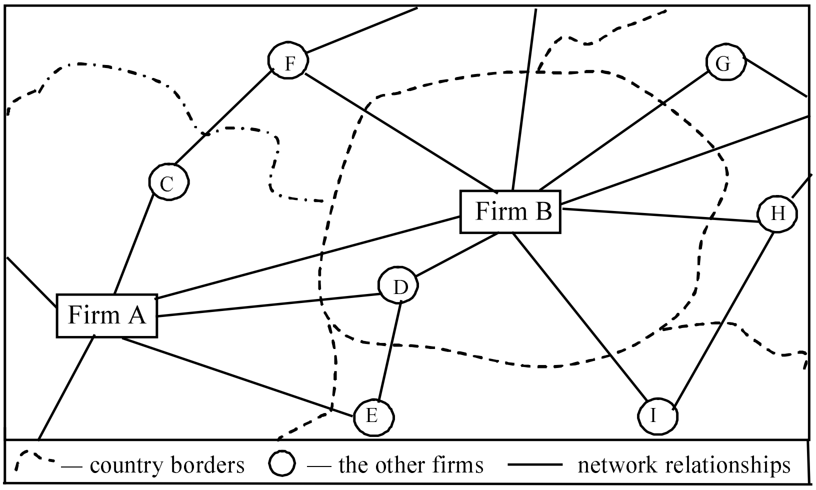

Figure 4. A fragment of a network

The network model makes the following propositions (Håkansson and Snehota 1989, 2000; Håkansson and Ford 2002; IMP 1982; Johanson and Mattson 1988; McLoughlin and Horan 2000; Turnbull et al. 1996).

- Both buyer and seller are active participants in the market. Each may search for a suitable buyer or seller, prepare specifications of requirements or offerings and attempt to control the transaction process.
- Close, complex and long-term relationships exist between buyers and sellers. They deal with technical, social and economic issues. The relationships can involve both conflict and co-operation.
- Business organization's behavior depends on a limited number of counterparts, each of which is unique and pursues its own goals.
- A firm is dependent on the resources controlled by the other firms. A continuous interaction with the other parties makes it possible for the enterprises to access and exploit their resources and to link their activities together. As a result, the organization's distinctive capabilities depend on its relationships with its counterparts.

- Relationships are connected. What happens in one of them, will always affect all the connected relationships, sometimes marginally, but often substantially. Consequently, when deciding on any management action, it must be considered, what has happened in the past of the relationship, what the parties have previously learned; what currently happens between the companies and with the others with which they are involved; what the firms expect from their future and what happens in the wider network in which they are not directly involved.

The central analytical device of the IMP approach is the actors-resources-activities (ARA) model (see Figure 5). It has the following three layers (Håkansson and Snehota 1992; McLoughlin and Horan 2000).

- As a business relationship develops, *actors* become connected. Bonds between actors are established which affect how they perceive, evaluate and treat each other. A network consists of networks of actors. Each has an identity and a recognized position within the network defined by the relationship it has with other parties.
- A relationship can tie together *resources* — for example, technology, materials and knowledge — required to complete the commercial activities of the organization. Besides making various resource elements accessible for the parties it also constitutes a resource that can be used and exploited.
- A relationship links *activities*: the processes involved in the production of goods and services. Such activity links may be as simple as the coordination of deliveries or as complex as co-development of a new technology. They, in turn, affect the outcomes of the relationship.

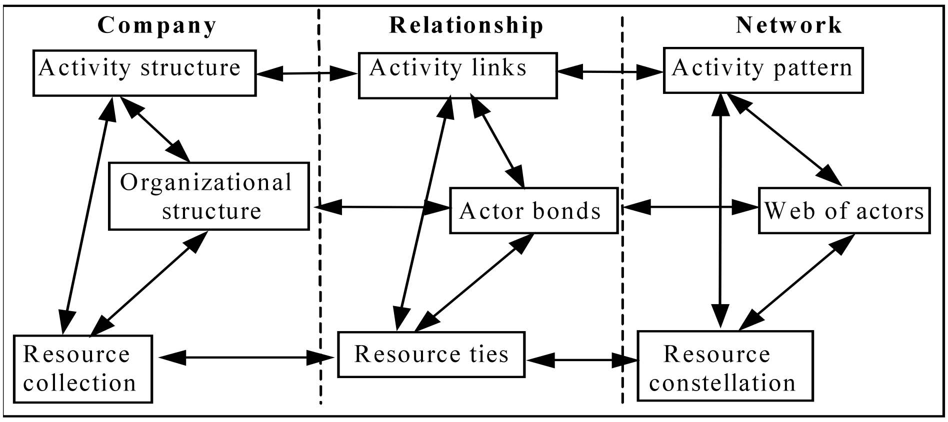

Figure 5. The ARA model (Source: based on Håkansson and Snehota 1992)

Through the relationships, firms can mobilize and use some resources controlled by the other parties (Håkansson and Snehota 1989). Relationships can also be a crucial means to increase an enterprise's ability to innovate and to take part in technological development (Håkansson and Snehota 2000). Usually, the global company contributes intangibles, such as technology, brands, and skills that grow importance over time. The local firm's contributions, on the other hand, are more likely to be local market knowledge, relationships with regulators, distribution and possibly manufacturing (Adarkar et al. 2001).

A network structure can also be used for several other reasons: for example, acquiring new skills, reducing costs, damaging possible competitors and gaining a good reputation. Although several enterprises avoid long-term partnerships (see Appendix 3), any company that is going to be a significant player in dynamic global markets should inevitably be actively networked in one form or another (Achrol 1997). Small and medium enterprises are affected by lack of networking most directly, because they themselves typically lack resources and management capacity to export successfully (Malecki and Poehling 1999). Although networks and personalized exchanges have always been important aspects of firm behavior in planned economies, such activities take an added importance for the companies' growth during transition (Peng and Heath 1996).

From the above, the following three conclusions can be made. First, firms have continuous relationships with a limited number of companies that influence them considerably. Second, through interdependencies among third parties, an organization's performance depends on the whole network. Third, by belonging to a network, an enterprise can accomplish its goals, for example, obtain resources and develop its capabilities.

1.2.2. The impact of (foreign owners') networks on internationalization

In this subchapter, we will mostly concentrate on the network approach to internationalization. Some material from the other research streams — for example, the literature on the relationships between FDI and host country exports — is also included.

The network approach has been often applied to **internationalization**. This research stream has partly grown out of the Uppsala internationalization model examined in the subsection 1.1.1. Still, the other researchers and research streams should also be mentioned in this research area. For example, several scholars have demonstrated the importance of networks while studying foreign direct investments abroad as a market entry mode (Bridgewater 1999; Chen and Chen 1998; Ghauri and Holstius 1996; Salmi 2000) and analyzing the impact of inward FDI on foreign affiliates' internationalization (Hunya 1998; Kaminski and Smarzynska 2001).

While traditional literature largely concentrates on the processes of deciding and planning to enter a market and on entry modes, the network approach stresses the actual process of market entry and becoming a player in the network (Salmi 2000). From this point of view, an enterprise's internationalization means establishing and developing business relationships in networks in other countries (Johanson and Mattson 1988). Consequently, a company's progress and route towards internationalization depend on its total business network (Axelsson and Johanson 1992; Björkman and Forsgren 2000). This means that not only direct partners, but also the ones of their partners affect a firm's behavior (Ford 1998). The existing relationships, in turn, can be used as bridges to other networks (Sharma and Johanson 1987; Johanson and Vahlne 1990).

From the network perspective, the international business enterprise may, but does not necessarily, have subsidiaries in several countries — it may well consist of one single company engaged in international business relationships (Andersson and Johanson 1997). Consequently, a firm can have most of its physical assets located domestically but still be an important player in an international network (Björkman and Forsgren 2000). It can also gain access to the other enterprises' experiential knowledge without necessarily going through the same experiences (Eriksson et al. 1998)[31]. In addition to learning about the partner's capabilities, needs and strategies, a company learns about the latter's business conditions and market networks (Johanson and Johanson 1999). Thus, a typical internationalization sequence has changed from gradual expansion to expansion in leaps by joining the nets (Hertz 1996).[32]

The relationships with clients, competitors, colleagues, government and friends may also affect the firm's choice of foreign market and entry mode (Coviello and Munro 1997; Coviello and Martin 1999; Johanson and Vahlne 2003). Network relationships might be instrumental in explaining why some firms choose to enter a market directly with their own manufacturing unit (Björkman and Eklund 1996) and not start from exporting as the U- and I-models suggest. On the other hand, it should not be forgotten that the relationships could not only drive and facilitate, but also inhibit a firm's internationalization (Ford 1998).

From the network perspective, the internationalization process is an outcome of interplay between experiential knowledge development and commitment although they concern potential and existing relationship partners, not countries (Johanson and Vahlne 2003). Internationalization of the firm can be achieved through the establishment of relationships in foreign country networks that are new to the firm (international extension); the development of relationships and

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[31] Recruiting personnel with expertise in distant markets might help to reach a similar effect (Coviello and Martin 1999).

[32] Already Vernon (1979) noted in his product (life) cycle approach that through a network of foreign manufacturing subsidiaries, a firm could develop new products and introduce them at foreign markets at a higher speed.

increasing resource commitments in those networks in which the company already has a position (penetration) or connecting existing networks in different countries (Johanson and Mattson 1988). The experienced enterprises can use their existing network position as a base for further internationalization — for instance, FDI (Forsgren 1990). Foreign market entry is achieved when the firm has developed one or a set of exchange relationships in the foreign market, constituting a basis to continue a business there for a long term. In other words, it has realized a position in the new network where it plays a role accepted by the others, has a certain amount of trust and has achieved a certain volume at which the business at least breaks even (Blankenburg 2001). This process depends on several internal and external factors (see Figure 6). Foreign market entry is more successful in the following conditions (Blankenburg 2001).

- The degree on conflicting interests is low.
- The company is visible for the other network actors.
- External network actors are active and share the interests of the entrant.
- The actors have many activities in foreign markets.
- The network is tightly structured.
- The firm's managers have similar ideas concerning its development.
- There is sufficient network knowledge[33].
- An enterprise is linked with other international actors, especially those on the market it wants to enter.

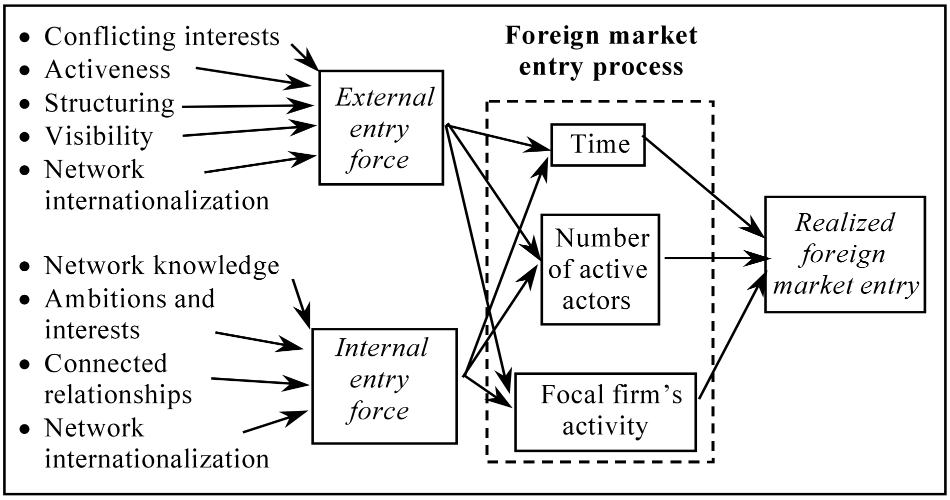

Figure 6. Forces affecting the entry process and the realized foreign market entry (Source: based on Blankenburg 2001)

[33] Naturally, a more full understanding of relationships and networks can only be gained later, by acting in the network (Blankenburg 2001).

From the network perspective, firms can be divided into four groups depending on their and their environment’s internationalization (see Table 8)[34].

Table 8. The internationalization typology of firms and networks

		Degree of internationalization of the market (the production net)	
		Low	High
Degree of internationalization of the firm	Low	*The early starter*: the firm, its competitors and suppliers have few important international relationships.	*The late starter*: the market is already internationalized. The company has indirect relationships with foreign business networks through its suppliers, customers and competitors.
	High	*The lonely international*: the enterprise is already highly internationalized but the market environment still has a domestic focus.	*The international among others*: the firm and its environment are both highly internationalized. The company is connected to various international networks that provide opportunities for obtaining external resources.

Sources: based on Chetty and Blankenburg Holm 2000 and Johanson and Mattson 1988

1. In the case of a *lonely international*, the enterprise has experience of relationships with and in foreign countries. It has acquired knowledge and means to handle environments differing with respect to culture, institutions and the other dimensions (Johanson and Mattson 1988). Consequently, failures are less likely. The lonely international alone has the capabilities to promote internationalization of the market (Chetty and Blankenburg Holm 2000). It may work with suppliers to upgrade inputs and thereby enhance their competitiveness. The members of the ancillary network[35] are only indirect exporters (Wilkinson et al. 2000).

2. In the case of an *international among others*, a further internationalization of the firm only means marginal changes in extension and penetration. The company has possibilities to use positions in one net for bridging over the other nets (Johanson and Mattson 1988), for example, penetrating the third countries.

[34] The latter is also important: for example, a low degree of internationalization of the market means that the actors have few relationships with each other. This, in turn, may slow down a firm’s internationalization (Johanson and Mattson 1988).

[35] The **ancillary network** is composed of firms supplying various types of inputs to the primary network, including production equipment, subassemblies, technical know-how and specialized services. The **primary network** is composed of firms involved in the transformation of raw materials through various production stages to the final distribution to end users (Wilkinson et al. 2000).

An important issue for this type of an enterprise is co-ordination of activities in different markets (Andersson 2002). In this situation, externalization may occur: the company may increasingly purchase components and sub-assemblies rather than do the manufacturing itself (Johanson and Mattson 1988). The members of the primary and ancillary network also belong to highly internationalized networks. This is important for three main reasons (Wilkinson et al. 2000).

- If the international competitiveness of primary enterprises starts to run out, the input network can still remain internationally competitive.
- In this case, it is generally easier for internationalized firms to switch to non-domestic based suppliers than in the lonely international situation.
- An important part of international trade is linked to big projects for which companies or consortia are invited to bid. The choice of suppliers to such projects is often influenced by the nationality of the main contractor and by the financial conditions offered. It is easier for a main contractor or consortium from a particular country to have a high content from that country if the ancillary network is also internationally competitive.

3. If the suppliers, customers and competitors of the firm are international, even the purely domestic company has a number of indirect relations with foreign networks (Johanson and Mattson 1988). Relationships in the domestic market may be the driving forces to enter foreign markets. The *late starters'* internationalization may be also led by indirect relationships with foreign business networks. Markets with close psychic distance, however, might be difficult to enter, so the firm might start its internationalization by entering more distant markets. The late starters are at a disadvantage because their competitors have more knowledge and because it is hard for new entrants to break into an existing network (Chetty and Blankenburg Holm 2000). There are several reasons why they do not try to internationalize (Wilkinson et al. 2000).

- The nature of the input could be of little significance in contributing to the international competitiveness of other firms in the primary or ancillary network.
- Specific barriers might exist to trade for the products, such as government prohibitions.
- There might still be enough growth opportunities in the domestic market.
- These companies might not be internationally competitive or aware of international opportunities.

4. The *early starters* are different from the late starters in that other members of the ancillary network or the part of the primary network served are not internationalized (Wilkinson et al. 2000). The firms have little knowledge of foreign markets and they cannot count upon utilizing relationships in the domestic market to gain such knowledge (Johanson and Mattson 1988). Consequently, these companies' internationalization should be most similar to the

one proposed in the Uppsala model (Arenius 2002). Generally, for these enterprises, the same reasons for concentrating on the home market exist as for the late starters, but there are two important differences. First, there may not be many international firms of this type anywhere: for example, their product or service might not be tradable (like wholesaling and retailing). Hence they are only exported, embodied in other products or services. The second difference from the late starters is that, should these companies start to export, they may not meet internationally active competitors or customers, unless the domestic industry had been isolated from international trade (Wilkinson et al. 2000).

Since the early starters are pioneers, it is likely that management attitude to exporting is positive and that knowledge of internationalization is limited (Wilkinson et al. 2000). They may also have little opportunity to acquire this knowledge from their relationships in the domestic market (Hinttu et al. 2002). Consequently, the enterprises use agents, distributors or customers abroad to internationalize, reduce cost and uncertainty and benefit from the agent's previous knowledge and investments in that market. The initiative to go abroad is often taken by other counterparts than the firm itself. The alternative strategy, to start with an acquisition or "greenfield" investment, is mainly possible for the companies that are large and resourceful in the home market (Johanson and Mattson 1988). When the enterprise gradually becomes more internationalized it will move into another phase, the lonely international (Törnroos 2002b).

Substantial research has also been made in the **relationships between FDI and host country exports**. Some conclusions of this research stream can be useful for examining the impact of foreign owners' networks on the foreign-owned firms' internationalization. Several authors have shown that foreign affiliates usually export more than local-capital-based enterprises.[36] There is such evidence, for example, from Estonia (Varblane and Ziacik 1999; Vissak 2001ab), the Czech Republic, Slovakia (Hunya 1998), Hungary (Hooley et al. 1996; Hunya 1998; Kaminski 1999), Poland (Kaminski and Smarzynska 2001; Kubielas 1996) and Slovenia (Rojec et al. 2000). This is caused by the following two reasons (Blomström 1990; Dunning 1994; Fan and Dickie 2000; Kaminski and Smarzynska 2001; Lall 1993; Lauter and Rehman 1999; Lipsey 2002; Rhee and Belot 1990; UNCTAD 1995, 2002; Zhang and Song 2000; WTO 1996).

- Foreign affiliates may have a better export potential than local firms because of their business contacts abroad, management and marketing skills, the right to use their parents' brand names, superior technology and greater general know-how.

[36] On the other hand, exports in general, and manufacturing exports in particular, are significant determinants for high-FDI recipient countries. Thus, successful exporters should attract more foreign caputal inflows (Singh and Jun 1995, Manzocchi 1997).

- The owners can also help the affiliates to set up a distribution network, follow consumer tastes, industrial norms and safety standards; deal with product design, packaging, distribution, servicing and shaping a new product image.

From the **industrial organization approach**, we can reach a similar conclusion. Multinational enterprises could possess some advantages, compared to local firms (or subsidiaries): for example, technology, management or marketing skills, cost effectiveness, established market or financial strength (Hymer 1960, 1968, 1976; Kindleberger 1969). Consequently, from the foreign owner, the foreign-owned company may acquire capital and a bundle of proprietary and intangible assets, including technology, business techniques, skilled personnel and market channels (Caves 1996; Fan and Dickie 2000; Hymer 1976). Several positive impacts of FDI on host country enterprises' exports — for example, receiving skills, improving labor quality and increasing exports — have been also demonstrated in the **"flying-geese" model** (Kojima 1975, 1978, 1985, 1986, 2000).

Five conclusions can be drawn from the above. First, through linking into their foreign owners' networks, the affiliates may acquire capital, technology, business techniques, skilled personnel and access to market channels. Second, by joining a foreign (parent company's) business network, a firm can considerably quicken its internationalization. Third, by linking into a network, a company might start its internationalization by entering more distant markets. Fourth, as through networking, enterprises can obtain access to the other firms' knowledge, they can skip some stages of their internationalization process: for example, enter a market directly with their own manufacturing units. Fifth, besides driving or facilitating a firm's internationalization, network relationships sometimes also inhibit it.

1.2.3. The importance and limitations of the literature on the importance of networks (for internationalization)

In this subchapter, the importance and limitations of the network approach (to internationalization) will be analyzed[37]. Thereafter, some similarities and differences between the importance and critiques of these two approaches will be demonstrated. They will be later used in the chapter 2.3.

Despite of its relative novelty, the **network approach**, examined in the subchapter 1.2.1, has been increasingly reviewed in different areas of the business literature and several other fields (Håkansson and Ford 2002; Wilkinson and Young 2002). It challenges but also complements some of the existing theories,

[37] In the previous subchapters, the other approaches were only shortly mentioned. Consequently, their importance and limitations will not be included in this thesis.

provides a clear understanding of the business reality and has often been supported by empirical evidence (McLoughlin and Horan 2000; Turnbull et al. 1996). This approach demonstrates the importance of close long-term relationships (Wilkinson and Young 2002) in raising the competitiveness of organizations (see Appendix 3), for example, showing that the resources of the firm depend on its relationships with the other actors and their partners (Chetty and Wilson 2003). The increased competition among companies has led to growing importance of maintaining close relationships (Jaklič 1998). Consequently, the importance of the network approach has also grown, especially in the last two decades (Samiee and Walters 2003). Moreover, the network approach can be used for enterprises' strategic and operational business planning (Andersen and Buvik 2002), studying dynamics in business markets (Halinen et al. 1999) and analyzing direct and indirect (Axelsson and Johanson 1992), close and distant (Bengtsson and Kock 1999; Halinen et al. 1999) relationships among firms and other actors (see Table 9).

Table 9. The importance and limitations of the network approach

Importance	Limitations
• Novel but increasingly important. Has been applied to many areas. • Challenges and complements traditional perspectives and describes a new business reality. • Recognizes non-economic bonds between organizations. • Stresses trust and a long-term perspective. • Understands the totality of direct and indirect, close and distant relationships among firms. • Useful for strategic and operational business planning. • Sees the resources of the company as an inter-organizational matter.	• Lacks a clear disciplinary home. • May be regarded as unscientific. • Uses vague and unclear concepts. • Focuses mainly on the links between a buyer and a seller (both active). • Sometimes ignores the actions of individuals within the network. • Lacks explanatory power and ability to develop managerial implications. • Pays little attention to the dynamics of business networks. • Does not produce satisfactory models for predictions. • Difficult for an observer to understand relationships/dependencies/connections between actors or relationships.

Sources: Andersen and Buvik 2002; Alajoutsijärvi et al. 2001; Andersson 1992; Araujo and Easton 1996; Axelsson 2001; Axelsson and Johanson 1992; Axelsson et al. 2000; Bengtsson and Kock 1999; Björkman and Forsgren 2000; Blankenburg 2001; Blankenburg Holm and Johanson 1995; Chen and Chen 2002; Dennis 2000; Dunning 1995; Easton 1992a, 2000; Elg 2000; Greve 1995; Gadde and Snehota 2000; Håkansson and Snehota 1995, 2000; Halinen et al. 1999; Jones and Coviello 2002; Koka et al. 1999; Korhonen 1999; McLoughlin and Horan 2000; Möller 1994; Pels 1999; Tikkanen 1998; Turnbull et al. 1996; Wilkinson and Young 2002

On the other hand, the network approach has been sometimes criticized (see Table 9) for having no clear disciplinary home (Araujo and Easton 1996), paying little attention to the economic perspective (Dunning 1995) and being too general to be operationalized and tested (Easton 1992a).[38] Some authors have also pointed out its weakness to create clear definitions and ideas (Alajoutsijärvi et al. 2001; Araujo and Easton 1996) and criticized the network approach for being rather inadequate for predictions, not offering considerable managerial suggestions (Easton 2000) and sometimes lacking explanatory power and sufficient empirical evidence (Turnbull et al. 1996). Another limitation of this approach is its focus mainly on the links between a buyer and a seller — especially in the earlier studies — (Samiee and Walters 2003; Todeva 2001), not, for example, the wholesaler- consumer relationships (Pels 1999) or explaining the actions of the individuals within the network (Axelsson and Agndal 2000). The network approach (see for example, Håkansson 1982) also assumes that both actors are active, while they actually do not necessarily have to be (Pels 1999), and does not pay enough attention to the dynamics of business networks (Halinen et al. 1999).

The network approach has been often applied to **internationalization** (see subchapter 1.2.2). As the previous research stream, it[39] has received considerable empirical support (Ford 1998) and provides a good description of the business reality (Björkman and Forsgren 2000). It includes the seemingly random internationalization behavior falling outside the traditional models (Axelsson and Agndal 2000) — for example, the one of the late starters that might begin their internationalization from distant markets. This approach also demonstrates the importance of long-term relationships (Björkman and Forsgren 2000) and external influences in firms' internationalization process (Ford 1998). For example, acquiring necessary resources and contacts would be difficult without having long-term network partners (Chetty and Wilson 2003). In addition, the network approach to internationalization shows the impact of different actors (Björkman and Forsgren 2000) and government policies on the companies' internationalization (see Table 10) and, by admitting that relationships can sometimes inhibit a firm's foreign market entry (Ford 1998) is able to explain de-internationalization.

The authors of this approach have received criticism for having limited strength for understanding the pattern of internationalization, not offering very precise conclusions, including too many variables (Björkman and Forsgren 2000), having indistinctive criteria for differentiating between different firm types (Chetty and Blankenburg Holm 2000), not offering satisfactory models

[38] On the other hand, the IMP Group has not tried to define a clear core but to bring together knowledge in new ways (Håkansson and Snehota 2000).

[39] Actually, it can also be considered as a part of the network approach, but in this thesis, they are viewed separately because of a different main focus.

for predictions (Björkman and Forsgren 2000) and concentrating on larger and/or manufacturing companies. In addition, the approach does not pay enough attention to the importance of decision-maker and firm characteristics (Chetty and Blankenburg Holm 2000) while despite a stimulus for internationalization, the manager might not respond due to fear of loosing control over the enterprise, unwillingness to internationalize or other personal grounds (Hinttu et al. 2002). Moreover, this approach sometimes neglects several external factors and actors (McLoughlin and Horan 2000): for example, relationships with customers and competitors (Chetty and Wilson 2003) and government export promotion programs leading to or quickening internationalization (Chetty and Blankenburg Holm 2000).

Table 10. The importance and limitations of the network approach to internationalization

Importance	Limitations
• Describes business reality well. Has got empirical support. • Addresses some shortcomings of the other approaches: for example, internationalization behavior falling outside the traditional models. • Views foreign market entry as a result of a cumulative process. • Demonstrates the impact of internal and external actors and long-term relationships on internationalization. • Can capture interconnectedness and concurrence of internationalization processes. • Shows that the resources necessary for internationalization can be acquired through network relationships. • Leads to a wide-ranging strategic and policy approach.	• Has mostly concentrated on large and/or manufacturing firms. • Has limited strength as a tool for understanding internationalization and drawing conclusions about its pattern. • Offers vague predictions, uses indistinctive criteria and includes too many variables. • Does not discuss the importance of decision-maker and firm characteristics. • Does not examine how the companies overcome the problems experienced in internationalization through their network relationships. • Mostly focuses on the firm's production net rather than customers and other actors. • Excludes the impact of certain external factors propelling an enterprise towards internationalization: unsolicited orders, domestic competition, formal associations and government economic policies.

Sources: Agndal and Axelsson 2002; Andersen and Buvik 2002; Andersson 2002; Björkman and Forsgren 2000; Blankenburg 2001; Chetty and Blankenburg Holm 2000; Chetty and Wilson 2003; Coviello and Martin 1999; Fletcher and Barrett 2001; Ford 1998; McLoughlin and Horan 2000; Sharma and Johanson 1987; Törnroos 2002b; Wilkinson et al. 2000

From the above, we can conclude that the two approaches have received wide attention in the literature. They complement the existing theories, provide a good understanding of the business reality and have received considerable empirical support. These approaches also demonstrate the importance of close long-term relationships, for example, for acquiring resources necessary for successful internationalization. On the other hand, they have been criticized for having rather unclear definitions, ideas and/or conclusions and being rather inadequate for predictions. In addition, they quite often ignore some important factors and actors: for example, individuals inside the company. The decision-maker and firm characteristics will be discussed in the next chapter.

1.3. The impact of firms' and their foreign owners' characteristics on the foreign-owned companies' internationalization

1.3.1. The role of firms in their foreign owners' networks

In this subchapter, we will mainly concentrate on network organizations (by the classification of Araujo and Easton 1996). Some conclusions from the other research streams have also been added.

Numerous authors have studied one form of **inter-organizational networks**: multinational corporations (**MNCs**). Previously, these firms were viewed as hierarchical, center-dominated organizations in which subsidiaries acted as instruments of the parent company and were engaged in relationships only with the headquarters. The affiliates' main tasks were usually local sales and manufacturing (Bartlett and Ghoshal 1986; Birkinshaw and Hood 1998a). Then, it was observed that MNCs needed flexibility to respond to continuous evolutions and revolutions in products, technologies and markets. Consequently, they moved away from monolithic and rigid organizational designs (shown in Appendix 2) towards more flexible and agile organizational forms, which could accommodate novelty, innovation and change (Arias 1995). Increasingly, MNCs are now seen as inter-organizational networks, in which the subsidiary has multiple connections with the other entities both inside and outside the corporation's formal boundaries (Birkinshaw 1997).

The network perspective entails multiple centers of expertise around the world, greater strategic roles for affiliates and a more flexible managerial system (Birkinshaw 1996; Birkinshaw and Hood 1998b). It describes precisely the subsidiaries' exchange relationships with customers, suppliers and other counterparts and recognizes that for each unit, the most important resource is the web of specific relationships in which it is embedded (Andersson 1999).

From this point of view, the international firm is an enterprise, connecting business relationships in several countries (Andersson and Johanson 1997). The headquarters do not design these relationships: they emerge in interplay between semi-autonomous, interdependent actors (Forsgren 1990).[40] Consequently, the affiliate is a network member with links to internal and external actors (Tavares and Young 2002). It operates in the interface of three “markets” (Birkinshaw 1997): the local, consisting of competitors, suppliers, customers and regulatory bodies in the host country; the internal, comprised of head office operations and all corporate-controlled affiliates worldwide; and the global, consisting of the actors from outside. The network resources of a focused subsidiary can, in turn, influence the competitive ability of an MNC in two main ways (Andersson et al. 2002). First, the affiliate’s access to these resources can impact its competitive capability in its own market. Second, through their flow from the focused subsidiary to the multinational’s other units, the competence of the MNC as a whole will be upgraded.

In the middle of the 1980s, beginning with White and Poynter (1984), the research focus shifted from dyadic headquarters-subsidiary relationships to subsidiary roles.[41] It has been shown that dissimilar affiliates are assigned different roles based on their unique characteristics (Bartlett and Ghoshal 1986).[42] In different authors’ works, the number of subsidiary roles has ranged from two (Crookell 1987 and Porter 1990) to six (Ferdows 1997 and Mudambi 1998). Several variables have been used to distinguish between these types. They include autonomy, competence, value-added, scope of activities; R&D intensity and a role in a multinational network (see Appendix 4). Based on the roles introduced in Appendix 4, three subsidiary types can be identified. They are the following.[43]

- *The local subsidiary* has a low value-added and a very low autonomy from the parent company. Local managers rarely choose key suppliers or negotiate prices. They rely on the parent and, sometimes, the owner’s other affiliates to provide the expertise in new processes, products and technologies. The subsidiary does not invest considerably into technology or know-how. Consequently, it has a very low innovativeness and R&D intensity. Usually, this company operates only in the local market that is relatively unimportant for the parent. It performs only a few functions of

[40] The eclectic paradigm has supported this idea. It has shown that the ownership advantages of a multinational depend upon its competence to seek out, harness and influence the innovation, price and quality of assets of other institutions (including affiliates) with which it has an on going cooperative relationship (Dunning 1995, 2000, 2001). In a modified version of this framework a firm’s advantage depends on the headquarters, their subsidiaries and the systemic relations between them (Madhok and Phene 2001).

[41] At the same time, it should not be forgotten that the subsidiary’s most critical relationship is still with its corporate headquarters (Birkinshaw and Hood 1998a).

[42] Already Vernon (1979) stated that some affiliates are given the right to analyze foreign markets and produce home-based innovative products themselves.

[43] Naturally, many firms may be classified in between.

the value chain, usually marketing and distribution of the goods produced elsewhere in the multinational's supply network. Sometimes, it may also have some after-sales services or low-cost local production.

- *The regional subsidiary* is responsible for the local market and some other countries in the region. The firm may be relatively autonomous from the parent company, especially in procurement, production planning, process changes, outbound logistics; product customization and redesign decisions. The affiliate may be located in an attractive area for the parent. Its value-added may be relatively high. It has its own R&D unit and enough resources and expertise to develop and produce (a part of) a product for the company's global markets. The enterprise may also distribute some parent company products. It can create knowledge that can be utilized by other affiliates.
- *The global subsidiary* has a high competence and value-added and a high autonomy from the parent company. The managers choose their key suppliers and often participate in joint development work with them. The affiliate has access to resources and is free to pursue new business opportunities: for example, to develop product lines for local, regional or global markets. It is a technological and commercial leader. The firm is highly international. It manages all facets of its product line. The enterprise carries out its own R&D and formulates marketing plans to be executed by the parent company's sales force. This subsidiary is a source of knowledge for other units. It creates new processes, products and technologies for them and constantly updates its competence.

The subsidiary role and activities depend on three factors: the head-office assignment, subsidiary choice and the local environment (see Figure 7). Each affiliate occupies a particular niche in the multinational firm. As the niche decays or expands, the firm may become more or less important as it coevolves with the niche (Madhok and Phene 2001).

The research in subsidiary development is an important part of studies in MNCs as inter-organizational networks. It explains how and why the affiliates' activities change over time. This research stream is based on the network perspective but also has elements of the resource-based view (Birkinshaw and Hood 1998a). The basic idea is that over time the subsidiary accumulates valuable resources and capabilities through its network relationships, which leads to an increased status and thus to an extension of the scope of its activities (Birkinshaw and Hood 1997; Hedlund 1986; Prahalad and Doz 1981).

Subsidiary evolution is seen as the enhancement/depletion of capabilities in the subsidiary, coupled with an explicit change in its charter[44]. It depends on

[44] A **charter** is a shared understanding between the subsidiary and the headquarters about the subsidiary's scope of responsibilities that is defined in terms of markets

parent company factors, for example, competitive internal resource allocation, decentralization of decision making, ethnocentrism of parent management; subsidiary factors — its track record, the management's credibility and the employees' entrepreneurial orientation — and host country factors: its strategic importance, host government support, relative cost of factor inputs and dynamism of local business environment (Birkinshaw and Hood 1998b).

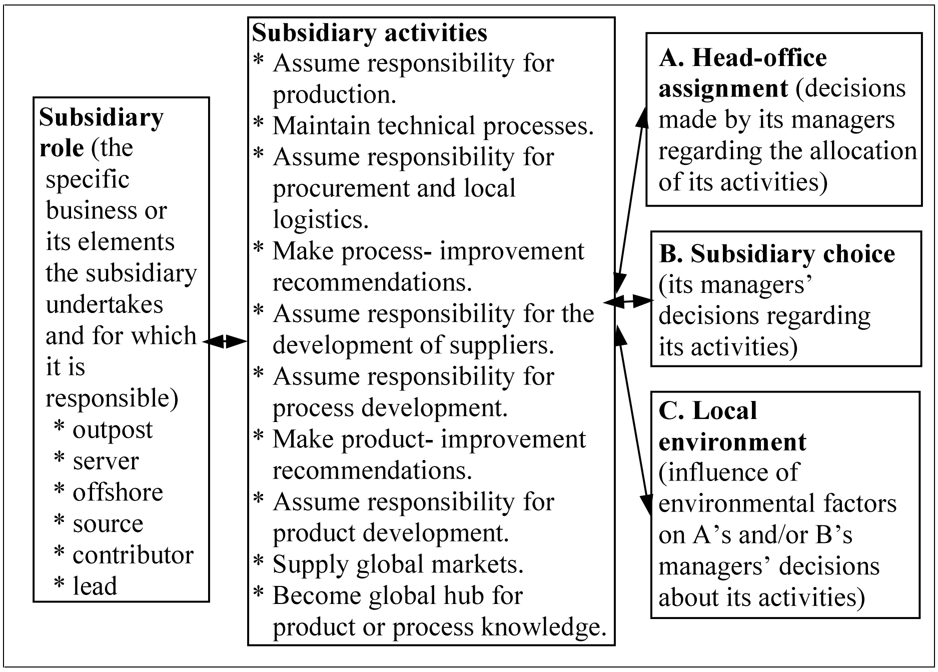

Figure 7. Determinants of subsidiary evolution (Sources: based on Birkinshaw and Hood 1998b and Ferdows 1997)

Sometimes the concept "centers of excellence" has been used to describe the new subsidiary roles (Surlemont 1996). Many affiliates are able to develop great managerial expertise. They have high knowledge inflows and outflows from the multinational corporation, a competitive market position, a high value-added, autonomy and influence on the MNC. Whereas earlier, the parent company had to integrate subsidiary competencies (Prahalad and Doz 1987), more recently it has been recognized that the subsidiary's role in advertising its strengths is perhaps even more important (Birkinshaw 1997). As a result of its activities, the affiliate can develop a more central position in the corporation and be more integrated with it (Andersson et al. 1999).

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served, products manufactured, technologies held, functional areas covered, or any combination thereof (Birkinshaw and Hood 1998b).

Subsidiaries are granted world product mandates or increased autonomy according to corporate management's perception of their ability to deliver. This, on the other hand, can only be achieved if the affiliate has the necessary distinctive and valuable capabilities that the rest of the multinational does not have and is committed enough to win the mandate. Thus, valuable capabilities lead to greater commitment; increased credibility and better performance (see Figure 8). In the weaker subsidiaries, by contrast, lack of resources leads to deterioration of performance, lower credibility with corporate management and poor morale (Birkinshaw 1993b).[45]

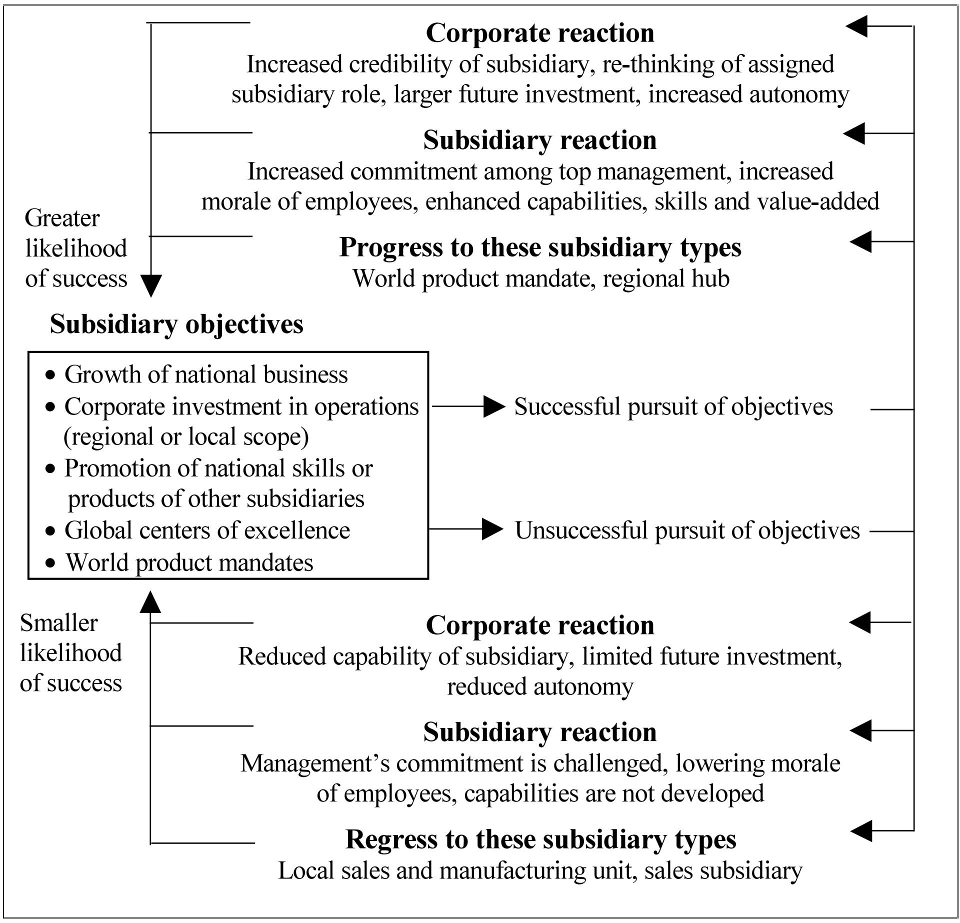

Figure 8. Vicious and virtuous circles of subsidiary development (Sources: based on Birkinshaw 1993b and 1998b)

[45] Still, even successful subsidiaries may have to face mandate loss: the process through which its international responsibilities are eliminated (Birkinshaw 1996).

From the above, four conclusions can be made. First, for each firm, the web of specific relationships in which it is embedded is an important resource. Second, in their owners' networks, different affiliates are assigned dissimilar roles. Third, in a multinational corporation, a subsidiary can develop higher value-added activities, exceptional managerial expertise and autonomy. Fourth, the role of a foreign affiliate in the owner's network depends on its strengths and strategies and the head office assignment.

1.3.2. The role of foreign-owned firms' entrepreneurial behavior

In this subchapter, we will examine how a firm's managers' entrepreneurial[46] behavior might affect its internationalization. Most of the discussion is based on the literature on international entrepreneurship. By the classification of Araujo and Easton (1996), entrepreneurship studies can be considered as one of the ten network approaches.

International entrepreneurship issues[47] became more popular in 1990s. These studies are mainly concerned with strategic alliances, corporate entrepreneurship, entrepreneur characteristics, motivations, exporting and other foreign market entry modes (McDougall and Oviatt 2000) of both new — eight years or younger — and established (Zahra and George 2002), small and large enterprises[48]. Thus, international entrepreneurial behavior in large, established companies, often referred to as corporate entrepreneurship, is included. Further, international entrepreneurial behavior may occur at the individual, group or organizational levels (McDougall and Oviatt 2000). Economic development, business history, organizational learning, strategic management issues, cultural and ethnical differences have also gained attention in entrepreneurship research (Tiessen 1997; Yeung 2002; Zahra and George 2002). In addition, there is a link to the resource-based view as some researchers have tried to identify the key

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[46] A firm's **entrepreneurial orientation** is a combination of innovative, proactive, risk-seeking, autonomous and competitively aggressive behavior: the active pursuit of business, product or process development opportunities within an established firm to improve organizational profitability (Birkinshaw 1993a; Lumpkin and Dess 1996). **Proactiveness** is the opposite of reactiveness and relates to aggressive posturing relative to competitors, with emphasis on execution and follow-up of tasks in pursuit of the firm's objectives (Knight 2001).

[47] **International entrepreneurship** can be defined as "the process of creatively discovering and exploiting opportunities, lying outside a firm's domestic markets, in the pursuit of competitive advantage" (Zahra and George 2002, p. 11).

[48] Still, the initial emphasis of this research stream was on young and small firms that initiate and manage effectively internationalization ventures in their early life stages (Young et al. 2003). Currently, most works are still done on this issue (Zahra and George 2002).

factors leading to superior performance of entrepreneurial firms (Young et al. 2003).

Network issues and entrepreneurship are very closely interrelated (Johannisson and Mønsted 1997). Personal connections and inter-organizational arrangements may considerably assist the growth of an enterprise (Young et al. 2003). During the company's internationalization process, the entrepreneur condenses information through the present business network and mobilizes new network partners (Holmlund and Kock 1998). In the context of the entrepreneur seeking to develop international markets, the network approach leads one to examine a variety of internationalization issues. These include, for example, the impact of network relationships on foreign market selection and the relative influence of other firms in both direct and indirect relationships on new market entry strategies (Coviello and Munro 1995)[49]. Entrepreneurial firms can use networking to acquire new skills, gain access to external resources, capabilities and foreign market opportunities (Jarillo 1988; Johnsen and Johnsen 1999; Zahra et al. 2001). By occupying a central network position, a unit is likely to access useful knowledge from other actors and significantly increase its innovative capability (Tsai 2001).

From the above, it can be concluded that internationalization is an example of an entrepreneurial action (Schumpeter 1934). It can also be a consequence of these actions (Andersson 2000). Gaining access to global market information, having a global vision and building up international networks is an important part of the entrepreneurial process (Fletcher 1999). With an entrepreneurial outlook, companies can significantly increase their success in foreign markets. Internationalization, in turn, can induce and promote entrepreneurship: for example, by reducing the managers' perceptions of risks, encouraging innovation and learning and providing them with necessary information (Zahra et al. 2001).

The innovation-related internationalization process models already demonstrated that founders and managers might impact firms' internationalization. The literature on international entrepreneurship also claims that the role of individuals can be very important in companies' internationalization.[50] The strategy and internationalization process will not start without acting entrepreneurs. It is not enough to be a firm with resources and opportunities in the environment; internationalization must be wanted and triggered by someone (Boddewyn 1988): an entrepreneur or a managerial team (Jones 2001). The

[49] Other issues relate to the evolution of power and control in domestic and foreign network relationships, the interconnectedness of network relationships and the effect of network relationships on the rate and success of international growth (Coviello and Munro 1995).

[50] Naturally, in addition to entrepreneurial skills and mindset, there are several other factors leading to fast internationalization: for example, developments in the environment (Knudsen and Madsen 2002).

managers are those who decide whether the enterprise will pursue internationalization opportunities that their network counterparts initiate.[51] Sometimes they may not have the knowledge to recognize the internationalization stimuli when they appear. Consequently, the managers can also inhibit internationalization of the firm, although the network wants to drive it into internationalization (Chetty and Blankenburg Holm 2000).

In addition to internationalization, entrepreneurial behavior can fuel the development of value-added strategic activities in the subsidiary and these, in turn, serve to enhance three major attributes: credibility with the parent company, commitment of the firm's management to a clear strategic vision and valuable organizational and managerial capabilities (Birkinshaw 1993a). A global orientation of the subsidiary's top managers can also increase awareness of headquarters' goals, products and systems, which promotes mutual understanding between the affiliates and the parent organization (Zahra et al. 2001). Consequently, entrepreneurial activities of subsidiaries play a key role in determining the success of their parent corporations (Zahra et al. 2000).

Subsidiary initiatives are an important form of corporate entrepreneurship (Birkinshaw 1998a). An initiative is essentially an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity (Birkinshaw 1997). There are several ways to achieve this (Birkinshaw 1999; Birkinshaw and Fry 1998):

- To be proactive.
- To identify an interesting business opportunity.
- To build distinctive capabilities.
- To understand that the magnitude of the initiative should be proportional to the subsidiary's reputation in the head office.
- To counter the resistance of corporate managers: build personal relationships and develop credibility.
- To create strong local market relationships.

It is possible to distinguish between four types of internal subsidiary initiatives, depending on their orientation and sanctioning by the head office: reconfiguration, bid, maverick and leap-of-faith initiatives (see Table 11). While externally oriented initiatives seek to identify new customer needs, develop new suppliers, forge new alliance relationships and focus on market development, internally oriented initiatives seek to make the existing set of relationships within the multinational corporation work more efficiently. They are directed

[51] John H. Dunning has also stressed the importance of the willingness and capacity of a firm or persons within it to conduct beneficial relations, both with other persons within the company, between themselves and the others in other institutions. A company may considerably advantage from that. Moreover, such advantage is often cumulative and arises from previous or current dyadic or network relationships (Dunning 2001).

towards building new relationships, challenging the existing ones and identifying unmet opportunities, all within the confines of the existing network (Birkinshaw 1998a; Birkinshaw and Fry 1998).

Table 11. Types of internal subsidiary initiatives

	Oriented towards external market development	**Oriented towards internal market efficiency**
Sanctioned by head office	*Bid initiatives:* those that are directed towards emerging business areas for the multinational firm. While the opportunity itself is typically oriented towards the external market, the subsidiary has to win the right to act on that opportunity through the internal market.	*Reconfiguration initiatives*: an effort by the subsidiary to alter the existing configuration of activities within the firm to enhance their efficiency and to extend their charter, that is, the set of activities they are responsible for at a corporate level. Head office management often initiates such changes.
Not sanctioned by head office	*Leap-of-faith initiative*: directed towards emerging areas of business, but they are undertaken without head office sanction. Still, there is no obvious losing party. Essentially it represents a bet by the subsidiary manager on the emergence of a certain technology or business area, in the hope that it will really take off.	*Maverick initiatives:* they result in an enhancement in the efficiency of the internal market. They are undertaken without head office sanctioning and may even be undertaken directly against the wishes of head office. As a result of this initiative, some other units may lose.

Source: based on Birkinshaw 1998a

In the subsidiary, entrepreneurial behavior can be modeled as an incremental process of growth and development that can result in a prestigious subsidiary activity, such as a world product mandate (Birkinshaw 1993a; see Figure 9). This arrangement ensures that high value-added activities are undertaken in the affiliate, as well as providing subsidiary management with the opportunity to develop and grow the mandate over time (Birkinshaw 1996).

From Figure 9, we can also see that the freedom to act independently from the headquarters leads subsidiary managers to a greater willingness to explore, support and pursue innovative and risky projects (Birkinshaw 1999). Consequently, independence from the parent organization gives the managers incentives to encourage and support entrepreneurship to strengthen their affiliate's track record, reputation and accomplishments, further increasing its potential bargaining power with the multinational corporation. Entrepreneurship can also safeguard against the potential loss of the subsidiary's global mandate (Zahra et al. 2000).

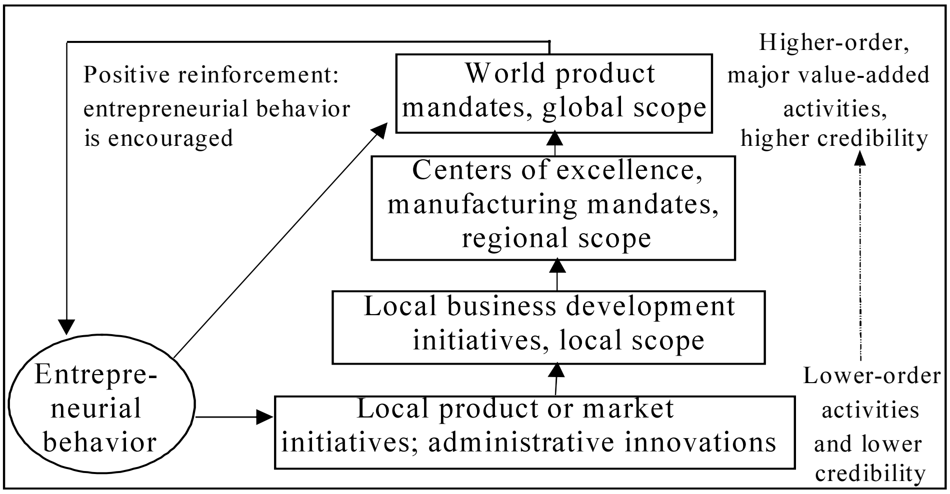

Figure 9. Entrepreneurial behavior and subsidiary activities (Sources: based on Birkinshaw 1993a and 1998b)

Therefore, the following conclusions can be made. First, through networking, entrepreneurial firms can acquire skills and gain access to external resources, capabilities and foreign market opportunities. Second, entrepreneurial behavior can lead subsidiaries to successful internationalization and higher value-added activities. Third, the managers can both quicken and inhibit firms' internationalization.

1.3.3. The importance and limitations of the literature on the impact of firms' characteristics on internationalization

The current discussion is based on the previous two subchapters. It will analyze the importance and limitations of two research streams — the studies in multinational corporations as inter-organizational networks and the studies in international entrepreneurship. Thereafter, some similarities and differences between the importance and critiques of these two approaches will be demonstrated and compared to the ones discussed in the previous two chapters.

Studies in **multinational corporations as inter-organizational networks**, examined in the subchapter 1.3.1, offer a number of conceptually useful insights (Taggart 1997b). Having received some empirical support, they help to study the nature, complexity, functioning (Rugman and Verbeke 2002), and competitive advantage of multinational corporations (Taggart 1997b), explain the differences in subsidiaries' roles (Jarillo and Martinez 1990) and analyze their relationships with customers, suppliers and other entities (Mudambi 2002). In addition, these studies recognize the importance of long-term relationships

(Andersson 1999), offer a typology of multinationals (see Appendix 4) and can be used for predictions (see Table 12).

Table 12. The importance and limitations of studies in MNCs as inter-organizational networks

Importance	Limitations
• Offer a number of conceptually useful insights. Can be used for predictions. • Have received empirical support. • Reflect the nature and complexity of the multinational organization and can be used to examine its entity. • Show the importance of corporate units for developing a multinational's competitive advantage. • Describe subsidiaries' relationships with customers, suppliers and other counterparts. • Explain why some subsidiaries become more important than others. • Recognize the importance of a web of specific relationships as a resource. • Make it easier to understand and explain the functioning of multinational companies.	• Sometimes based on very limited empirical evidence. • Have not tried to derive and test comprehensive typologies of multinationals. • Use the same terms for different typologies. • Treat the environment in a rather general way: for example, ignore its complexity and dynamism. • More appropriate for smaller economies with larger dominant neighbors and a very substantial foreign-owned sector. • Pay little attention to how subsidiaries gain an integrated strategic role inside the multinational and what factors contribute to it. • Do not demonstrate the consequences that a centre of excellence may have on the multinational or its business environment.

Sources: Andersson 1999; Andersson et al. 2002; Birkinshaw and Hood 1998b; Furu 2000; Ghoshal and Bartlett 1990; Harzing 2000; Holm and Pedersen 2000; Jarillo and Martinez 1990; Mudambi 2002; Paterson and Brock 2002; Taggart 1997b; Tavares and Young 2002

On the other hand, this stream of research has been criticized for being based on smaller, peripheral economies (Paterson and Brock 2002) and limited empirical evidence (Holm and Pedersen 2000) and using the same terms for different concepts (Araujo and Easton 1996) and typologies (Harzing 2000). This can also be concluded from Appendix 4. Each of the following subsidiary types has been applied in at least two papers: autonomous subsidiary, contributor (factory), implementer, integrated (player), mini/miniature replica, product mandate, receptive subsidiary, truncated miniature replica, world (product) mandate.[52] In addition to confusion in concepts and typologies, these studies

[52] It must be noted that some of them only appear in the same author's different papers.

have received some criticism for not concentrating on the role of external factors (Birkinshaw and Hood 1998b), the subsidiaries' actions toward gaining a certain strategic role and the consequences of such behavior for the multinational (Andersson et al. 2002). They have also not tried to derive and test comprehensive typologies of multinationals (Harzing 2000).

Studies in **international entrepreneurship**, examined in the subchapter 1.3.2, have received increasing attention in the business literature (Rialp-Criado et al. 2002; Yeung 2002). They have been based on considerable empirical support (Burgel and Murray 2000). These studies present an important addition to the traditional internationalization literature (Manolova et al. 2000), showing the crucial influence of entrepreneurs on firms' international behavior, demonstrating the importance of entrepreneurial networks and innovative and risk-taking behavior in creating internationalization opportunities (Rialp-Criado et al. 2002; Zahra and George 2002). Consequently, this view helps to explain why seemingly similar firms can internationalize differently and not necessarily according to the U- and I-models (Knight and Cavusgil 1996). This, in turn, could be useful for policy-makers (see Table 13).

These studies have received some criticism for having narrow (McDougall and Oviatt 2000) and unclear definition of international entrepreneurship (Zahra and George 2002) and born globals (Rasmussen and Madsen 2002). They have been also criticized for lacking a similar theoretical and methodological tradition (Araujo and Easton 1996), neglecting important perspectives applied by international business scholars (Young et al. 2003) and making dramatic conclusions based on survey data with a few respondents or case studies from small samples from the USA or the UK (Rialp-Criado et al. 2002; Zahra and George 2002). Most of the studies have overlooked important issues like established firms (McDougall and Oviatt 2000), low-technology industries (Burgel and Murray 2000; Rialp-Criado et al. 2002), the inputs and consequences of and the non-financial gains from the internationalization process (Zahra and George 2002), the choice of entry modes (Lévesque and Shepherd 2003) and the stages after export involvement (Moen and Servais 2002). In addition, only a little attention has been paid to how the geography, personality, skills and capabilities of entrepreneurs (Rasmussen and Madsen 2002) and the nature of their products impact the companies' business operations (Burgel and Murray 2000).

From the above, it can be concluded that both research streams have received some (although, in some respect, limited) empirical support and concentrated on important subjects that had not received considerable attention before: the roles of subsidiaries in multinational corporations and the importance of entrepreneurs, respectively. Both of these studies have been criticized for having unclear definitions and ignoring several important issues.

Table 13. The importance and limitations of studies in international entrepreneurship

Importance	Limitations
• Challenging research field with a rich international perspective, considerable empirical support and wide research opportunities. • Use many different approaches. • Introduce new perspectives and strategies on how, what, when and why to internationalize a business activity. • Help to explain why some firms might not act according to the U- and I-models. • Show the impact of different entrepreneurial actions and opportunities emerging from a network of relationships. • Demonstrate that individuals in relatively similar companies can differ in their views of internationalization. • Offer important insights for governments wishing to stimulate internationalization: in selected potential international firms, the individuals should have a strong drive toward internationalization.	• Have followed different theoretical and methodological traditions, raising questions about their overall value added. • Often neglect theories in international business. • The ambiguity of the international entrepreneurship term has led to confusion in past research. • Lack a unified framework connecting the antecedents, types and outcomes of entrepreneurial activities. • Make conclusions on case studies or small survey samples. Mostly cross-sectional. • Largely based on samples from the USA, the UK and/or the high technology sector. • Have often excluded established firms, presuming that they are not innovative and refuse to take risks. • Do not usually explain the choice of entry modes or the development stages after export involvement. • Do not explain what instant internationalization might mean for the firm's subsequent international growth. • Tend to assume that entrepreneurs behave and act similarly despite the geography of their business operations.

Sources: Andersson 2000; Arenius 2002; Autio et al. 2000; Burgel and Murray 2000; Coviello and Jones 2002; Coviello and Munro 1995; Dodd et al. 2002; Johannisson and Mønsted 1997; Knight and Cavusgil 1996; Lévesque and Shepherd 2003; Manolova et al. 2002; McDougall 1989; McDougall and Oviatt 2000; Moen and Servais 2002; Rasmussen and Madsen 2002; Rialp-Criado et al. 2002; Tiessen 1997; Yeung 2002; Young et al. 2003; Zahra and George 2002

Based on the conclusions from this section and the ones from the analogous subchapters 1.1.3 and 1.2.3, we can conclude the following. There is no universal approach to study the impact of networks and firm characteristics on the internationalization of host country enterprises. Every research stream offers some important insights while also having several limitations. Their ideas often complement each other, but may also offer interesting contradictions. Consequently, to study this subject from a wider perspective, conclusions from several different theories have to be used. This will be done in the following chapter. Based on the conclusions from the previous chapters, three propositions will be drawn. Then, the impact of foreign owners' networks and firm characteristics on the internationalization of seven Estonian enterprises will be analyzed. Finally, based on case study results and the importance and limitations of the research streams shown in the first chapter, theoretical conclusions will be drawn and, in subchapter 2.3.3, four different hypothetical internationalization paths will be demonstrated and examined.

2. THE INTERNATIONALIZATION OF FOREIGN-OWNED COMPANIES IN ESTONIA: EMPIRICAL EVIDENCE AND DISCUSSION OF THE RESULTS

2.1. The research outline for exploring the internationalization of foreign-owned firms in Estonia

2.1.1. The background of Estonian firms' internationalization

In this subchapter, a short overview of some aspects of the internationalization of (foreign-owned) Estonian companies will be given. The conclusions derived from this section and those based on the first part of the thesis will be used in the following subchapter 2.1.2 to form three propositions on the internationalization of foreign-owned enterprises in Estonia and the factors influencing this process.

Several factors have influenced the Estonian firms' internationalization. Changes in the global environment (see Appendix 5) have forced the companies to become more competitive both at home and abroad. A small home market — a population of 1.36 million people and a GDP per capita of 78 537 EEK in 2002 (ESA 2003) — has also increased their need to internationalize.

On the other hand, the starting position of the Estonian enterprises has been relatively unfavorable. In the beginning of the 1990s, similarly to the other CEE firms, most Estonian companies were in a situation of being isolated from the international/multinational production networks. They lacked competitive products, technology, capital and other resources (see Appendix 5). In addition, Estonian exporters, especially the small or recently established ones, did not have enough information about foreign markets, potential foreign business partners, trade barriers, prices, standards and quality requirements. Small production capacity has also slowed down several enterprises' internationalization (Ariko 2000). Besides the factors listed above, some companies had problems with organization culture (for example, reluctance for teamwork), image, labor productivity[53], brand development, product diversification and stock management. Moreover, some firms lacked (technological) know-how and contacts (Kasak 2002; Milder 2002; Neivelt 2002; Noorem 2002aa; Virkebau 2002).[54]

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[53] In 2001, it was only 40% of the EU average (TAN 2002).

[54] On the other hand, the region has a market with a good growth potential, high consumer awareness of Western products and a favorable investment climate. In addition, many CEE countries have skilled, low-cost labor, cheap physical capital, a suppor-

The above-mentioned aspects, especially the limits of domestic companies' access to finance, have reinforced the dependence of Estonian economic growth on foreign investors (Commission 2001). The competitiveness of the Estonian economy depends on the transfer of technology connected to FDI inflows. Foreign direct investments could also promote structural changes and stimulate reorientation to European markets (Bank 2000), restructure the economy's supply, increase firms' ability to innovate, enhance their efficiency and export potential, reduce current account deficit (Commission 2001; Government and European 2000) and lead to a higher economic growth rate (TAN 2002).

The Estonian investment climate is relatively favorable, compared to the other countries in the Baltic Sea region. Estonia is one of the most liberal economies in the whole world. Its impediments to trade[55] and FDI are very low. From Appendix 6, we can conclude that the level of corruption is higher than in the advanced countries of the region, but lower than in the other transition countries. By the rank of competitiveness, the country could be compared with Germany or Norway, especially in terms of business efficiency and technology. On the other hand, Estonia still has to develop its infrastructure and micro-economic competitiveness to compete with advanced countries (see Appendix 6). Its R&D funding is also low: in 2001, it was 0.6% of GDP, compared to 1.86% in the EU (Äripäev 2001a).[56] In addition, the government effectiveness and regulatory quality could be improved. Still, in all these categories, Estonia has a better position than the other CEE countries in this region: Latvia, Lithuania, Russia or Poland. Only political risk is slightly higher than in Poland and Latvia and the level of human development is somewhat lower than in Poland (see Appendix 6).

The attractiveness of Estonia for foreign investors has also been demonstrated in the surveys "Foreign Investor '1997–2000" (Tartu and Estonian 1998, 1999b, 2000b, 2001a). Most factors, especially the telecommunication system, the banking sector and Estonia's economic environment, have been perceived by foreign-owned exporters as having changed for the better since their initial investment (see Appendix 6). In addition to the above-mentioned factors, Estonia is attractive to foreign investors due to relatively low tax rates, a stable macroeconomic environment, a good geographical location, moderate inflation; large Internet usage, completion of the remaining large infrastructure privatization projects and probable membership of the European

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tive political environment and a perspective to join the EU that should attract resource-seeking investors (Healey 1994).

[55] Upon accession to the European Union, Estonia will be required to align its tariffs with those of the EU. In 2002, Estonia's applied tariffs averaged 3.2% on all products, 14.9% on agricultural products, 3.0% on fishery products and 0% on industrial products. By comparison, EC tariffs averaged 6.3%, 16.2%, 12.4% and 3.6%, respectively (Commission 2002).

[56] By 2006, the share should raise to 1.5 percent in Estonia, but by 2010, to 3.0 percent in the EU (TAN 2002).

Union (Commission 2002; Government and European 2000; EIA 2002; Ross 1999). On the other hand, the Estonian workforce, production costs and the country's position vis-à-vis the Russian/ Commonwealth of Independent States' (CIS) market have slightly changed for the worse (see Appendix 6).

As a result of having a relatively favorable environment for foreign investors, the inflow of foreign direct investments to Estonia is relatively high for a transition country. In 2000, the inward FDI stock formed 53.2 percent of Estonia's GDP, while in the whole of the CEE region it averaged 18.9 percent (UNCTAD 2002). In total, by the end of 2002, Estonia received 63.1 billion EEK of foreign direct investments, mostly to finance, transport and manufacturing. Most investments have come from Sweden, Finland and the USA (see Appendix 7). Foreign investors have mainly invested in Estonia for market-seeking (Borsos 1995) and efficiency-seeking motives (TAN 2002). Over time, the share of cost-motivated, export-oriented investments should increase, while market-oriented and natural resource investments should recede (Lankes and Venables 1997).

By the end of 2002, Estonia made FDI for 10.0 billion EEK, mostly to Lithuania and Latvia. In 2002, the country received 5.2 and made 2.0 billion EEK of foreign direct investments. Consequently, the net FDI inflows only partly covered its current account deficit of 13.3 billion EEK. In Estonia, the main reason for the latter is the negative trade balance. In 2002, it was 18.5 billion EEK (see Appendix 7), constituting approximately 17.4 percent of the country's gross domestic product (Bank 2003b).

In the last eight years, the structure of Estonian foreign trade has changed considerably. For example, the share of machinery and equipment in Estonian exports has increased over three times — from 9.7% in 1994 to 33.1% in 2001[57] while the share of foodstuffs has decreased from 21.8 to 8.0 percent. The latter was mainly caused by the Russian economic crisis in 1998. Similar, but smaller, changes have occurred in Estonian imports. In both exports and imports, the share of Russia as a trade partner has decreased dramatically: from 22.4 to 2.7 percent and from 15.9 to 7.8 percent, respectively. Still, Estonian firms mostly export to neighboring markets. In 2001, 61.7 percent of its exports went to four countries — Finland, Sweden, Germany and Latvia (see Appendix 7).

The impact of foreign direct investments on the exports of Estonian enterprises has been visible. In 2000, the share of majority-owned foreign affiliates in the Estonian exports was 60 percent (UNCTAD 2002). From the financial data of Estonian enterprises (ESA 1997–2002), it can be concluded that foreign-owned firms have a larger export share than locally owned companies. Foreign-owned private enterprises also have the highest exports per employee (see Table 14). At the same time, the situation varies in different industries. In the wood, chemicals and non-metallic minerals industries, foreign affiliates have considerably larger exports than local enterprises, whereas from 1995-1998, it

[57] The data for 2002 are not available yet.

was the other way round in the clothing industry. It is also interesting to note that the results differ considerably for different years. To some extent, it may be due to the fact that in different years, dissimilar firms were selected and many firms' ownership changed.

Table 14. Estonian exports in selected industries by type of ownership in enterprises with more than 50 employees[58]

	owner	**Exports per employee** (thousand EEK)						**Share of exports in turnover** (%)					
		1995	1996	1997	1998	1999	2000	'95	'96	'97	'98	'99	'00
Total manufacturing	P	74	98	143	146	153	89	41	43	46	43	43	39
	F	**214**	**205**	**269**	**273**	**286**	**193**	**56**	**50**	**54**	**53**	**58**	**61**
Textiles	P	30	67	113	174	225	103	20	48	57	61	66	49
	F	**153**	**99**	**152**	134	122	**109**	**54**	32	35	32	32	43
Clothing	P	42	68	85	108	93	57	48	64	68	69	69	58
	F	9	19	33	34	**197**	**98**	24	28	43	40	**71**	**77**
Food products and tobacco	P	93	124	166	132	112	72	32	35	36	27	23	24
	F	**137**	**220**	**288**	**309**	**269**	**167**	22	29	29	**28**	**26**	**26**
Wood	P	126	156	238	236	314	142	62	58	65	58	51	56
	F	**1284**	**211**	**306**	**375**	**431**	**285**	**96**	**83**	**74**	**81**	**78**	**82**
Chemicals, coke, petroleum	P	133	139	201	195	263	209	35	44	44	42	49	56
	F	**615**	**729**	**941**	**685**	**623**	**519**	**77**	**73**	**75**	**68**	**63**	**56**
Other non-metallic minerals	P	44	11	37	41	24	33	33	8	17	14	8	15
	F	**191**	**268**	**429**	**364**	**398**	**225**	**59**	**67**	**69**	**45**	**47**	**42**

Source: ESA 1997–2002; author's calculations

Some additional information about the impact of FDI on Estonian exports can be gained from the surveys "Foreign Investor '1997–2000" and "Top Ex-

[58] P – Estonian privately- owned, F – foreign privately- owned. A firm was classified as Estonian privately- owned/foreign privately- owned, if the share of Estonian private capital/foreign private capital was at least 50%. The more recent data are not available yet.

porter '1998–1999" (Tartu and Estonian 1998, 1999ab, 2000ab, 2001a). It can be concluded that the capital's country of origin seems to have a strong influence on the firm's choice of export markets — for example, the companies with Finnish capital often start exporting to Finland and the ones with Swedish foreign owners enter the Swedish market. In addition, Latvia and Lithuania are important as main export markets, since foreign firms invest in one of them and then start exporting to the others (Vissak 2001a).

It can also be shown that local companies are more hindered by all problems than foreign-owned exporters (see Table 15). For example, while lack of information and shortage of financial resources heavily influence the former, they have no significant impact on the latter. It can also be observed that enterprises with foreign capital are 1.5 times more innovative than locally owned firms. The companies belonging to a concern are, in turn, almost twice as innovative as the others (Kurik et al. 2002).

Table 15. Problems hindering Estonian local exporters and foreign-owned exporters[59]

	Foreign-owned exporters[60]				**Local exporters**	
	2001	**2000**	**1999**	**1998**	**1999**	**1998**
Problems hindering development and/or extension plans						
Weakness of vocational education	2.46	2.15	n.a.	n.a.	n.a.	n.a.
Weakness of continuing education	2.31	1.79	n.a.	n.a.	n.a.	n.a.
Quality of labor force	2.28	2.40	3.04	3.07	3.51	3.06
VAT payment/rebate procedures	1.57	2.82	2.92	3.15	3.57	3.64
Gaps in legislation	1.45	2.74	2.57	2.88	2.69	2.77
High tax burden	1.32	1.59	n.a.	n.a.	n.a.	n.a.
Scarcity of raw materials	1.02	1.96	1.90	2.02	2.06	2.54
Slow pace of the land reform	n.a.	n.a.	2.45	2.64	2.51	2.60
Unfair competition	n.a.	n.a.	2.30	2.61	2.92	2.73
Problems hindering exports						

[59] A 1-to-5 Likert scale was used where 1 meant no influence at all; 2 – no significant influence; 3 – a significant influence; 4 – a strong influence; 5 – a very strong influence.

[60] In 1998, from the "Foreign Investor '97" and "Exporter '97", data from 85 foreign-owned exporters and 56 local exporters were received. In 1999, 63 foreign-owned exporters and 61 local exporters responded to the surveys "Foreign Investor '98" and "Exporter '98". In 2000, we received data from 84 foreign-owned exporters from "Foreign Investor '99". In 2001, 68 foreign-owned exporters answered the questionnaire.

	Foreign-owned exporters[60]				Local exporters	
	2001	**2000**	**1999**	**1998**	**1999**	**1998**
Strong competition on the world market	3.58	3.54	3.73	3.27	4.43	3.94
High costs of production	2.57	2.50	2.98	2.38	3.40	3.21
Shortage of skilled labor	2.49	2.28	2.72	2.24	2.83	2.45
Foreign countries' trade barriers	2.27	2.27	2.42	2.82	3.09	3.43
Standards and quality requirements on the foreign markets	2.04	2.34	2.27	n.a.	3.23	n.a.
Insufficient production capacity	2.24	2.18	2.21	n.a.	2.40	n.a.
Shortage of financial resources	2.14	2.16	2.53	2.26	3.63	3.28
Shortage of innovative products	1.98	1.89	2.26	1.96	2.71	2.51
Lack of information about target markets	1.88	2.22	2.62	2.37	3.20	2.80
Low quality of production	1.55	1.65	2.16	1.93	2.82	2.47

Sources: Tartu and Estonian 1998, 1999ab, 2000ab, 2001a; author's calculations

In addition, it can be concluded from the surveys that despite the wish to gain full ownership, or, at least, an absolute majority, foreign owners have allowed their affiliates in Estonia to remain relatively autonomous. The subsidiaries mostly or mainly make personnel, sales promotion and even pricing and export decisions while the parent companies mainly take decisions about financing. At the same time, the transfer effects of FDI inflows have been relatively low. Estonian firms have mostly acquired unprotected technology and marketing and management know-how, while the transfers of patented technology and product innovation have been relatively unimportant (Vissak 2001a).

From the above, we can make the following four conclusions about the background of Estonian companies' internationalization. First, relatively uncompetitive products, poor technology, and a lack of capital, information, contacts and other resources have inhibited Estonian exports. Second, Estonian firms mostly export to and invest in neighboring markets. Third, through FDI inflows, Estonian firms can increase their exports. Fourth, in Estonia, the autonomy of foreign affiliates is relatively high but the transfer effects of FDI inflows have been relatively low.

2.1.2. Three propositions for the empirical analysis

In this subchapter, three propositions will be drawn. They will be analyzed in chapter 2.2, using the data from the seven foreign-owned companies in Estonia. Every conclusion made in the previous subchapters will be used to make at least one proposition. The number of the propositions is in accordance with the structure of the chapter 2.2: the first subchapter investigates the internationalization process of the seven case companies, the second studies the importance of networks and the third explores the impact of the firms' and their foreign owners' characteristics on the process. In the chapter 2.3, each theoretical conclusion, used for making the three propositions, will be examined again. We will demonstrate which of them have found support from the evidence from the seven case companies and which have not. Finally, a general framework for understanding the internationalization of foreign-owned companies will be created. It will be based on the entire main theoretical and empirical conclusions made in the previous subchapters.

Proposition 1 is mainly based on the Uppsala, innovation-related and the Finnish models and the literature on born globals. It was concluded from the Uppsala model that as firms lack knowledge, they internationalize slowly, progressing from similar/close to more distant countries[61] and from simpler to steadily more demanding market operation forms. It has also been shown that the model mostly applies to smaller and less experienced firms, having fewer resources.

The innovation-related internationalization models have demonstrated that besides knowledge, many other factors influence firms' internationalization. A similar conclusion can be made from the previous subchapter: several Estonian exporters are constrained by uncompetitive products, poor technology, and a lack of capital, contacts, information and other resources.

The Finnish model has stated that during their internationalization, firms may de- and re-internationalize. They can also leapfrog some stages and speed up their internationalization. In addition, the model has demonstrated that a company can increase its internationalization in some dimensions more than others.

From the literature on born globals, we can conclude that a critical incident (like a change in ownership) may trigger a firm's internationalization. This research stream has also supported the statement of the Finnish model that some firms can speed up their internationalization: they might internationalize very quickly despite of their small size, lack of resources and market experience. A conclusion from the network approach to internationalization gives one reason for this phenomenon: by joining a foreign (owner's) business network, a firm can considerably quicken its internationalization.

From all the conclusions made above, we can propose the following. **P1:** *The companies lacking (their foreign owners') network relationships start their internationalization from nearby countries and simpler market operation modes. Afterwards, they may progress to more distant markets and more*

[61] A similar tendency was noted in the previous subchapter about the Estonian economic environment.

demanding market operation forms. We suggest that a larger, experienced firm that has sufficient resources and/or belongs to a supportive business network may internationalize faster, for example, skipping some stages. In addition, it can be assumed that an internationalization process may include de- and re-internationalization and differ in several dimensions.

Proposition 2 is mainly derived from the internationalization models and the literature demonstrating the importance of networks (for foreign-owned companies' internationalization). We already concluded from the Uppsala model that only smaller and less experienced firms, lacking the necessary knowledge, internationalize at a slower pace, enter similar markets and use simpler market operation modes first. The innovation-related internationalization models demonstrated that foreign-owned companies might internationalize differently. As it was shown in the literature on born globals, involving a foreign investor could even trigger an enterprise's foreign market entry. From the Finnish model we can also conclude that inward internationalization (like inward FDI) can considerably affect firms' outward internationalization. Some (foreign-owned) companies might speed up their internationalization, compared with the other enterprises.

The studies demonstrating the importance of networks could also be used to explain this phenomenon. They have stated that continuous relationships with a limited number of actors (and their partners) can influence firms considerably. Moreover, this research stream has shown that by belonging to a network, a company can accomplish its goals: for example, obtain resources and develop its capabilities. The importance of networks is also demonstrated in studies in the impact of foreign-owned firms' and the foreign owners' characteristics: they have concluded that a web of relationships is an important resource for every enterprise.

Additional information can be acquired from the literature demonstrating the importance of networks for foreign-owned companies' internationalization. It has been shown that by joining a foreign (parent company's) business network, a firm may acquire capital, technology, business techniques, skilled personnel and contacts with foreign buyers and suppliers. Moreover, it can obtain access to the other enterprises' knowledge and considerably quicken its internationalization. For example, a company can enter more distant markets at once or skip some stages of its internationalization process. Some evidence supporting this idea was also demonstrated in the previous subchapter where it was shown that compared to locally owned firms, foreign-owned enterprises were in general, larger exporters with fewer problems. On the other hand, it has been demonstrated in the literature that network relationships may sometimes inhibit a company's internationalization. In addition, the surveys have shown that until now, foreign direct investments into Estonia have not brought by very high transfer effects.

From these conclusions, we can make the following proposition. **P2:** *The firms linked to a (foreign owner's) network might considerably quicken their internationalization as they obtain the necessary resources, develop their capabilities and gain market access. Still, sometimes a network membership can inhibit the internationalization process.*

Proposition 3 is mainly grounded on the literature on the role of networks and firms' and their foreign owners' characteristics in the internationalization of foreign-owned companies. Some conclusions made in the other sections can also be used. For example, the idea of both the Finnish model and the literature on born globals that some (entrepreneurial) companies can leapfrog some stages and speed up their internationalization should be taken into account. We should also pay attention to the Proposition 2 stating that network relationships can both quicken and inhibit internationalization. The literature on the impact of firms' and their foreign owners' characteristics on the foreign-owned companies' internationalization can at least partly explain this phenomenon.

From the literature on the role of firms in their foreign owners' networks, we can conclude that for each enterprise, the web of specific relationships in which it is embedded is an important resource. These studies have also indicated that in the foreign owners' networks, the roles of affiliates differ. Some of them can develop higher value-added activities, exceptional managerial expertise and autonomy while the other cannot.[62] The result should depend on the foreign-owned companies' characteristics — strengths and strategies — and the head office assignment.

Studies in international entrepreneurship have shown that through networking, entrepreneurial firms can acquire skills and gain access to external resources, capabilities and foreign market opportunities. Entrepreneurial behavior can also lead subsidiaries to higher value-added activities. Here, the role of managers is very important: they can both quicken and inhibit firms' internationalization. The impact of individual decision-makers and their attitudes on internationalization was also demonstrated in innovation-related internationalization models. From this research stream, it can be also concluded in foreign-owned firms, this influence might differ from that of locally owned companies.

From the above, the following proposition can be made. **P3:** *The course of a firm's internationalization process could depend on its role and a level of autonomy in the foreign owner's network, determined by its and its foreign owner's characteristics.* We can also propose that the managers' cooperative, innovative and active behavior can lead foreign-owned firms to higher value-added activities, exceptional managerial expertise and autonomy inside the foreign owner's network and, as a result, to successful internationalization.

[62] As we concluded from the previous subchapter, in Estonia, the latter is relatively high while the transfer effects have been rather low.

2.1.3. Case study methodology

The case study method has been an essential form of research in social sciences and management (Chetty 1996). It has often been used in the network approach (Möller and Wilson 2001; Törnroos 2002a). The need for case study and firm-level data is also increasing in studying multinationals' activities (Gestrin 2002). By combining previously developed theories with new empirically derived insights (Yin 1994), the case study approach is especially appropriate in new topic areas. It can transcend the local boundaries of the investigated cases; capture new layers of reality and result in developing novel, testable and empirically valid theoretical and practical insights (Eisenhardt 1989; Tsoukas 1989; Voss et al. 2002). Case studies are especially useful for discovery, description; mapping and relationship building (see Appendix 8). They may also be used for theory testing and refining purposes (Easton 1992b; Hillebrand et al. 2001; Johnston et al. 1999; Tsoukas 1989; Voss et al. 2002).

Despite their usefulness, case studies have been often criticized. Compared with survey methods, they are more time-consuming. In addition, they cannot handle large data sets and do not allow statistical generalization. There is also a potential researcher bias and a risk to include unreliable results or invalid conclusions. Survey methods, in turn, are more cost-effective and quicker, they allow statistical generalizations and have no "interviewer's effects". On the other hand, surveys can adversely affect data quality and provide insufficient information to understand complex processes like internationalization. Moreover, they may have a low response rate and there is a possibility that instead of the desired respondent, some other person may fill the questionnaire (see Table 16).

It can be argued that the strengths of the case study method outweigh its weaknesses. Contrary to other research methods, which often aim at statistical correlations with less regard for the underlying explanations, case research is capable of discovering true causal relationships (Hillebrand et al. 2001). This method can be also used for studying processes (Arenius 2002). The data collection can be carried out over a sustained period of time. Consequently, the researcher can go far beyond a cross-sectional snapshot of a process and understand how and why things happen as they do (Miles and Huberman 1994). This method also enables research to be conducted in a country, where the small sample base means that there might not be enough firms to justify using statistical generalization (Chetty 1996). Theoretical generalization can also be made: when it is possible to formulate logical conclusions in support of causal relationships, it may be concluded that these causal relationships also hold for cases that are structurally similar (Hillebrand et al. 2001).

Table 16. The case study and the mail survey method: a comparison

Case studies	
Importance	***Limitations***
• Commonly used in many scientific disciplines. A high response rate. • Useful as a tool for generating new theory or criticizing and specifying already researched topics. • Can explain new, complex and/or dynamic issues. Suitable for asking "how" and "why" questions about a set of events and studying a firm from multiple perspectives. • Take a holistic perspective on real-life events and the processes leading to certain results. • Theoretical reading and empirical research can be done at the same time. Data can be collected from a variety of qualitative and quantitative sources.	• Unappreciated and underutilized as a research methodology. • Hard to conduct and interpret the results. Time- consuming. Cannot handle large data sets. Hard to make statistical generalizations. • Researching a larger number of cases may mean more breadth but less depth. • Difficult to access confidential data. The interviewee might not be totally honest. • A potential researcher bias, a bias from the use of key informants and selecting certain firms. • The right questions have to be asked at the right time. • A threat to end up with a weak theory or partial support of particular theories or frameworks.
(Mail) surveys	
• Have made a contribution to many areas of inquiry. • Cost-effective and quicker than the case study approach. Allow the selection of a relatively large sample, making comparisons with the case study sample and refining questions for further interviews. • No "interviewer's effects". • Allow making statistical generalizations and empirically verifying theoretical relationships in larger samples from actual businesses. • Suitable for correlational hypotheses (for example, proposing that as variable X increases, variable Y will also increase).	• More possibility for misunderstandings and unanswered questions. To understand complex processes, the acquired information may be insufficient. • Low response rate. This limits the generalization of the findings. • Self-selection bias: the (early) responders may be more interested, involved, and/or experienced than non-responders. • Hard to find the right respondent: top executives and firms' postal address may change. Some other person may fill the survey instead of the desired respondent. • Do not bring additional bonuses like annual reports or brochures to the researcher. • May produce results that mask real differences in internationalization behavior.

Sources: Andersson 2000; Araujo and Easton 1996; Birkinshaw 1993a; Cavusgil and Zou 1994; Chetty 1996; Coviello and Martin 1999; Crick and Jones 2000; Dubois and Gadde 2002; Easton 2001; Eisenhardt 1989, 1991; Gabrielsson et al. 2002; Gillham 2001; Hillebrand et al. 2001; Johannisson and Mønsted 1997; Johnston et al. 1999; Jones 2001; Knight 2001; Leonidou and Katsikeas 1996; Lindgreen 2001; Miles and Huberman 1994; Pagell and Krause 1999; Stuart et al. 2002; Tsoukas 1989; Törnroos 2002a; Voss et al. 2002; Wacker 1998; Wilson 1999; Yeung 1995; Yin 1994

In addition, the case study approach overcomes the problem of firms being over-researched and developing resistance (Chetty 1996). This method can also be used to explain and deal with new and/or complex issues, take a holistic perspective of real-life events and collect data from a variety of sources. Moreover, a high response rate can be achieved (see Table 16). Consequently, after analyzing both approaches' strengths and weaknesses, the case study approach was chosen to examine the internationalization of seven foreign-owned firms in Estonia.

With case research, generalization is from each case to a broader theory. In the extreme, it is possible to generalize from one case (Stuart et al. 2002). On the other hand, this limits our ability to generalize from the conclusions, models or theory developed from the case (Voss et al. 2002). In addition, there is a larger risk of misjudging the single event and exaggerating easily available data (Leonard-Barton 1990). Multiple cases, in turn, may reduce the depth of study when resources are constrained, but can both augment external validity and help guard against observer bias (Voss et al. 2002). They might be also used for several other reasons: to confirm or refute the findings of the first case, to investigate whether the findings of the first case could be expanded to slightly different situations or to refine the results of an earlier case (Hillebrand et al. 2001). For these reasons, in this thesis, the multiple-case approach was chosen.

By treating each case as an individual study, rather than a sampling unit, the focus shifts to choosing the case or cases that are best suited for investigating the theory. Each of them should complement the others by examining the findings under various conditions or by addressing different aspects of the overall theory. The goal is that together the set of studies will provide rich support for the theory (Johnston et al. 1999; Miles and Huberman 1994). Still, we do not examine a particular case to understand other cases, but to understand this one case (Stake 1995).

In the multiple-case approach there is no ideal number of cases, but a study of between four and ten cases usually works well. With fewer than four cases, theory is difficult to generate, and with more than ten cases, the volume of data is difficult to cope with (Eisenhardt 1989). In addition, once a pattern emerges, each new field site adds to the research data but at a diminishing rate (Stuart et al. 2002). Consequently, in this thesis, the task was not to examine as many companies as possible, but to get a sufficient understanding of some firms' internationalization process so that the results could be generalized.

To increase the findings' generalizability — to demonstrate the impact of the foreign parent companies' networks on their affiliates' internationalization from as broad a perspective as possible — seven[63] enterprises of different sizes and

[63] In June 2002, Tõnu Roolaht and Tiia Vissak also interviewed an eighth company, Sangar Group, but as this company had no foreign ownership at all (and this thesis examines the internationalization of foreign-owned companies), it has been left out of this thesis.

ages, with different types of foreign owners, from different industries and on different levels of internationalization were selected. Each firm was chosen by replication logic rather than by sampling logic. In other words, the sample was chosen because the data from the companies could be used for replication — producing contrasting results (Yin 1994) — rather than because the enterprises were representative of the population (Chetty 1996).[64] Each case was looked at as a separate entity, enabling unique patterns, which can be generalized across cases, to emerge (Eisenhardt 1989).[65]

In April-May 2002, hour-long personal interviews were conducted with each firm's general manager — the person who would probably have the most general understanding of the firm's internationalization and would have the most influence on it.[66] Personal interviews were chosen in order to obtain a deeper commitment from the respondents since eye-to-eye contacts generally tend to reveal more detailed and extensive answers. In addition, this method leaves greater opportunity to respond more freely to questions and to clarify the questions to interviewees, if necessary (Larson and Wikström 2001).

The interviews were semi-structured around several key open-ended questions. The initial interview guide was developed by Tõnu Roolaht (see Roolaht 2002) and reviewed by Tiia Vissak and other colleagues. The interviewees received a list of 17 pre-prepared questions (see Appendix 10) in advance as an e-mail attachment. The e-mail was accompanied with a letter explaining the purpose and procedure of the interview and containing data about both the interviewers: Tõnu Roolaht and Tiia Vissak. All the managers who received the e-mail, agreed to the interview.

The interviews were conducted in Estonian. According to the former agreement between the interviewers, Tõnu Roolaht asked the pre-prepared questions. The managers were invited to analyze their firms' internationalization and the foreign owners' role in their enterprises' international activities. In addition, they analyzed their companies' strengths and weaknesses and discussed, in what areas the foreign owners and their other firms could learn from them. Both the interviewers asked some additional questions: for example, if the respondents raised interesting topics or if there was a need to clarify some answers to pre-

[64] Consequently, as the goal was not to represent the whole Estonian economy, we cannot say that the selection of these particular seven firms is in any way better or worse than the selection of any other seven firms.

[65] Thus, the order of the firms is not of primary importance. In this thesis, the firms are listed in order of interview's date.

[66] A single decision-maker/informant who possesses influence and knowledge of the firm's history is also often interviewed in international entrepreneurship studies (Coviello and Jones 2002). Using single interviews and/or a small number of cases is also quite common in the literature on firms' internationalization and networks. It is even possible to conduct a case study without making any interviews personally: for example, to use the interviews made by the other authors (for some examples, see Appendix 9).

prepared questions. All the interviews were taped, subsequently transcribed and sent to the interviewees for necessary corrections or additional information. Handwritten notes were also made during the interviews to draw out the main points.

To further increase the validity and reliability in the estimation of the impact of (foreign owners') networks and firm characteristics on these firms' internationalization, besides the interviews, several other materials were used.[67] They included surveys, newspapers, the firms' homepages and annual reports. In May 2003, all the interviewees received an e-mail containing the full material concerning their companies. Nobody opposed to its publication.

2.2. The internationalization of seven foreign-owned enterprises in Estonia: a case study

2.2.1. The case firms' internationalization process

This subchapter analyzes the internationalization process of seven foreign-owned companies — Tarkon, Hansabank Group, Mootorreisi Group, Baltika Group, Krenholm Group, Saint-Gobain Sekurit Estonia and CVO Group. In the following subchapters, the impact of networks and network member characteristics on the firms' international activities will be demonstrated.

Tarkon has developed in the following stages. Paul Mullik established the enterprise's predecessor, the Telephone Factory Edisson & Co, in 1907 (Raadiotuba 2003). In 1913, when a new building was constructed, the firm started exporting telephones to Russia. It employed 100-120 workers (Tarkon 2003) and produced 10 000 telephones a year (Raadiotuba 2003). In 1924, the production of radio receivers started. For that, a license was bought from a German company Telefunken. The radios were exported to Latvia and Finland. In 1929, a Swedish enterprise Ericsson became one of the major shareholders of the company. The firm's name changed to AS Tartu Telephone Factory. The number of employees increased to 200. The enterprise also produced turn indicators for cars and started precision mechanics operations. In 1939-1940, Tarkon exported to 27 foreign countries, including Africa and America. By that time, the number of employees had grown to 300 (Niitra 1996b; Raadiotuba 2003; Tarkon 2003).

On December 16th, 1940, the firm was nationalized and Factory No. 382 established. In 1940/41, some radios were still produced, but soon, most of the equipment and production together with the records of the company were

[67] As it was shown in the introduction, this should allow data triangulation. In addition to checking the evidence, using different data sources and data collection methods should increase the probability that essential information has not been left out (Karlsen et al. 2003).

transported to Russia. In 1941, the factory was partially and in 1944, totally destroyed. On November 13th 1944, Factory No. 89 was founded. It was subordinated to Moscow. The production of radios was not restored. Since 1948 (Niitra 1996b), the firm mostly produced black boxes or flight recorders for both civil and military aircraft mostly for the Soviet defense industry (Tarkon 2003). In 1957, it was renamed pk-32 and in 1966, Tartu Control Equipment Factory (Raadiotuba 2003; Tarkon 2003). It employed up to 3000 people (Kelder 1996).

A state company RAS Tarkon was formed in December 1992 (Tarkon 2003). After Estonia regained independence, the Russian market disappeared. In 1994, the production of black boxes ended (Niitra 1996b). The last black box was sold to Poland in 1995 (Rozental 2001). Tarkon had to re-orientate completely. Consequently, in the first stage of its re-internationalization, the enterprise started to seek other export opportunities. At first, it filled small, unsolicited export orders, making very simple mechanical items for the Scandinavian (Noorem 2002a) and Western European market (Niitra 1996b). Some partners even delivered the details with their own cars (Noorem 2002a). Co-operation with a Swedish company Hallberg Sekrom Fabriks AB started in 1993 (Tarkon 2003). In the end of 1994/the beginning of 1995, the first assembly room was ready and the firm started to produce different mechanical details. Tarkon imported components from its cooperation partners, assembled the products, tested and marketed them. For that time, the prices were quite good (Noorem 2002a).[68] By 1996, the enterprise's turnover had increased to 8.5 (Salk 1999) and exports to 5.5 million EEK (Tartu and Estonian 1998).

In October 1996, Hallberg Sekrom Fabriks AB bought 60 percent of the shares of RAS Tarkon[69]. The name AS Tarkon was taken into use instead (Tarkon 2003). This started the second stage in the company's post-re-independence internationalization. In 1997–2001, the firm's turnover and exports grew fast (Noorem 2002a). The number of employees increased from about 200 to 615 (Niitra 2002a; Rozental 2001) and the turnover from 36.1 to 166 million EEK (Rozental 2001, 2002c).

For 1998, the enterprise received a title of a fast-developing exporter from the Estonian Export Agency (Reimer 1999). During that year, its exports grew 231 percent: from 26.5 to 61.2 million EEK. In 1998, Tarkon exported 92 percent of its turnover (Tartu and Estonian 1999b). A year later, the export share had decreased to 76 percent (Tartu and Estonian 2001a). In 2000, the company exported 62 percent of its production to Sweden and three percent to five other foreign countries: Finland, France, Norway, Denmark and Latvia (Tarkon 2001).

[68] By 2002, this type of work was mostly over (Noorem 2002a).

[69] In 1999, the share of Swedish capital increased to 85% (Tartu and Estonian 2000b). The rest of stock (10 and 5 percent, respectively) belonged to Toomas Noorem and Villu Ehrlich (Tarkon 2002).

In 2001, the growth stabilized and the third stage began. The slowdown in the electronics industry, following the terrorist attack on September 11th led to smaller demand. As a result, the number of employees was reduced to 570 (Noorem 2002a). The export share also decreased. In 2001, Tarkon exported 58 percent of its production. 57 percent of total turnover was exported to Sweden (Tarkon 2002). The turnover forecast for 2002 was still relatively optimistic: 170-175 million EEK (Niitra 2002a). In general, the export share should decrease further, as the domestic demand is increasing. On the other hand, the firm has good opportunities for growth. Scandinavian companies still seek opportunities for transferring their production to areas with lower labor costs. Tarkon is competitive in this respect and should stay competitive for at least 10-15 years (Noorem 2002a). For 2003, the company expects a turnover of approximately 200 million EEK (Äripäev 2002). It plans to open a new plant in Äksi for 30-50 employees (Niitra 2002a). The enterprise has also made some inquiries for starting production in Russia. Moreover, it has examined a possibility to import some materials: in 2002, it imported only a small share of chemicals directly from that country. In Russia, the materials are the cheapest and the share of materials in total production costs is almost 60 percent (Noorem 2002a).

From the above, it can be concluded that Tarkon has had a fluctuating internationalization process. From its creation in 1907 to the World War II, the firm gradually increased its production and found new export markets. Then, it was forced to reorganize its production and orient it towards the Soviet market. In the beginning of the 1990s, these markets disappeared and Tarkon had to enter new foreign markets. The enterprise's export share gradually increased to 92 percent in 1998 and then dropped again to below 60 percent. During its internationalization and re-internationalization, Tarkon has at first entered neighboring countries. It has not used any other entry modes besides direct and indirect exporting.

Hansabank Group's history dates back to July 1st 1991 when Hansabank started operating as a branch of Tartu Commercial Bank. It launched independent operations on January 1st 1992. Hansabank Group was developed at the end of 1996. In 1998, after it merged with Savings Bank (Hoiupank), Hansabank became Estonia's largest bank. Swedish FöreningsSparbanken (Swedbank) obtained 49.98 percent of Hansabank Group in 1998 through a share issue (Hansabank 2003b). By 2003, the share of Swedbank had increased to 59.7 percent (Hansabank 2003a). Indrek Neivelt has described the firm's internationalization as follows. At first, there is a big "hooray": an enthusiastic leap into the foreign market. Then, a "hangover" — difficulties in and a lack of understanding about the foreign market — follows. Finally, everyday routine — allowing local people to do their job and helping them, where necessary — begins. In Estonia, the "hooray"- stage lasted up to 1998. In Latvia, it started in 1997 and in Lithuania, in 2001 (Neivelt 2002).

At first, Hansabank operated locally. In 1995 it opened a representation in Riga and launched Hansa Leasing's subsidiary, AS Hansa Leasing Latvia. In June 1996, Hansabank purchased 100 percent of Deutsche-Lettische Bank (Hansabank 2003b) that was founded in 1993 (Hansapank and Hoiupank 1998). In October 1996, the bank started operating under the name Hansabank-Latvia (Hansabank 2003b). In addition to traditional banking services, Hansabank-Latvia started to offer investment-banking services through Hansabank Markets. Due to the merger with Savings Bank and its affiliate Zemes Banka, the market share of Hansabank-Latvia increased from 4.6 to 7.6 percent (Hansapank and Hoiupank 1998). In June 1999, the bank's name was changed to Hansabanka. In June 2000, Ventspils Apvienota Baltijas Banka (UBB Ventspils) was reorganized into Hansabanka's branch (Hansabank 2003b). In 2002, Hansabank Group controlled about 20 percent of the Latvian banking market (Hansabank 2002).

In 1996, Hansabank established its presence in Lithuania. Differently from Estonia and Latvia, the first company set up there was Hansa Leasing Lithuania. In July 1999, Hansabank's Lithuanian subsidiary Hansabankas was opened in Vilnius to complement the services offered by Hansa Leasing Lithuania (Hansabank 2003b). When Hansabank understood that its market share was too small and there was no sense in continuing with such a little share, it decided to acquire a local bank (Neivelt 2002). Consequently, Hansabank purchased 90.7 percent of Lietuvos Taupomasis Bankas in April 2001. In June 2001, Hansa-LTB was created through the merger of AB Hansabankas and AB Lietuvos Taupomasis Bankas. The new bank retained the brand name Hansabankas (Hansabank 2003b). In 2002, Hansabank Group controlled about 30 percent of the Lithuanian banking market (Hansabank 2002).

In 1997, Hansa Leasing also entered Ukraine (Hansapank and Hoiupank 1998) under the name DP Hansa Leasing Ukraine (Hansabank 2002). In 2002, it had three employees there (Hansabank 2003a). In Russia, Hansa Capital operated during the years 1997-1998 but after the crisis, active business operations were frozen (Hansabank 2003b). Through the merger with Savings Bank, Hansabank Group also acquired FABA Bank in Russia, belonging to Savings Bank since September 1997 (Hansapank and Hoiupank 1998), but it sold the bank in April 1999. In November 2002, Hansa Capital and the European Bank for Reconstruction and Development (EBRD) established Hansa Leasing Russia to offer asset-based financing to railroads and ports. The company focuses on transit sector companies serving Russian-related trade flows through the Baltic economies, but also seeks co-operation with Hansabank Group's clients operating in the Baltic transit sector as well as Russian companies looking for asset-based financing. The shareholders of the new company are Hansa Capital with 75 and EBRD with 25 percent ownership (Hansabank 2003b).

In general, Hansabank Group has evaluated its foreign direct investments successful. As a result of opening foreign affiliates, it has increased its market share and employment and improved its financial performance (Tartu and Estonian 2001b). By the beginning of 2003, Hansabank Group had in total 3.6 million customers (Hansabank 2003b). Although in 2002, Estonia was still the main market for Hansabank Group[70] (see Appendix 11), it expects a major shift to Lithuania over the next years as this market has the largest potential (Neivelt 2002). For example, total lending to GDP ratio is 16 percent in Lithuania, 37 percent in Latvia and 46 percent in Estonia (Hansabank 2003b). In the next 5-10 years, Hansabank Group does not plan to expand outside the existing markets, as the Western European markets are full, the customers rarely change banks and Hansabank does not have a comparative advantage there (Neivelt 2002).

From the above, we can conclude that Hansabank started its internationalization from the closest markets. At first, it entered Latvia, a year later, Lithuania and after that, Ukraine and Russia. In Latvia and Lithuania, the bank has gradually increased its presence. In Latvia, leasing services followed a representation; after that, a bank was acquired. In Lithuania, leasing services were offered first and banking services after that. In Ukraine, the bank has only minor activity. From Russia, Hansabank had to back up because of the economic crisis, but it returned in 2002. In general, the company has increased the share of its revenues from foreign markets steadily, while the share of Estonia has decreased.

Hugo Osula and three small local private owners founded **Mootorreisi Group**, an international coach company in 1993. In April 1994, it started its operations. In the same year, Hugo Osula sold 40 percent of the firm’s shares to a large German coach company, Deutsche Touring Gesellschaft mbH (Käos 2002; Mootorreisi 2002). Mootorreisi Group followed four stages in its internationalization. As the manager quickly realized that the local market was too small to earn back the investments that the company had planned to make (Osula 2002), in 1994, the enterprise launched bus lines from Tallinn to Germany, Latvia, Lithuania and Russia (Käos 2002). The second stage began in 1995 (Osula 2002), when the firm’ affiliates in Latvia, SIA Mootorreisi (a sales and marketing company) and SIA Baltijas Autobusu Līnijas (a fully-owned bus company) started their operations. In 1996, these companies were merged under the name of the latter (Käos 2002).

During the third stage, the enterprise opened two Lithuanian subsidiaries (Osula 2002). Both companies, UAB Eurolines Baltic International (a fully owned sales and marketing affiliate) and UAB Tibus (a fully-owned bus company) started operations in 1997. In the same year, Mootorreisi Group founded ZAO Evrolains, in St. Petersburg, Russia, where it had 80 percent ownership (Käos 2002). Regular bus lines between Russia and Western Europe started in 1999 (Osula 2002). So, the fourth stage of internationalization began. In 1999, the Russian company, in turn, opened a branch, Evrolains Moskva, in

[70] Its market share is over 50 percent (Hansabank 2003b).

Moscow. In 2000, it founded an affiliate in Minsk, Belarus under the name Belevrolains (Eurolines 2003b; Käos 2002; Niitra 1999). Through the branches, ZAO Evrolains started operating bus lines between the three cities and from Moscow and St. Petersburg to Germany (Mootorreisi 2002). In the same year, Mootorreisi Group bought the Tallinn bus terminal (Äripäev 2000b). In 2001, as the rail traffic between Tallinn and St. Petersburg stopped (Mootorreisi 2002), the firm's turnover from this direction increased considerably. The number of trips between these cities increased to five a day (Mootorreisi 2001). Still, most of the company's turnover came from Germany (see Appendix 11). Mootorreisi AS's number of tourism buses increased to 58 (Eurolines 2003b).

In general, Mootorreisi Group has judged its FDI successful. Due to the opening of foreign affiliates, it has increased its market share, turnover and exports, received cheaper inputs and better feedback from the foreign markets and improved its financial performance (Tartu and Estonian 2001b). In the future, the firm plans to increase its turnover from Lithuania, especially from the bus lines to Germany and Benelux, and open some new lines from Russia (Mootorreisi 2002) to Europe. It will also attempt to operate more actively in Scandinavia (Osula 2002). In addition, in the next few years, the company will increase investments in the development of the bus transport, buy more comfortable buses and further develop its sales network (Eurolines 2003b).

From the above, it can be concluded that Mootorreisi Group has internationalized stage by stage. It has started with bus lines from Tallinn and then proceeded with opening new bus lines and foreign affiliates in Latvia, Lithuania, Russia and Belarus. In the future, the enterprise plans to enter more distant markets.

Haim Karschenstein founded **Baltika Group's** predecessor, Gentleman, in 1928. At first, it produced raincoats. Later, men's clothes followed. The firm was nationalized in 1940. The name Baltika was taken into use in 1959. In 1987, a reconstruction program was accepted to increase the production quality and start exporting. British and US companies' know-how was used. The enterprise's main employees were trained in these countries. As a result, the quality and efficiency increased considerably. A year later, in addition to men's clothes, Baltika started to produce women's clothes. By 1990, when the firm was privatized, the changes were completed (Baltika 1997; Baltika 2003b).

Baltika's internationalization after its privatization can be described in the following way. In the beginning of the 1990s, it was important to ensure the company's survival. Baltika "re-exported" about half of its production — sewed together material sent from abroad — but also tried to export its own production (Milder 2002). In 1991 it founded a chain of stores and created its first men's collection Baltman. In 1993 Baltika opened its first shop in Lithuania and created two collections: Christine Collection for women and Plus B for men (Baltika 2003b). Since that time, in the countries where it is involved in retailing, the company's strategy has been to sell only through its own retail structures (Milder 2002). In 1994, the enterprise opened its first shop in Russia and launched another men's collection, Evermen (Baltika 2003b). Its turnover was 114 million EEK. Only 33.3 million EEK of that came from subcontracting. The firm exported 21.1 million EEK of its own products mainly to Latvia, Lithuania and Russia. A year later, Baltika started exporting to Scandinavia. The exports of the company's own production increased to 35 (Baltika 1997) and total turnover to 134 million EEK (see Appendix 11).

In 1996, an investment firm, Baltic Republics Fund (BRF), invested in the company. It had a 22.2 percent ownership[71] (Baltika 1997). Baltika's internationalization quickened. During that year, it opened a shop in Latvia (Baltika 2003b), founded a sales subsidiary, Baltmano Prekyba (later renamed Baltika Lietuva), in Lithuania and an affiliate Baltman Finland OY. The latter's role was to develop the sales of the firm in Finland and the United Kingdom. To the UK, Baltika had not exported before (Baltika 1997, 2003a). Baltika Sweden AB — a retailing and wholesale subsidiary — was also founded in 1996 (Olek 2002). By the end of that year, Baltika's turnover had increased to 188 million EEK and own products' exports to 77.9 million EEK (Baltika 1997).

By 1997, the firm had founded 26 shops in Estonia, Latvia, Lithuania, Russia, Finland and Sweden. It also created a sales subsidiary, LVIV Baltman, in Ukraine (Baltika 1997). Baltika Group's own production's exports were 102.6 and exports of subcontracted products 57.5 million EEK. The latter were exported mostly to the UK, Scandinavia and Germany (Baltika 1998). In 1998, Baltika created a new women's collection, Respect. It started exporting to Austria and opened a subsidiary SIA Baltman, in Latvia. It also sold LVIV Baltman. Due to the economic crisis in Russia, Baltika had to decrease its exports to Russia and Ukraine by 23 percent (Baltika 1999). The firm had to find new foreign markets. Consequently, in 1999, a wholesale subsidiary Baltinia OY started operating in Finland. In the same year, a retail and wholesale subsidiary Baltika Poland SP was opened (Olek 2002). Christine Collection was re-launched under the name CHR (Baltika 2003b). On the average, AS Baltika employed 717 and Baltika Group 1458 people (Baltika 2000).

In 2000, fast internationalization continued. A retail and wholesale subsidiary — Baltika Ukraine — was founded and SIA Baltman was liquidated. The firm concluded its first franchise contracts for shops in Latvia and Russia. It exported to 12 countries: Latvia, Lithuania, Russia, Ukraine, Poland, Finland, Sweden, United Kingdom, Germany, Norway, Denmark and the USA. The last three markets were new for the firm. By the end of 2000, Baltika Group's total number of shops had grown to 36 and the turnover had increased to 341 million

[71] In 2003, its share was 35.68 percent. In the beginning of 2002, BRF had 39.9 percent stock. 9.5% belonged to the firm's top managers. Then, the firm's ownership changed: the share of BRF decreased while the share of top managers increased to 22.2 (Baltika 2003b).

EEK (Baltika 2001). In total, Baltika evaluated its foreign investments as successful: they have increased its market share, exports and turnover. In addition, the firm has received better feedback from abroad, obtained access to cheaper inputs and improved its financial performance (Tartu and Estonian 2001b). In 2001, Baltika Group's turnover was 414 million EEK, only 122 million of it came from Estonia (see Appendix 11). The company contracted RPA Inc., a U.S. consultation agency, to work out a new retail concept. It also started exporting to Austria and stopped exporting to Germany and Denmark. Baltika Group employed 1585 people, 123 of them abroad (Baltika 2002a). In 2002, Baltika founded another daughter company, Baltika Latvija. By the end of that year, Baltika Group's retail chain had over 70 shops in seven countries: Estonia, Latvia, Lithuania, Poland, Ukraine, Russia and Sweden. The number of employees increased to 1725, of them abroad 274 (Baltika 2003a), the total number of products to 818 000 (461 000 were Baltika's own) and turnover to 485 million EEK. 52 percent of it came from retailing (Baltika 2003b), together with shop-in-shop and franchise contracts, even 67 percent (Baltika 2003a). The firm's main export market was Lithuania (see Appendix 11). After working out the new retail concept in September 2002, Baltika has operated four retail chains: Monton, Baltman, CHR/Evermen and Baltika Vabrikupood (Baltika 2003a). In addition to its existing fashion brands, the enterprise will start investigations and preparations for creating concepts to capture new market segments (Baltika 2002b).

In general, the company's philosophy has been to concentrate on neighboring markets and through these, go to their nearest markets. The market of the USA was an exception: Baltika wanted to test their collections' performance in the market with the highest competition in the world (Milder 2002). In 2001, Baltika's exports to the USA were 3.1 million EEK (Baltika 2002a). After the September 11th, Baltika decided to concentrate only on the European countries. The firm also plans to become more active in Central and Eastern Europe in the near future, and after that, probably, in Scandinavia. Moreover, Baltika wants to enter Romania and/or Slovakia soon (Milder 2002). In 2003, the company intends to open a retailing joint venture in Russia (Baltika 2003a). By 2004, its retail network should consist of at least 90 stores in eight countries (Baltika 2002b).

From the above, we can conclude that Baltika started its internationalization from subcontracting and proceeded with exporting its own production and later, foreign sales subsidiaries, shops, franchising and joint ventures. Both in exporting and opening its sales subsidiaries and shops, Baltika Group has started from nearest markets: Latvia, Lithuania, Finland, Sweden, Russia and Ukraine. In 2002, these countries were among the firm's main export markets. After entering the above-mentioned countries, Baltika has entered their neighboring countries. During its internationalization, the company has quit exporting to some countries. For example, after September 11th 2001, it decided to pull out from the USA.

Baron Ludwig Knoop established **Krenholm Group** in 1857. The factory produced cotton thread, fabric and wadding, which were supplied to the whole of Russia (Krenholm 2003) and even Southern China. During the 19^{th} century, the firm became the largest textile producer in Russia (ETA 1997). In 1900, it received a Grand Prix at the Paris world exhibition (Soolep and Suviste 1999). In 1913, the company produced 11 percent of Russia's cotton products. It had 10 500 employees. After Estonia became independent in 1918, the firm was restructured. Instead of trading with Russia, it started exporting to Western Europe and Scandinavia. The turnover decreased five times. After nationalization after World War II, the firm's production was reoriented to the Soviet market. Before becoming Estonian state-owned in 1991, Krenholm Group had 11 000 employees[72] (ETA 1997).

Since 1991, Krenholm has followed two stages in its internationalization. As the Soviet market fell off, the company had to find new buyers. In 1991-1995 it filled unsolicited export orders for intermediate buyers from different countries but had no resources, knowledge or original products to export directly. When an order came, the firm was able to buy cotton and complete it. Krenholm's main advantage was the low cost of its products. In 1995, after Borås Wäfveri AB (Virkebau 2002) bought a 75.5 percent share of the enterprise (Remmik 1996)[73], it started developing and exporting its own products (Virkebau 2002).

In August 1995, Krenholm opened a fully owned sales subsidiary, Krenholm Scandinavia AB, in Sweden. In that year, the firm's turnover was 705 million EEK (Remmik 1996). In 1996, it exported almost 95 percent of its production. The main market was the USA with a 48% share. About 22% was exported to Scandinavia and the rest to Western Europe (BNS 1996). Then, Krenholm took a decision not to sell to any market more than a quarter of its turnover. The share of the USA was reduced while the share to European countries was increased (Virkebau 2002). In 1997, Krenholm Group opened a sales office in Germany. In 1999, an affiliate Krenholm Germany GmbH was registered (Laasik 2002). Having an affiliate in Germany has enabled Krenholm to offer a quicker and more flexible customer service, sell the whole product assortment more effectively and increase its credibility. Major customers especially value the opportunity to turn to the affiliate with their problems and questions (Sirkel 2001).

In 1999, Krenholm Group's exports were 879 million EEK (Reimer 2000). A year later, its turnover was 1.24 and exports had increased to 1.1 billion EEK (Äripäev 2001b). The enterprise exported to 24 countries (Äripäev 2000a). In November 2001, it acquired a new affiliate — Aurora Fabrics Ltd — to market the mother company's production. Krenholm Group's net profit was 23.1 million and total turnover 1.2 billion EEK, including the turnover of Krenholm Scandinavia AB — 299 million EEK, Krenholm Germany GmbH — 118.6

[72] By 2003, the number decreased to 4900 (Krenholm 2003).
[73] Since 1999, it has been fully- owned (Tartu and Estonian 2000b).

million EEK and Aurora Fabrics Ltd. — 35.6 million EEK (Kreenholmi 2002). The firm's main markets were the USA, Germany and Estonia (see Appendix 11). It was the Estonian second largest exporter (Erilaid 2003).

In general, Krenholm Group has evaluated its FDI successful. Due to opening foreign affiliates, it has increased its market share, turnover, exports, imports and employment, received better feedback from the foreign markets and improved its financial performance (Tartu and Estonian 2001b).

In 2003, the firm's turnover should grow by 11 percent (Laasik 2003a). In the near future, Krenholm plans to open an office in Holland (Virkebau 2002) by taking over a small sales company (Laasik 2003b) and invest in its products' sales in Southern Europe (Euroinfo 2001). The enterprise also intends to employ more sales agents for exports to the UK, Germany and the Benelux countries. These markets, beside the USA, are the main direction to where it plans to expand (Laasik 2003b). When Russia joins the World Trade Organization, Krenholm also intends to invest there. This could happen in 2005 (Reimer 2000). In addition, it plans to increase the share of services in the next 3-5 years (Laasik 2003a). On the other hand, in 2005, the textile market of the EU will be opened to all the members of the WTO. This could negatively affect Krenholm's exports (Kangur 2003).

From the above, it can be concluded that like Tarkon, Krenholm Group has followed several stages of internationalization and de-internationalization. From its foundation in 1856 to Estonia's independence in 1918, the firm exported successfully to Russia and China. Then, its production was reoriented to Scandinavia and Western Europe. After World War II, Krenholm's production was diverted to the Soviet market. When Estonia regained its independence and the Soviet market fell off, the firm was forced to find new export markets again. From operation modes, Krenholm has used indirect and direct exporting and established its own sales affiliates in Sweden, Germany and the UK. In its internationalization, Krenholm Group has not always started from its nearest markets. In 2001, its main foreign markets were the USA and Germany, while Lithuania was 10th and Latvia shared the 11th place with Ukraine and Italy (see Appendix 11).

Saint-Gobain Sekurit Estonia was founded in 1989 as an Estonian-Swedish joint venture[74] between a state-owned firm Tartu Autoveod and Saint-Gobain Sekurit Scandinavia — the daughter company of the Saint-Gobain Group — under the name of Elvex. It started the production of laminated windshields in February 1991 (Saint-Gobain Sekurit 2003). On the creation of the enterprise, the partners agreed to sell the production both in the home market (the Soviet Union) and abroad. In the last quarter of 1991, Elvex started exporting its products directly to Sweden and indirectly to Poland. As the experience

[74] Since 1995, the firm has been fully owned by the Swedish company Saint-Gobain Sekurit Scandinavia (Saint-Gobain Sekurit 2003).

increased, the number of foreign markets grew. By the end of 1991, it had also found some customers in Germany and Holland. Still, exports to these countries were relatively low. After the dissolution of the Soviet Union, the definition of the home market changed. The smallness of Estonia as a home market forced Elvex to increase its exports considerably. Due to large risks, it was only able to sell ten percent of its production on the home market. As by that time, the enterprise had a necessary management structure and employees with export experience, it was able to multiply its exports and thus compensate for the home market's drastic decrease. Already in 1993, the company had its own marketing channels in the USA, but as a result of a recession in that market in 1993-1994, it had to pull out. By the end of 1996, the share of exports had increased to 90 percent of the firm's turnover (Kasak 1999, 2002). Elvex exported to 15 countries (Kaio 1996).

The second stage of the company's international development began in 1997 when it decided to form its own sales organization in nearby markets to strengthen its position there. In addition to Estonia, the firm started to define Latvia and Lithuania as its home market (Kasak 1999). In 1997, Elvex founded Autover-Autoklaas in Estonia (Saint-Gobain Sekurit 2002). The main goal of the latter was to create necessary managerial and logistical back- up for Elvex's investments to Russia, Lithuania and Latvia. In the same year, the company founded ZAO Avtomobilnoe Steklo in Russia to sell its products mainly in the North- West of Russia. In 1998, it created a joint venture, Autover Lietuva, in Lithuania (Kasak 1999; Saint-Gobain Sekurit 2002). A year later, a sales subsidiary was registered in Latvia (Kasak 1999). In 2000, the firm's name was changed from Elvex to Saint-Gobain Sekurit Estonia (Saint-Gobain Sekurit 2001). It started the production of tempered sidelights (Saint-Gobain Sekurit 2003). The company exported to 14 countries, mainly to Germany, Holland and Sweden (see Appendix 11).

By the end of 2001, Saint-Gobain Sekurit Estonia had the following shares in its affiliates: 100% in both Autover-Autoklaas and Autover Lietuva and 79.1% in ZAO Avtomobilnoe Steklo (Saint-Gobain Sekurit 2003). It also had a sales representative in Latvia (Saint-Gobain Sekurit 2003). The share of exports per turnover had increased to 95.6 percent (Saint-Gobain Sekurit 2002). The enterprise exported to 15 counties. The main export markets were Holland, Germany and Belgium (see Appendix 11). Currently, the company produces windshields for over 300 car brands and tempered sidelights for over 1000 car brands. From the former, 95% are exported. From the latter, only one percent is sold in Estonia (Illisson 2002). The firm's primary goal is to serve the global market. It tries to minimize its risks by diversifying its markets geographically and varying its client base (Kasak 2002).

From the above, we can conclude that Saint-Gobain Sekurit Estonia has internationalized very quickly. It started exporting already in 1991, the same year as it launched production. Five years later, the company's export share had increased to over 90 percent of its turnover. For Saint-Gobain Sekurit Estonia, the main markets — Holland and Germany — are not the neighboring countries. Still, the firm also exports to Finland, Sweden, Latvia, Lithuania and Russia. During its internationalization, the enterprise has ceased its operations in some countries, for example, Denmark and Ukraine, and found new markets like Belgium and Italy. It has also founded sales subsidiaries in the neighboring countries.

Four Estonian entrepreneurs founded **CVO Group** (Kaljundi 2000a) in 1996. The firm was then called Amendion. It began as a traditional recruitment company mainly helping the students of the Tallinn Technical University to find jobs. At first, the enterprise was not very successful despite its cheap services. Online services were worked out in autumn, 1997 and the company was renamed CV-Online. The first system cost 8000 EEK. Since 1998, the new services were offered more intensively (Joosu 2000).

Until 1999, the firm operated locally. Then it decided to internationalize swiftly (Kaljundi 2000a). The managers understood that the Baltic region was too small in terms of population and the number of Internet users to provide for world scale competitiveness and cover the development costs (Lepmets 2000c). Consequently, CV-Online decided to enter not only Latvia and Lithuania but also several other countries (Ärm 2002). In December 1999, went to Latvia (ESIS 1999). In that year, the company's sales were below three million EEK and it had fewer than 10 employees (Kaljundi 2000a). In January 2000 CV-Online expanded its capital base by including LHV Ventures (Estonia) and Esther Dyson (USA). They invested approximately 10 million EEK (LHV 2003) and obtained a 35 percent ownership (Kaljundi 2000a). This allowed the enterprise to enter the major CEE markets (Smith 2001). The Czech office was opened in March (Kaljundi 2000a), the Lithuanian branch in May (Lepmets 2000b), the Hungarian affiliate in June and the one in Poland at the end of August (Kaljundi 2000a). In the same month, the firm entered Russia. In addition, CVO Group hired representatives in Bulgaria and Romania (CV 2001). In 2000, CV Online Estonia's turnover was 6.0 million EEK (CV 2002).

In January 2001, the following expansion took place where in addition to LHV Ventures and Esther Dyson, one of the leading Central European investment funds, 3TS Venture Partners, participated. The total investment was about 47 million EEK (LHV 2003). Through the deal, the investors gained a majority stake in CV-Online's holding company, Dutch-registered CVO Holdings NV (Smith 2001). In the same year, CVO Group's managers saw that the organization had grown too large to manage efficiently and some offices were not able to sell enough in their markets (Ärm 2002). Consequently, CVO Group temporarily suspended its operations in Russia, Romania (CV 2002) and Bulgaria. In the latter two countries, the firm's offices had not yet started their operations (Arak 2001). Instead, the company entered Slovakia. CVO Group's headquarters were moved from Tallinn to Budapest. CV Online Estonia's turnover was 7.7 million EEK (CV 2002) while the turnover of the whole CVO

Group was expected to be approximately 20 million EEK (Arak 2001). It had become the largest on-line recruitment company in the CEE (Lepmets 2001). In general, the enterprise judged its FDI successful. Due to the establishment of foreign affiliates, CVO group has increased its market share and employment, received better feedback from foreign markets and improved its financial performance (Tartu and Estonian 2001b).

In 2002, the firm had offices in Estonia and six foreign countries: Latvia, Lithuania, Poland, Hungary, Slovakia and the Czech Republic (LHV 2002b). It planned to re-open its operations in Russia and Romania through a joint venture (in the latter, an affiliate or franchise contract was also considered) and possibly enter Croatia (CV 2002). CVO Group expected a turnover of 45 million EEK (Korpan 2002a). By October 2002, the enterprise had over 330 000 registered users as jobseekers in the CEE region. In that year, CV- Online, a division of CVO Group, obtained 14th position in the Deloitte & Touche's "Central European Technology Fast 50" ranking with 731 percent revenue growth rate between 1999 and 2001 (LHV 2002a). It had almost 100 employees, 20 of them in Estonia (CV-Online 2003).

In addition to organic growth, CV-Online has used other methods to enter some countries. In the Czech Republic they bought Profese.cz, an online recruitment service that was being run by a local IT system integration company (Kaljundi 2000a). In Hungary CV-Online acquired 75 percent of Munkaforum.hu (CV 2001) — a local company that had been set up only in November 1999. On the other hand, offices in Latvia, Lithuania, Poland and Russia were started from scratch (Kaljundi 2000a).

From the above, it can be concluded that CVO Group was local for the first three years and then, after involving foreign investors, entered several CEE counties in a very short time period. From December 1999 to August 2000, it established affiliates in Latvia, Lithuania, Poland, the Czech Republic, Hungary, Russia, Bulgaria and Romania. In 2001, the company exited the latter three countries while entered Slovakia. In 2002, it planned to re-enter Russia and Romania and enter Croatia.

In conclusion, it can be said that the case firms' internationalization processes have differed considerably. Tarkon and Krenholm Group have followed several stages of de- and re-internationalization, Hansabank, Mootorreisi Group and Baltika have internationalized more or less gradually while the internationalization of Saint-Gobain Sekurit Estonia and CVO Group has been very rapid. From critical incidents, influencing this process, three should be mentioned: the dissolution of the Soviet Union, the September 11th and a change in foreign ownership. The former two events have forced the companies to reduce their operations in certain countries — for example, Russia and the USA, respectively — while the latter has led to entering new markets or increasing involvement in the current ones.

The choice of foreign markets has also been different. Hansabank, Mootorreisi Group and, to a smaller extent, Baltika (in terms of foreign investments, not subcontracting), have started their internationalization from a couple of neighboring markets. CVO Group, Saint-Gobain Sekurit Estonia and Krenholm Group went to several countries, including the ones relatively far from Estonia, very rapidly. Finally, Tarkon exported mostly to only one market — Sweden — and only a small extent to some further markets. Moreover, in the case of this firm, the share of the other countries has decreased.

The production enterprises — Tarkon, Baltika, Krenholm Group and Saint-Gobain Sekurit Estonia — began their internationalization from indirect and direct exporting. The latter three companies afterwards founded foreign sales affiliates. Baltika has also used franchising and plans to open a joint venture. Hansabank Group and Mootorreisi Group started with simpler foreign operations. Hansabank Group began its internationalization from opening a representation and offering leasing services and only then, banking services. Mootorreisi Group at first opened bus lines and later, founded foreign affiliates. Only CVO Group started its internationalization from affiliates but it had involved several venture capitalists by then. The enterprises also differ in terms of dimensions of internationalization. While, for example, Saint-Gobain Sekurit Estonia has the largest number of export markets, Baltika Group uses more foreign market entry modes.

From the above, it can be concluded that the first proposition should be supported. There seems to be a tendency to start internationalization from nearest markets and simpler foreign market operation modes and continue with more distant countries and more complicated operation forms. This appears to hold especially for smaller and less experienced companies with fewer resources and few contacts (for example, the ones without foreign owners[75]). In addition, the case enterprises' internationalization process was influenced by some critical incidents (like the dissolution of the Soviet Union, the September 11th and a change in foreign ownership) and included de- and re-internationalization. Moreover, as proposed, it was also more advanced is some dimensions than the others: for example, while some firms had more export markets, the others used a larger number of market entry modes.

2.2.2. The impact of networks on the internationalization of the selected firms

The perceptions of the seven general managers of their foreign parent companies' and other long-term partners' role in their firms' internationaliza-

[75] The role of foreign owners and other network partners will be more thoroughly examined in the following subchapter.

tion are presented below. In addition to positive effects, some negative aspects of linking into networks will also be brought out.

In 1996, when **Tarkon** involved a foreign investor, Hallberg Sekrom, it lacked finance, modern technology, foreign market knowledge and experience (Noorem 2002a; Pärl 2001). Actually, its debts were 30 million EEK and the firm was practically bankrupt. Tarkon had been in the privatization list for two years (Reinart 1996). It would have been very difficult for the company to sell its own products and, especially, create new trends (Noorem 2002a). As a result of the investment, Tarkon was able to connect the existing knowledge and customers from Hallberg Sekrom and its own old historical experience of multifaceted manufacturing. This helped the firm to realize its plans to be a competent and complete system supplier (Tarkon 2003). Since the investment, Tarkon's turnover increased fast. The company was able to invest in machinery and renovate its production facilities (Noorem 2002a). In July 1999, it received the ISO 9001 certificate (Bureau 2003). Some employees of Hallberg Sekrom come to consult from time to time, for example, to suggest how to increase production efficiency or to solve some problems. Some of them have worked in Tarkon for several years and brought in know-how. The Estonian employees also go to Sweden to study (Noorem 2002a). In addition, Tarkon has received raw materials from the parent company (Tartu and Estonian 2001a). The financing has also become easier, as Tarkon can get a loan from Swedish banks (Rozental 2000b).

Through the know-how and capital transfer, the investor has improved Tarkon's ability to export. Hallberg Sekrom is one of the leading suppliers in Sweden and it also has a substantial export business (Hallberg 2003). They export to Finland, Germany and the United Kingdom (Rajalo 2002). Hallberg Sekrom's marketing group is constantly working to find new orders for Tarkon (Noorem 2002a). The owner of Hallberg Sekrom, Gunnar Bergström, also seeks new customers and communicates with them (Rajalo 2002). In addition, for finding new clients or suppliers, the Estonian top manager's personal contacts are very important. Still, in 2002, almost 60 percent of Tarkon's production was exported through the foreign owner. As Estonia is still not a member of the EU, it is, in a way, inevitable. To import from Estonia, customs documents have to be completed. Smaller Swedish firms often do not have experience and employees for that. Thus, they prefer to buy from the parent company. This system is functioning stably. Consequently, it is not of primary importance for Tarkon to export directly (Noorem 2002a).

In addition to the foreign owner, Tarkon has several other important partners. In February 2001, it signed a contract with Tallinn Technical University. They cooperate in R&D. Tarkon's specialists both study and teach in the university (Paul 2001). Through the Technology Institute, Tarkon also cooperates with Tartu University (Morits 2002). Moreover, the company co-operates with customers. It has about 20 larger long-term partners and many smaller ones. In Estonia, the firm cooperates, among others, with Elcoteq, Norma and Primus. It also has several partners abroad: for example, Intermec with whom Tarkon developed a new printer series (Noorem 2002a) and since 2002, TA to produce heating systems' elements. Due to this contract, Tarkon's annual turnover should increase by 60 million EEK. A contract with another Swedish firm, ABB, might bring an additional 25-million EEK turnover increase (Äripäev 2002). In addition, the firm cooperates with Allgon, AtlasCopco, Electrolux, Ericsson, Flextronics, Nolato, Rexroth, Siemens, Smarteq, Wabco and several other companies (Noorem 2002b). With some enterprises, Tarkon's cooperation is indirect: it is not always in direct contact with the end producer, but its subcontractors. The firm has found its customers through the owner, but also through its homepage, other partners, the Federation of Estonian Engineering Industry, foreign embassies, newspapers; the Estonian Investment Agency and the Estonian Technology Agency. It sometimes also passes some orders to the other Estonian firms, for example, if it does not have sufficient free production capacity to fill the order. Through seminars, fairs and other meetings with different firms, Tarkon has also got new ideas, for example, to build up a technological park (Noorem 2002a).

Through the latter, it can offer, together complete solutions to its customers (Tarkon 2003): from the drawing to the final product. Tarkon has tried to involve the firms that have the technological processes it lacks itself or which are too weak. This reduces production costs and enhances the enterprise's market potential and value-added (Noorem 2002a). By 2003, it had six partners: Tarkon Lehtmetal (sheet metal products), Medeto (medical device technology), Glaskomponent (industrial glass), EBÖ (aluminum die-casting), Nyköpings Plastprodukter AB (plastics) and Primus, a producer of consumer products (Rozental 2002c; Tarkon 2003), to which Tarkon is a big supplier of components (Tarkon 2003). Tarkon owns 50 percent of Tarkon Lehtmetal's shares. The other half belongs to two Swedish firms: 25% to Hilmgards Mekaniska AB and 25% to Länna Svets & Mekaniska AB (Tarkon 2002).

In general, Tarkon tries to involve partners from the earliest stages of new product development. On the other hand, this may mean taking certain risks. If the product is not launched at the market at all or if the demand falls, the orders will be cancelled and the firm's expenses will not be covered (Noorem 2002a). This happened to an extent in 2002, when the largest customers reduced their orders (Niitra 2002a). By producing for different market sectors, the risks accompanying close relationships can be reduced: if one industry falls, the other may rise (Noorem 2002a). While in 2001, over a half of the production went to the telecommunication sector, in 2002, its share was reduced to 39% (Niitra 2002a).[76]

[76] On the other hand, focusing on many sectors may lead to a larger number of clients. It takes time and additional investments to find new customers (Niitra 2002a; Noorem 2002a). In total, in 2002, Tarkon had about 100 different clients (Rozental 2002a) but it tried to reduce their number and concentrate on key partners (Noorem 2002a).

In total, most partnerships have been positive for Tarkon. Maybe 10 percent of them have been unsuccessful (Noorem 2002a). The firm has received know-how, cooperation experience and new technologies and developed its quality control system; the market pressure has forced it to increase the production efficiency. The company's ability to work out its own products has increased (Noorem 2002b). Having a foreign owner, has also had a positive impact. Still, there are some negative aspects. Sometimes, the foreign owner makes Tarkon do some simpler work it would prefer not to do, or to serve certain customers. As the owner is a Swedish firm, Tarkon mostly exports to Sweden. It does not have enough time to compete in the Finnish market. In addition, having a Swedish owner is sometimes not positive for Tarkon's image in Finland. On the other hand, if the company did not obtain these orders from Sweden, maybe it would not find so many orders from the other countries itself (Noorem 2002a).

We can conclude that Tarkon has clearly benefited from having a foreign owner: it has acquired capital, know-how, market access and raw materials. As a result, its turnover and exports have increased considerably. It exports most of its production through the foreign owner and to its home country. The negative effect — being forced to complete certain orders — is smaller. The other network relationships have, in general, also been beneficial for Tarkon. Through them, the firm has developed new products, reduced production costs and increased its turnover, market potential and value-added.

Swedbank invested into **Hansabank Group** in 1998 (Hansabank 2003b). The bank has not gained very remarkably from that in terms of business information, technology or foreign market opportunities. The parent company has helped Hansabank Group mainly with internal audit and risk management. In addition, Hansabank's credit rating has improved (Neivelt 2002), compared to September 1997: the long-term deposit rating has grown from Baa2 to A1, the short-term deposit rating from Prime 3 to Prime 1, and the financial strength rating from D+ to C (Hansabank 2003b). There have been also some other benefits. The fact in itself that Hansabank Group has a foreign owner is a sign of stability and trust. It has improved the bank's image in Latvia and Lithuania. Hansabank Group clearly gained from that when it bought a bank in Lithuania in 2001: then, it defined itself as a Swedish bank (Neivelt 2002). Moreover, the representatives of Swedbank often participate in seminars for Swedish small and medium enterprises and advertise Hansabank Group's services in the three Baltic countries (Arnover 2002). In addition, by sharing knowledge within the Group and with Swedbank, Hansabank can exploit synergies and avoid making mistakes in its business judgments (Hansabank 2002).

For Hansabank, having foreign affiliates has been beneficial in several ways. For example, some customers might choose the bank because of it (Neivelt 2002). In addition, by acting simultaneously in markets with different stages of development, Hansabank Group has been able to use the experience gained in one market in the neighboring countries. Through active knowledge management within the Group, it can reduce its loan losses and improve customer service. Besides knowledge management, there are also synergies in IT. Hansabank Group has been able to implement a similar information system in all their banks in the Baltic region. This helps it to save annually almost 160 million EEK. The time spent on launching new products is also shorter. This, in turn, has helped the firm to gain the reputation of being the most innovative bank in Latvia and Lithuania (Hansabank 2003a).

Hansabank Group has also several long-term relationships with companies outside the corporation. For example, in June 2002, it signed a cooperation agreement with OKO Osuuspankkien Keskuspankki OY for broad coverage of various banking services. In future the banks will offer services in their home markets to each other's retail and corporate customers. They will develop an extensive service network covering all three Baltic countries and Finland to support business activities between Finnish and Baltic companies. For those OKO Bank's customers that have operations in the Baltic economies and Hansabank Group's customers with activities in Finland, this agreement not only provides faster transfers, but also improves local financing opportunities (Hansabank 2003b). In January 2003, OKO Bank and Hansabank Group's owner Swedbank agreed on similar cooperation, as a result of which Swedbank will offer OKO Bank Group's customers services in Sweden (OKO 2003). In addition, Hansabank Group wants to focus more on long-term partnerships with its customers (Hansabank 2003a).

It can be concluded that Hansabank has gained from having a foreign owner: it has acquired knowledge and assistance in internal audit and risk management, improved its image and credit ratings. To some extent, Swedbank has also eased Hansabank's internationalization. Through the other network relationships, the bank has been able to further expand its service range for both local and international clients, reduce loan losses and IT costs.

Hugo Osula understood from the beginning that **Mootorreisi Group** needed a foreign partner to extend its bus network abroad. At the same time, he wanted to retain control over the enterprise. Consequently, the German firm, Deutsche Touring, was offered a 40 percent ownership to attract their interest. As a result, Mootorreisi Group has obtained some benefits. Financing from Estonian banks has become easier. The company has also used its foreign owner's cash flow. Its employees have got a chance to work in Germany. Deutsche Touring has about 80 percent of the German market: consequently, Mootorreisi Group does not have much competition there. In addition, in some bus lines, having the German partner has helped to minimize risks: the former operates the German end of the line and Mootorreisi Group's affiliate in Russia the other. In the future, maybe three, four or five large companies will operate the international bus lines network in Europe and the Estonian company hopes to be among them (Osula 2002).

There is no sense to service Europe with one bus line. It is important to have a whole network of lines and that gives Mootorreisi Group an advantage (Tooming 1999). Consequently, for them, cooperation — finding partners, defining common interests, acting together — is one condition of success (Osula 2002)[77]. In 1996, Mootorreisi Group started to operate under a large international trademark, Eurolines, which in 2003, consisted of 38 firms from 25 European countries. On the lines starting from Estonia, the company offers direct connection with all the biggest cities in Germany and Baltic States, also St. Petersburg and Oslo. By changing the bus, it is possible to connect further to 500 destinations offered by the total coach network (Eurolines 2003abc). The firm has several foreign partners besides the firms belonging to the Eurolines' network: for example, Bayern Express in Germany, National Express in the United Kingdom and Bohemian Express in the Czech Republic (Osula 2002). The firm also sells tickets to the lines of Eurolines International, NOR-WAY Bussekspress AS, Berlin Linien Bussen and Deutsche Touring. Its own tickets are sold in Estonia, Latvia, Lithuania, Denmark, Belarus, Norway, Sweden, Finland, Russia and the United Kingdom (Eurolines 2003b). In addition, Mootorreisi Group has cooperated with Estonian companies. In 2001, together with another bus company, Viljandi ATP, it developed regular bus lines from Tallinn to Moscow, Minsk and Kiev (Mootorreisi 2002). The firm has also tried to cooperate with Pärnu ATP, but not successfully (Osula 2002).

We can conclude that for Mootorreisi Group, involving a foreign investor has been beneficial. The Estonian firm has improved its image, minimized risks and acquired easier access to financial resources. The enterprise has also cooperated with several other companies in selling tickets and developing new bus lines. Most of these relationships have been advantageous.

Baltika Group's foreign owner, BRF, has a short-term investment in the company. In 2004, it will withdraw. Thus, as the representative of Baltic Republic Fund, Joakim Helenius, has said, in the future, Baltika should either acquire another company or find a large foreign investor (Kaio 2002a). Baltika Group does not see considerable benefits from the foreign owner. BRF has invested in the firm, where necessary, and supported its development (Milder 2002) — for example, tried to find a new investor or an expansion possibility in Poland (Kaio 2002b) — but it has not offered any technology or information, nor created any market opportunities or in-house training opportunities for the employees. Baltika has had to find its foreign buyers and suppliers and create long-term relationships on its own. On the other hand, the foreign owner has not inhibited the company's development (Milder 2002).

Baltika has created overseas branches in all the foreign countries where it operates in retailing as local specialists know the market and have the necessary

[77] On the other hand, finding suitable partners is not easy. Before that, a firm should become strong enough so the others would agree to cooperate with it (Osula 2002).

contacts (Leisoo and Saks 2002). In general, it makes considerable efforts to seek new partners — especially retailers — as it does not sell to wholesalers. Baltika selects its partners carefully. Just creating contacts is not enough. It is also important to have a similar vision. The enterprise has long-time relationships with about 30 buyers and suppliers in Estonia and over a hundred companies abroad. About ten buyers are more important. Most of these relationships have been successful. Still, some retailers' policies have slowed Baltika's development. Moreover, some relationships have ended because of technical (Milder 2002) or other problems. For example, in 2002, one of its major customers, P.T.A. went bankrupt (Baltika 2003a). Baltika is also in close contact with some Finnish and Swedish competitors. The top managers meet from time to time and discuss the companies' developments (Milder 2002).

It can be concluded that Baltika has not considerably benefited from having a foreign owner. It has received financing and support but Baltika Group has had to seek new market opportunities and new foreign partners by itself. Still network relationships, especially with retailers, are very important for the firm.

Krenholm Group quickly realized that having a solid foreign owner was one of its main strengths (Virkebau 2002). The Swedish company, Borås Wäfveri AB, has played an essential role in Krenholm's development (Larson and Wikström 2001). Since privatization, when the firm's debts were 198 million EEK and it was practically bankrupt EEK (Niitra 1996a), it has been completely reorganized to function in a market economy. The owner has brought know-how in marketing and management, valuable experience in restructuring as well as financial investments in machinery to Krenholm (Larson and Wikström 2001). In total, Borås Wäfveri has invested 710 million EEK into the enterprise (Krenholm 2003).

In addition to capital, the parent company has helped the Krenholm with advice[78] and support in some projects: some of their managers have a very long experience in the textile business. Also, the takeover has in a way improved Krenholm Group's image as its owner has been listed on the Stockholm Stock Exchange for about 55 years (Virkebau 2002). On the other hand, the firm's trade with the owner company and its affiliates is relatively low. In 2001, Krenholm Group sold 14.4 and bought 13.1 million EEK of its products and services from them (Kreenholmi 2002). The enterprise has also not gained considerably from having a foreign owner in terms of technological solutions, which it almost completely works out by itself, or in finding foreign customers (Virkebau 2002).

[78] The 20 million EUR loan (Krenholm 2003) from the International Financial Corporation has also been very useful for the firm in this respect as it acquired an opportunity to make contacts with different specialists (Virkebau 2002).

At the same time, Krenholm Group pays much attention to its 20 network partners. At least once a year, Meelis Virkebau[79] visited all the major buyers to discuss Krenholm's and the buyers' problems and development opportunities. The foreign owner gave this assignment to him at the start. The foreign partners — Wal-Mart, IKEA, Marks & Spencer, Karlstadt, Otto, in turn, visit Estonia (Virkebau 2002). In product development, the firm cooperates with Swedish and US partners[80] (Kreenholmi 2002). The company has also created long-term relationships with local firms. In 2000, Krenholm Group had 25 local subcontractors. In 2001/2002, the number of them was reduced to 5-6 (Virkebau 2002; Värbu 2001), as the enterprise was not able to control their production quality and deadlines, any longer. Consequently, it opened another plant and reduced the need to buy from them (Virkebau 2002).

We can conclude that for the (international) development of Krenholm Group, the foreign owner has been very important. From Borås Wäfveri AB, it has acquired capital, know-how, advice and support and improved its image. Moreover, the firm operates closely with its other network partners, for example, to develop new products.

Saint-Gobain Sekurit Estonia's managers understand the importance of long-term relationships. Andi Kasak has described the internationalization process as one of creating and maintaining them (Kasak 2002).

- First, after having an idea what to produce and developing the product, information from the market has to be gathered. Potential customers must be identified. The firm also has to advertise itself: for example, that it exists and manufactures this product.
- Second, after obtaining the information, contacts must be established and strengthened by personal relationships. In international business, personal contacts are important in both buying and selling.
- Third, when the product is successful and has acquired trust among the customers, then stability is achieved. The managers have to perceive the customer's expectations and, to some extent, influence them. At this stage, they have to preserve the relationship, exchange information regularly and meet from time to time.
- Fourth, the customer is lost and everything will start all over again.[81]

As the firm is a part of a large corporation, it uses its owner's marketing channels widely (Kasak 2002). In 2001, Saint-Gobain Sekurit's sales to the corporation and its affiliates were 131 million EEK, 98.3% of the total turnover (Saint-Gobain Sekurit 2002). The enterprise's main client is Autover Internatio-

[79] In January 2003, he left the company (Krenholm 2003).
[80] One of them, K-Mart, went bankrupt in 2002 (Kangur 2003).
[81] Saint-Gobain Sekurit Estonia has been very successful in retaining its clients. Consequently, it has not reached this stage (Kasak 2002).

nal[82], the corporation's sales organization. Together with them, Saint-Gobain Sekurit Estonia makes the strategic decisions to add new product lines or increase production amounts (Kasak 2002).

In addition to buying its affiliate's products, the corporation has supported the company in several other ways. In total, it has invested over 200 million EEK into the firm, 70 million of it in 2001. The investments have increased the enterprise's total production area to over 12 thousand square meters. The turnover has grown from 60 to over 130 million EEK (Illisson 2002). From the corporation, the firm buys some of the raw materials — Saint-Gobain holds global negotiations to acquire them for all of its affiliates. Through the corporation's channels, it also gets most of its know-how. The employees participate in technological and other seminars organized by the corporation and visit its other affiliates that investigate some problems more deeply. In addition, routine meetings are held regularly to cover budgets, plans for the next years, technological problems or other matters. Information, for example, about new technologies and changes in market conditions is also exchanged very frequently. In addition, the corporation helps Saint-Gobain Sekurit Estonia to reduce the financing and marketing risks and lets the enterprise use their globally well-know trademark (Kasak 2002) Sekurit from August 1998 (Illisson 2002). The trademark Elvex is also used (Saint-Gobain Sekurit 2003). Saint-Gobain Sekurit Estonia has also received technology from Saint-Gobain. To a smaller extent, the parent company has helped it with product and process innovation (Tartu and Estonian 2001a). From June 1997, the firm's production has met ISO 9002 requirements (Estonian 1998).

Saint-Gobain Sekurit Estonia also cooperates with its suppliers. It has about six partners in Estonia and six abroad. Some of the latter are connected to the corporation. The companies discuss each other's plans for the next 3-5 years. Based on that, it can decide whether the supplier has enough resources and know-how to develop, what is its background, how loyal and reliable it is. Long-time relationships for acquiring new technologies also include training of the firm's employees locally or in the supplier's factory (Kasak 2002).

It can be concluded that the foreign owner has had a strong impact on the internationalization of Saint-Gobain Sekurit Estonia. Through the owner's network, the enterprise sells most of its production. It uses the corporation's trademark besides its own. In addition, Saint-Gobain Sekurit Estonia gets most of its know-how and buys some materials from the owner. The latter has also reduced its financing and marketing risks and helped with product and process innovation. In addition, Saint-Gobain Sekurit Estonia has had successful long-time relationships with its suppliers.

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[82] This firm it the largest supplier of automotive replacement glazing in Europe. It has 28 affiliates worldwide (Autover 2003).

CVO Group. When CV-Online decided to expand throughout Eastern and Central Europe in August 1999, they understood that they would need external financing. The Estonian office was generating profit, but the sums were too small for going outside the Baltic market. After CV-Online received the first injection of capital in 2000, it became able to set up branch offices in Lithuania, Hungary, the Czech Republic, Russia and Poland (Kaljundi 2000a). Even more than additional capital, CVO Group has valued the investors' ability to raise the company's efficiency and goodwill and participate in forming its strategy. For example, LHV was selected for their entrepreneurial experience and Esther Dyson for her contacts in Europe and knowledge of the Internet's future perspectives (Kaljundi 2000b). The investors have provided CVO Group with information and management know-how and formulated the group's management team. They have helped to open and develop new offices abroad and find new customers in the CEE. In addition, the enterprise has obtained new ideas from their owners' affiliates in other countries: for example, launching job offers via mobile phones (Ärm 2002).

Besides the foreign investors, CVO Group has paid much attention to its long-term relationships with major newspapers, Internet portals and main customers (CV-Online 2003). In Estonia, the firm has over 1500 clients, including over 500 regular users (Ärm 2002), 30 partners and 35 VIP-customers (CV-Online 2003). To make entering new foreign markets easier, it has also created strong relationships with large multinational corporations operating in the CEE (Ärm 2002). For example, Kraft, Citibank, ABB, Spar, Philips, Intel and Mars are among CVO Group's customers (LHV 2002b). Two examples of the enterprise's partnerships are presented below.

In June 2000, CV-Online opened a WAP version of its server in cooperation with EMT — Eesti Mobile Telphone (Lepmets 2000a). With EMT, the firm has also launched SMS job offers (Ärm 2002). In October 2002, CVO Group formed an alliance with Stepstone ASA[83] to provide international and multinational recruiters with integrated access to their online recruitment services across Europe (LHV 2002b).

We can conclude that without the foreign owners' financing, CVO Group would not have internationalized so quickly. The company values highly the investors' know-how, ideas and assistance in raising its efficiency and goodwill, developing new offices abroad and finding new customers. CVO Group has also cooperated with several other firms outside the owners' networks to develop new services and enter additional markets.

[83] Stepstone is Europe's leading independent online recruitment company covering 13 markets in Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxemburg, Netherlands, Norway, Portugal, Sweden and Switzerland. It also works with Totaljobs.com to provide its customers and candidates with access to the UK market (LHV 2002b).

In conclusion, it can be said that in their internationalization, all the seven firms (especially, Tarkon and Saint-Gobain Sekurit Estonia) have received assistance from their foreign owners or some other network partners. Only Baltika Group gained relatively less from the foreign owner than the others. Tarkon and Saint-Gobain Sekurit Estonia export a large share of their turnover through their parent companies' networks. CVO Group and, to a smaller extent, Hansabank Group, have received assistance in finding foreign customers. Saint-Gobain Sekurit Estonia has obtained the right to use the foreign owner's trademark. Tarkon, Krenholm Group, Saint-Gobain Sekurit Estonia and CVO Group have acquired know-how from their foreign owners. Hansabank Group, Mootorreisi Group and Krenholm Group have improved their image. Tarkon and Saint-Gobain Sekurit Estonia have obtained some materials. Hansabank Group, Baltika Group, Krenholm Group, Saint-Gobain Sekurit Estonia and CVO Group have received knowledge, advice and/or support from their foreign owners. Moreover, all the seven enterprises have obtained financing.

The other network partners have also been beneficial for the companies. Through them, Tarkon has developed new products, reduced production costs and increased its turnover, market potential and value-added. Hansabank has expanded its service range and reduced loan losses and IT costs and Mootorreisi Group has developed new bus lines and sold tickets. CVO Group has developed new services and entered additional markets. Baltika and Krenholm have also benefited from close contacts with their long-term buyers. Still, there is some evidence on the negative impact of network relationships. For example, the owner has forced Tarkon to follow some orders and serve certain customers. It also states that in joint product development, there is a risk of losing the investments if the relationship fails or the market collapses. Baltika and Krenholm have had problems with a buyer and Mootorreisi Group with a former Estonian partner.

It can be concluded that, as proposed in the section 2.1.2, mostly, network membership seems to have had a positive impact on the firms' internationalization. From their foreign owners, the case companies have acquired know-how, capital and assistance in entering foreign markets. From the other network partners, they have received support for developing new products and services, increasing their value-added and penetrating additional foreign countries. As a result, all the seven enterprises have become relatively successful both in Estonia and abroad. On the other hand, sometimes, network relationships may have some negative impacts on a company's internationalization like inhibiting access to some markets. Moreover, their dissolution may also harm a firm.

2.2.3. The impact of the case companies' and the foreign owners' characteristics on their internationalization

The impact of the companies' and their owners' characteristics on the seven case firms' internationalization is studied below. This should help to explain why, despite the assistance from their owners and other network partners, the companies have internationalized differently. Among other factors, the case enterprises' strengths, weaknesses and their autonomy from the foreign investor will be examined.

Tarkon strives for constant improvement, tries to increase its efficiency and find new market opportunities. It has a large diversity of production processes[84], while a classical enterprise in a Western country usually has only one of them. Consequently, it can offer a client a wide variety of products. Moreover, this is logistically beneficial (Noorem 2002a). The firm values its technology, logistics chain, client base, quality control system (Noorem 2002b) and qualified employees (Noorem 2002a). In 2002, in the Estonian business paper Äripäev's firms' image top[85], Tarkon was the fourth (Äripäeva 2002). In its development, the enterprise has tried to follow the examples of Elcoteq, Ericsson and Nokia (Pärl 2001). Hallberg Sekrom and the other foreign partners have also got some ideas from Tarkon (Noorem 2002a)[86].

In addition to strengths, the firm also has some weaknesses. Tarkon still has to invest considerably into on-the-job training. The employees have not yet completely recognized the importance of teamwork and cooperation. Their ability to use new technology efficiently should be increased. In Tarkon, the share of turnover per employee is still 5-10 times lower than in Scandinavia (Noorem 2002a).[87] Moreover, although the company has since its privatization considerably developed its technology; it has not received considerable new product development orders yet (Pärl 2001; Rajalo 2002). This is the task of another unit of Hallberg Sekrom, HF Design Automation & Tools. Tarkon gets the order only when the product is ready for serial production in larger volumes (Hallberg 2003). Consequently, it still defines itself as a typical subcontracting company (Noorem 2003a). The Estonian enterprise's main functions are new product introduction; mechanical works, assembly and systems' integration (see Table 17).

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[84] Tarkon's main market segments are telecommunications, computer equipment, mobiles, water and sanity, hydraulics and pneumatics (Tarkon 2003).

[85] In total, 34 mangers answered to the questionnaire that was sent to Estonian 100 most successful companies (Kärssin 2002).

[86] For example, on one occasion, its workers altered a process of a workbench to treat a detail, when the seller could not manage it (Noorem 2002a).

[87] On the one hand, the wages are lower in Estonia. Consequently, Tarkon can employ more workers and still earn profit (Noorem 2002a).

Table 17. The functions of firm in the network of Hallberg Sekrom

	Support and development			Fabrication			
	Mechanical design	Support equipment	New product introduction	Mechanical works	Assembly of mechanics and electronics	Cable assembly	System integration
Hallberg Sekrom Fabriks AB (Stockholm)			Yes	Yes			
HF Design Automation & Tools (Visby)	Yes	Yes	Yes	Yes	Yes	Yes	
Tarkon (Tartu)			Yes	Yes	Yes	Yes	Yes

Source: Hallberg 2003

In addition, Tarkon's autonomy from Hallberg Sekrom is not very high. In 2001, most decisions, for example, production, distribution, export, sales promotion and finance, were made jointly with the foreign owner. Tarkon mainly made subcontracting and personnel decisions while the parent company mostly concentrated on pricing decisions (Tartu and Estonian 2001a). As has been shown in the previous section, the firm is also quite often forced by the parent company to fulfill certain export orders, mainly for the Swedish market, or perform some operations with a lower value-added. As Tarkon is Hallberg Sekrom's only foreign affiliate (see Appendix 11), this is in a way inevitable.

It can be concluded that Tarkon has been quite active in increasing its efficiency, investing in new technology, training its employees and searching for local subcontractors. Still, it makes most decisions, including exporting, jointly with the foreign owner. As was shown in the previous two subchapters, Tarkon was in an unfavorable financial and market position before the foreign investment. Hallberg Sekrom clearly improved the situation: the Estonian firm acquired capital, technology; know-how and market access. Currently, it sells most of its products through the owner's network; almost all of its exports go to Sweden, the owner's home country. The technology village might provide some additional internationalization opportunities. On the other hand, the enterprise has still not used any other entry modes besides exporting and it is sometimes reluctantly forced to follow the owner's export orders.

Hansabank Group wants to become the leading financial institution in each of the Baltic countries by the year 2004. It has advertised itself by having entrepreneurial spirit, openness to innovation, quality drive and high ethical standards, leading to strong performance and growing international recognition

(Hansabank 2003ab). Hansabank Group believes in the "one-stop-shop" strategy: all financial services from one place (Hansabank 2002). In 1993, a year after starting its operations, the bank began selling leasing products. In 1995 telephone-banking services started. Internet banking and car rental followed in 1997. A year later, the sales of property, the processing of debts and the provision of property insurance-related services and consultations were added (Hansabank 2003b). Easy access to customers via Internet banking, a wide automatic teller machine (ATM) network and a large number of branch offices is also very important (Neivelt 2002). By the end of 2002, Hansabank had 95 branches in Estonia, 61 in Latvia and 150 in Lithuania. The number of ATMs was, respectively, 506, 200 and 275 and the number of Internet bank hanza.net users 406 000, 170 000 and 173 000 (Hansabank 2003b). In addition, a very clear competitive advantage of the bank is its highly qualified and motivated personnel (Neivelt 2002).

In 2002, in the Estonian Äripäev's firms' image top 100, Hansabank was the first (Äripäeva 2002). It practically does not see any weaknesses, only some development opportunities in Lithuania, the spread of pension products and client services. Hansabank Group's information technology is more advanced than Swedbank's. As the parent company managers have stated, some other operations are also better organized in Estonia than in Sweden. As a result, the owner manages them employing a "hands-off" approach. Swedbank does not interfere in Hansabank's management, if it shows a reasonable profit. Its managers only attend board meetings once a month. Sometimes, they also agree to pay more attention to certain customer segments (Neivelt 2002). In 2001, Hansabank, in the majority of cases, took the decisions in the areas of pricing, advertising, personnel and R&D. Some distribution and financing decisions were made jointly with the parent company (Tartu and Estonian 2001a).

Despite being relatively independent, Hansabank shares its owner's vales. For Swedbank, Hansabank Group is one entity (Neivelt 2002). Hansabank Group's values and policies — risk, personnel, brand and communication — are also pan-Baltic and identical across the Group. On the other hand, it is local relating to customers.[88] Local banks are responsible for customer relationships (Hansabank 2002). If they show a profit, Hansabank does not interfere (Neivelt 2002).

We can conclude that Hansabank Group is, in general, innovative and entrepreneurial. It is very active in increasing its customer base and developing its information technology. As was shown in the previous two subchapters, Hansabank Group was internationally successful before it received the foreign investment. After the involvement of Swedbank, Hansabank internationalized even further. As the company has always shown a reasonable profit, the foreign

[88] One illustration of this is the bank's name. At first, in Latvia, they operated under the name Hansabank Latvia and then changed it to Hansabanka. Banking is a local business. "Hansapank" also sounds better than "Swedbank Estonia" (Neivelt 2002).

owner has not interfered in its management. Hansabank, in turn, has developed a similar approach toward its foreign affiliates.

Mootorreisi Group tried from the beginning to select the right foreign partners. The managers understood that to operate on the market and stay there, the firm had to invest and to increase its potential. The enterprise has developed one of the most advanced information and ticket selling systems in Europe. It operates as a bridge between its German owner and their Russian operations as these firms have very different cultural backgrounds (Osula 2002). Mootorreisi Group also has constantly attempted to improve its service quality: use more comfortable coaches[89]; offer food, drinks, journals, magazines and films, loan blankets, employ travel attendants who speak Estonian, German and Russian and teach them at least some basic words and phrases in other languages: for example, Lithuanian (Eurolines 2003b; Osula 2002). Its foreign partners have also taken over some of these ideas, for example, on their lines Budapest-London and Madrid-Berlin (Osula 2002). In addition, in Lithuania, the company offers a free shuttle service from Klaipeda and Siauliai to Panevezys and from Vilnius to Kaunas and back for the passengers who are going to Germany (Eurolines 2003c).

Similarly to Hansabank, Mootorreisi Group does not admit having considerably weaknesses, only development opportunities in some markets. It is also independent from the partner. As it was shown in the previous subchapter, the Estonian owners wanted to retain their control over the firm and thus sold only 40 percent of Mootorreisi Group. At first, Deutsche Touring probably hoped to take over the Estonian enterprise. As this did not happen, it tried to inhibit Mootorreisi Group's activities in Lithuania and Russia[90]. For about a year, the companies almost did not communicate (Osula 2002). In 1999, the foreign partner gave the company its development of bus traffic between Russia and Germany (Niitra 1999). The relationships normalized. The firms often[91] discuss their development plans, possible problems and risks to perceive and understand them similarly. The German partner almost does not interfere with the enterprise's economic activities. Mootorreisi Group takes decisions about new bus routes and logistics itself (Osula 2002).

It can be concluded that Mootorreisi Group tries to be very independent of its foreign owner. The company is very active in increasing its potential:

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[89] To spend 40 hours in a bus, the passengers need coaches with service and enough room to move. The firm bought its first three double-deckers in 1997. Since 2000, these coaches have operated on almost all international bus lines (Eurolines 2003b; Osula 2002).

[90] Deutsche Touring had tried to operate on these markets itself but with little success in Lithuania and none in Russia. Mootorreisi Group was more successful (Osula 2002).

[91] In addition to two formal meetings each year, the companies closely communicate on an informal basis. In everyday activities, Mootorreisi Group' affiliates independently commune with Deutsche Touring's divisions.

developing new services and improving their quality, entering foreign markets and motivating its employees. As was shown in the previous two subchapters, Mootorreisi Group has internationalized successfully and is trying to enter some additional markets.

Baltika Group's mission is to offer their customers fashion clothing, which complements their lifestyle, thus becoming the best solution for their self-expression and helping them to feel and perform their best (Baltika 2002b). The firm wants to be as close to the customers as possible. Operating the whole value chain — from producing to retailing — reduces Baltika's risks and ensures its competitiveness (Milder 2002).[92] The vertically integrated business model ensures high availability of basic goods; enables them to offer new fashion goods every second week (Baltika 2002b) and bring out a different collection each month (Baltika 2003b). All the enterprise's products and collections are aimed at all markets, not only Estonia or the Baltic economies (Milder 2002). Naturally, the shops select what to order (Efert 2003).

Baltika wants to become the leading specialty clothing retail chain in the CEE by 2004 (Baltika 2002b). This is a big challenge and a serious motivator for the employees (Milder 2002). The firm has been very active in product and brand development as after Estonia's accession to the EU, the labor costs will rise and this could decrease the competitiveness of unbranded products (Tähismaa 2003b). Into the development of its latest brand[93], Baltika invested 22 million EEK (Kaio 2002b). The enterprise has also paid a lot of attention to IT solutions. It has created a computer system through which it receives daily sales information from all shops. Each week, these companies evaluate and comment on their own and their competitors' sales. To get new ideas, Baltika studies some other enterprises' business models and activities and tries to

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[92] The logic is the following. A producer may face losses when the wholesaler or retailer has financial difficulties. A wholesaler or retailer may have difficulties when the producer is not successful or changes its policy (Milder 2002). In a way, retailing is the most important in the value chain, as the retailer is the only one that is in direct contact with the customer. If the retailer has not sold the product, the whole value chain has no real turnover. Consequently, the retailer controls the whole chain, including the producer. In addition, having its own retail chain increases a firm's ability to react quickly to changes (Larin 2002). Still, stock management remains a challenge for Baltika (Milder 2002).

[93] Monton was launched in September 2002 in Estonia, Latvia, Lithuania, Poland and Ukraine. Since that time, 76 percent of Baltika's products are sold under this trademark (Baltika 2003a) and the selling space of this brand constitutes 80 percent of the firm's total selling space (Kaio 2002a). 25 000 people have joined the Monton World client program. In August 2003, in cooperation with a store chain RIVERco, Monton will also reach the Finnish market (Eesti Päevaleht 2003).

understand why and how they acted. Next and Inditex with its trademark Zara[94] are among them (Milder 2002). As shown in the previous section, the foreign owner seldom interferes in the firm's management. This is understandable as it will soon withdraw and Baltika has been relatively successful.[95] Joakim Helenius, the representative of BRF, has even said that the current director is the best in Estonia (Baltika 2003b).

We can conclude that Baltika has actively operated the whole value chain — from producing to retailing. It has also been active in penetrating new markets, capturing additional market segments and increasing the share of its own production. In all these areas, Baltika has been relatively successful. In the near future, the enterprise also plans to enter new foreign markets. The foreign owner seldom interferes with Baltika Group's management. On the other hand, it has not contributed considerably in respect of the company's international development.

Krenholm Group wishes to be a constantly developing European textile manufacturer with customer and market orientation, corporate culture, creative product development, production technology and modern management practices. Its mission is to produce and offer natural and modern textile products and services with maximum added value to its customers all over the world (Krenholm 2003). The firm has invested considerably into technology, its sales organizations abroad and employees' education (Virkebau 2002). It wants to get the ISO certificate (Kreenholmi 2002) in addition to the Öko-tex 100 quality certificate it already has (Krenholm 2003).

Krenholm Group still has to increase its labor productivity: in comparison with similar firms in the EU, the latter is 5-6 times smaller. Although the firm's wages are, respectively, six, four and two times lower than in Sweden, Spain and Portugal (Neudorf 2002), they are considerably higher than in Indonesia (Virkebau 2002), Pakistan, India or China. Consequently, the company's main goal is not the cheapest price: there are always producers willing to offer a lower one (Laasik 2003a). As a result, the firm has to concentrate on marketing, good relationships with customers (Kangur 2003) and increasing its value-added (Rank 2003). Krenholm Group has given much attention to developing its own brand. It tries to find new ideas and launch new products. This should turn the attention away from the price. In 2002, the company sold all of its

[94] Zara started as a small family firm. It has grown into a production and retail chain covering a large part of Europe and the USA (Rudi 2001).

[95] Still, some articles have been published where concern has been expressed over the increase of Baltika's stocks and the decrease of profit compared to 2001 (see, for example, Tähismaa 2003ab). Meelis Milder, in turn, has said that it will take a year or two before the new concept is fully launched. The opening of new shops increased the stocks, not the decreasing demand. By 2004, the turnover should increase to 800 and the profit 45 million EEK (Efert 2003).

production in Estonia and about a tenth of its products abroad (mostly to Central Europe and the UK) under its own brand, but none unbranded (Virkebau 2002).

In 2001, Krenholm Group invested 9.85 million EEK into R&D (Kreenholmi 2002). In its German and Swedish sales departments, the enterprise has designers who work out products for these markets (Laasik 2003b). At the latest, in 2005, it should start producing jeans and leisure clothes and increase the production of working clothes[96] under Krenholm's own or private labels. Then, these products should give 6-7 percent of the firm's turnover (Leesmann 2002a).

Krenholm Group also gives much attention to logistics and IT solutions. In the former area, it is able to send the products to the European customers faster than, for example, the Indian or Chinese producers (Virkebau 2002). In the near future, the firm's products should reach Finland in one, Sweden and Norway in two and Central Europe in three days (Laasik 2003a). In IT, the Swedish owner has borrowed some ideas from Krenholm Group. For example, the latter has a password into a warehouse of their partners in the South Carolina, so, if the amount of a product decreases below a critical level, Krenholm Group dispatches additional quantity without the partners' specific order (Virkebau 2002). The online order system was launched in the beginning of 2001with two partners in the USA. A year later, online sales constituted a tenth of Krenholm Group's turnover. The company planned to increase their share to 20 percent by the end of 2002 (Korpan 2002b). Until 2002, Krenholm Group made all strategic plans and decisions. The owner did not reject any of them (Virkebau 2002). This changed in 2003, as in 2002 the firm lost 47 million EEK (Rank 2003). In January 2003, the owners forced Meelis Virkebau to leave the company as they had a different understanding of Krenholm's future development (Postimees 2003).

We can conclude that after becoming foreign-owned, Krenholm Group has invested considerably in product and brand development, technology, logistics and foreign sales organizations. As a result, the company has internationalized relatively successfully. In the near future, it plans to enter new foreign markets and increase its presence in the current ones. Until 2002, the owner did not intervene in the firm's management decisions.

Saint-Gobain Sekurit Estonia has from the start aimed to produce high-quality products and services and to deliver the right amount of them to the customer at the right time. The other objective is to be flexible and to react to the clients' changing demands as quickly as possible. For reaching the second goal, the company's size is an advantage: being small, it can react faster. In addition, the management process is more efficient and the expenditures can be controlled more easily (Kasak 2002). For 2002, Saint-Gobain Sekurit Estonia had the

[96] Already in 2001, the company produced a small amount of working clothes, mostly for the German market (Kurss 2001).

following objectives: to complete investments into production facilities and technology renewal, to increase production efficiency and to advance its organization structure (Saint-Gobain Sekurit 2002).

Highly qualified and educated employees are among the company's main assets. As it has paid much attention to training, their knowledge and ability to work with complicated technologies has increased during the years. The employees have perceived the importance of quality, deadlines, reliability and loyalty. This has increased the firm's image among the customers and led to successful long-term relationships and to larger investments.[97] As Saint-Gobain Sekurit Estonia is a part of a large corporation, it tries to market the potential (the know-how and experience) and sell its ideas there. Saint-Gobain then decides whether to produce it in Estonia, Portugal, Poland or some other plant. All the time, the firm has to lobby and get support from the other affiliates. In addition to new ideas, the company's technological experience has been valuable for the owner. Saint-Gobain Sekurit Estonia has shared it with the employees from some other plants (for example, India) belonging to the corporation (Kasak 2002). Saint-Gobain itself also pays a lot of attention to technological, service and marketing innovation: for example, R&D and IT solutions (Saint-Gobain 2003).

Saint-Gobain Sekurit Estonia is cost-competitive compared to similar firms in Finland, Sweden, Germany or France. It has always tried to be better, more efficient and satisfy the customers' needs more than its competitors. The company still sees opportunities for improving its quality. In addition, Saint-Gobain Sekurit Estonia tries to diversify its production and have a wider range of different products (Kasak 2002). In 2000, it started to produce tempered sidelights (Illisson 2002). In the future, back shields may follow (Rozental 2000a).

Since 1996, when the company became fully owned by the corporation, its level of integration has increased. Consequently, the role of the corporation in taking strategic decisions has grown considerably. All these decisions have to accord with the corporation's overall strategy (Kasak 2002). Still, in 2001, Saint-Gobain Sekurit Estonia had total control over pricing and personnel and almost total control about production, distribution; exporting and sales promotion decisions. Only the decisions about subcontracting, financing and R&D were made by the foreign investor[98] (Tartu and Estonian 2001a). Despite the control, for Saint-Gobain Sekurit Estonia the gains from belonging to the corporation clearly outweigh the constraints (Kasak 2002).

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[97] Still, there are some opportunities for developing the quality of services (Kasak 2002).

[98] Actually, in the corporation, there are dual lines of responsibility: territorial and functional. Consequently, although the direct owner is a Swedish company, it does not have the opportunity to intervene in the firm's economic activities or strategic decisions. The functional management decisions are made in Paris (Kasak 2002).

We can conclude that Saint-Gobain Sekurit Estonia has invested considerably in training its employees, renewing technology and increasing production efficiency. Although being fully owned by a French corporation, the firm is relatively independent in decision-making. As was shown in the previous two subchapters, Saint-Gobain Sekurit Estonia has internationalized successfully and gained considerably from being a part of a large corporation.

CVO Group. From the beginning the firm's commitment has been to develop innovative technologies and to build mutually beneficial long-term relationships with their customers — clients and job seekers (CV-Online 2003). While in the beginning, the firm only had a static Web page without any search capability in which one could enter one's resume into the internal database (Kaljundi 2000a), currently, it has developed several unique services and technological solutions. The uniqueness takes the focus out of the price (Ärm 2002). In total, CVO Group has invested 60 million EEK into R&D, 12 million EEK directly into product development (Kald 2002).

For jobseekers, CV-Online has become a place to advance their career. They can post their CV for the companies to see, browse job advertisements, obtain email notices about jobs that interest them, access salary data, obtain expert advice, browse company profiles, discuss hot topics in forums and join a community (IT & Hi-Tech, Sales & Marketing, Banking & Finance, and Accountancy) so that they only receive job information that interests them (CV-Online 2003). In 2000, the company launched a brand name service CV-Europe. The aim of this English-language service is to become the leading career portal for IT and technical talent – people who are looking to relocate in Europe or elsewhere in the world (Kaljundi 2000a). Still, this service has yet not been very successful, as employees cannot move easily. After Estonia joins the EU, the situation may change (Ärm 2002).

For employers, the company offers a wide range of services. CV-Online has both online and offline recruitment solutions. Professional People, a traditional recruitment division will pre-select candidates or hand-deliver the finished product. The new candidate management system, CVO Selector, helps the employers to manage and track the entire recruitment process from behind their own desks (CV-Online 2003). CVO Group has obtained a loan of 2.69 million EEK from the Estonian Technology Agency to develop the system further. The total project costs about six million EEK (Kald 2002). The enterprise also offers its customers a digital shelf: for example, information about law amendments and changes in the labor market, examples of employment contracts and job descriptions (CV-Online 2003).

The foreign owners have not interfered much with the firm's management. They are very flexible and trust CVO Group's managers. The local managers are also very important for the company. They have to be able to launch and develop the affiliate (Ärm 2002).

It can be concluded that CVO Group has invested considerably in new technological solutions, unique services and long-term relationships with their customers. As shown in the previous two subchapters, the assistance from the foreign owners has contributed to the firm's international success. The foreign owners have not interfered much in the enterprise's management.

In conclusion, it can be said that all the seven firms have been active in increasing their potential: investing in (information) technology, developing new products and/or services, motivating and training their employees and entering new markets. This has resulted in the companies' successful internationalization and relatively high freedom to take their own decisions, including the ones about entering new export markets. Still, there are several differences between the companies (see Figure 10). They are examined below.

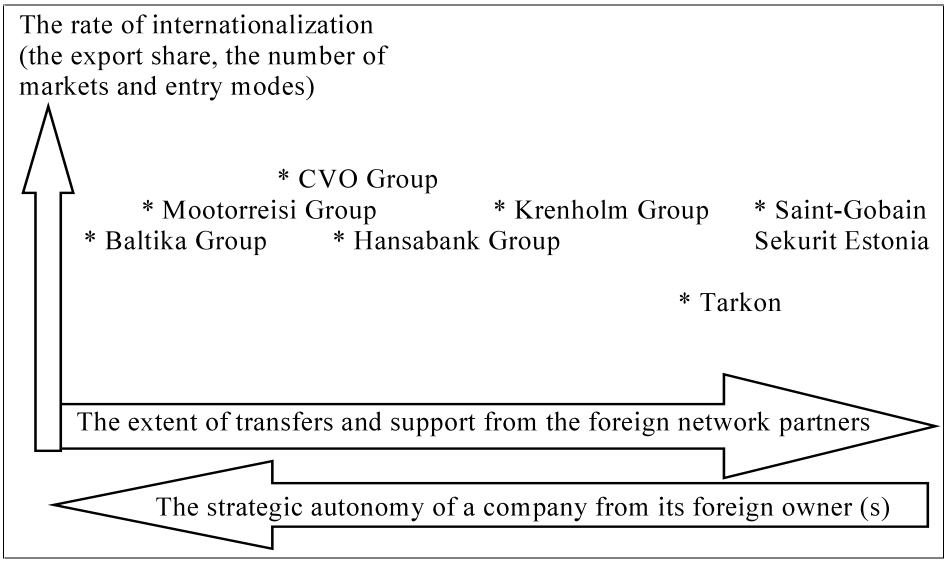

Figure 10. The position of the case firms by the rate of internationalization, autonomy and the extent of support[99] (Source: based on Vissak and Roolaht 2003)

Baltika Group, Mootorreisi Group, CVO Group and Hansabank Group seem to be the most independent from their foreign owners. On one hand, in these four firms, the share of foreign ownership is smaller than in Tarkon, Saint-Gobain

[99] It must be noted that the location of the seven companies is to some extent, subjective. Still, the differences between the extremes seem to be relatively large. For example, without a doubt, CVO Group is more international than Tarkon and Baltika Group is more independent from the foreign owner than Saint-Gobain Sekurit Estonia. At the same time, it has clearly received smaller transfers.

Sekurit Estonia or Krenholm Group. The latter two enterprises are fully owned while Tarkon's foreign owner has 85 percent share. The first four companies' comparative independence could be explained by their different situation: the foreign owners of Baltika Group and CVO Group are venture capitalists. Hansabank Group was internationally successful already before the FDI and Mootorreisi Group's foreign partner has only a 40 percent share.

As shown in the previous subchapter, Baltika Group has gained relatively less from having a foreign owner than the others. Still, this firm is internationally successful. It has been very active itself in operating the whole value chain, penetrating new markets and developing new products. Before it received FDI, the company had already entered several foreign markets. Hansabank Group was present in Latvia and Lithuania already before the investment, so, it did not gain considerably from the investor in terms of market opportunities. CVO Group, in turn, had entered only one market — Latvia — before the FDI. Despite its innovative solutions, this enterprise would not have invested to so many markets so quickly without their owners' financing: it was just too small. Mootorreisi Group, despite being relatively independent from the foreign owner, has managed to gain in several ways from having a German partner: for example, it minimized risks and eased access to financing. This, in turn, has at least to some extent quickened its internationalization.

The three companies that are relatively more dependent from the foreign owners — Tarkon, Krenholm Group and Saint-Gobain Sekurit Estonia — have even more clearly benefited from being foreign-owned. They have acquired capital and know-how and become able to invest in technology and product development. As a result, the latter two firms entered several distant markets quickly. Only Tarkon has mostly concentrated on one foreign market — Sweden. Still, it has acquired assistance in entering foreign markets — it mostly exports through its foreign owner's sales networks. From the three enterprises, only Krenholm Group has had to find its foreign customers without the owner's assistance.

While there seemed to be a link between the autonomy of the firm from the foreign owner and the extent of transfers (a higher autonomy appears to be accompanied by smaller assistance), the relationship between the owners' transfers and the companies' internationalization is not that clear: for example, Tarkon has obviously gained more from being foreign-owned than CVO Group but its internationalization has not been as fast. On the contrary, its export share has even decreased. The differences in the managers' efforts to increase their enterprises' autonomy have also not always led to a dissimilar rate of internationalization. For example, Mootorreisi Group and Saint-Gobain Sekurit Estonia have both internationalized quickly but their rate of autonomy from the foreign owners is not similar.

Consequently, there is some evidence to support the third proposition. Different companies have dissimilar roles in the foreign owners' networks and they have internationalized differently. On the other hand, there does not seem to be enough data to support the proposition about a link between the firms' managers' strategies, their freedom in decision-making and the companies' internationalization.

2.3. Discussion of the foreign-owned firms' internationalization in the context of seven Estonian cases

2.3.1. The validity of the studies in internationalization

As was concluded in the subchapter 1.3.3, all the research themes examined in the first chapter of the thesis have highlighted some important aspects of the case firms' internationalization process. In this chapter, we will discuss the validity of every research theme in the context of the seven Estonian cases introduced in chapter 2.2. This subchapter concentrates on the literature on internationalization. In the following subchapter, the validity of the studies in (multinational) networks and international entrepreneurship will be checked. The results from these two sections will also be demonstrated in Appendix 12. They will be used in the final subchapter, where a general framework for understanding foreign-owned companies' internationalization will be presented.

The Uppsala model, examined in the two subchapters 1.1.1 and 1.1.3 states that a lack of experiential knowledge is one of the main reasons leading to a slow internationalization process. It claims that as the knowledge can be mainly acquired through the operations abroad, companies internationalize slowly, usually starting their foreign entry from similar markets and with simpler market operation forms. In addition, according to the authors of the U-model, these conclusions should be more valid for smaller and less experienced firms having fewer resources.

From the data of the seven case companies, it can be seen that the model has received some support. The managers of Tarkon, Hansabank Group, Baltika Group and Krenholm Group have stated that the lack of knowledge or understanding about foreign markets and/or buyers at first inhibited their firms' internationalization. The internationalization process has been relatively slow for Tarkon. The tendency to start foreign entry from similar markets can be seen in the case of Hansabank Group, Mootorreisi Group, Baltika Group and Saint-Gobain Sekurit Estonia (in the case of entry by FDI). Hansabank Group and Saint-Gobain Sekurit Estonia have invested to Latvia, Lithuania and Russia. Mootorreisi Group has affiliates in the first three countries and Belarus. Baltika Group at first opened subsidiaries in Lithuania, Russia, Latvia and Finland and after that went to Poland, Ukraine and Sweden. In respect to progressing from simpler to steadily more demanding foreign market operation forms, there is some confirming evidence concerning five companies — Baltika Group, Krenholm Group, Saint-Gobain Sekurit Estonia, Hansabank Group and Mootorreisi Group. The first three firms started with exporting, the latter two with smaller foreign direct investments. Then, Hansabank Group and Mootorreisi Group continued the process through more complicated FDI.

On the other hand, the managers of Mootorreisi Group, Saint-Gobain Sekurit Estonia and CVO Group have not emphasized the lack of knowledge in the initial stages of their firms' internationalization. The internationalization of six companies — the above-mentioned three firms and even Hansabank Group, Baltika Group and Krenholm Group that lacked knowledge at first — has been relatively fast. In addition, Saint-Gobain Sekurit Estonia (in terms of exporting, not FDI), Krenholm Group and CVO Group, instead of starting their internationalization from a couple of similar close markets as the Uppsala model suggests went to several distant markets rapidly. Krenholm Group quickly opened subsidiaries in Sweden, Germany and the UK. While Sweden could be regarded as rather similar to Estonia, the latter two markets should be more different. In the selection of foreign market entry modes, CVO Group has not internationalized according to the U-model. This firm began with foreign affiliates. It opened them almost at the same time in Latvia, Lithuania, Poland, the Czech Republic, Hungary, Russia, Bulgaria and Romania. Baltika has used franchising: a market operation mode not included to the Uppsala model. Tarkon has remained at the exporting stage.

It can be concluded that the Uppsala model has been more useful in examining the earlier internationalization of firms with fewer resources. After Estonia regained its independence, the internationalization of Tarkon and Krenholm Group was inhibited by a lack of capital, technology and other resources. Consequently, they at first internationalized according to the U-model. Only after the investment from abroad, both firms' internationalization quickened. CVO Group was local at first and only had entered Latvia before it received a large amount of foreign investment. Saint-Gobain Sekurit Estonia was majority foreign-owned since its foundation and did not lack capital or knowledge. Thus, it internationalized quickly. The other three firms — Mootorreisi Group, Hansabank Group and Baltika Group — were in a more favorable starting position before the foreign capital inflow than Tarkon and Krenholm Group: these companies were more successful before the FDI inflow and did not lack capital as much. Gradually, all the seven firms' internationalization quickened. On the other hand, the enterprises' size does not seem to be a clear factor inhibiting their internationalization. CVO Group had the smallest number of employees and internationalized quickly despite that, while the internationalization of the larger companies — for example, Krenholm Group and Hansabank Group — has been slower.

Some of the model's limitations introduced in the subchapter 1.1.3 also hold. For example, the U-model does not fully embrace "leapfrogging" behavior (like beginning with foreign affiliates) that was experienced by CVO Group. It also does not explain why several firms moved from exporting to foreign affiliates, but Tarkon has only exported, not invested abroad or why, for example, Baltika Group or CVO Group terminated their operations in some foreign markets. The model has also not included all market operation modes: for instance, franchising used by Baltika.

The innovation-related internationalization models, examined in the two subchapters 1.1.1 and 1.1.3, also concentrate on gradual internationalization like the U-model. They have demonstrated the importance of many other factors in relation to this process besides knowledge, emphasized the role of individual decision-makers and shown that the internationalization of foreign-owned firms could differ from the local companies: the initial exporting decision could be taken in the headquarters and the sales could be organized through a global marketing network.

The data of the seven foreign-owned companies in Estonia seem to confirm these propositions. As shown in the analysis of the Uppsala model, knowledge is not the only factor affecting the firms' internationalization. For example, the managers of the seven companies have pointed out several reasons for entering foreign markets. For all of them, the home market was too small to remain domestic. Consequently, Mootorreisi Group and Saint-Gobain Sekurit Estonia started to seek internationalization opportunities from their foundation. Krenholm Group has exported for almost 150 years, as its production amount has always been several times larger than the Estonian consumers' demand. Baltika and Tarkon needed to seek new export opportunities after Estonia regained its independence in 1991. For Hansabank and CVO Group, the need to internationalize arose about three years after their foundation. The firms' size does not seem to be the factor here: CVO Group is considerably smaller than Hansabank Group but has internationalized faster and entered more foreign markets. The latter two companies' and Mootorreisi Group's unique services have also at least to some extent quickened their internationalization. In addition, for example, for Tarkon and Krenholm Group, cheap labor has been an important advantage.

There is also some evidence demonstrating the importance of the foreign owners in the firms' internationalization. Saint-Gobain Sekurit Estonia, a foreign-owned company from its foundation, was export-oriented from the beginning. This company and Tarkon export mostly through their parent company's marketing network. In addition, as demonstrated in the subchapter 2.2.2, besides the inflow of foreign capital, all the seven firms have received some assistance in their internationalization.[100] We also found some data to support the important role of individual decision-makers. The owner-manager of Mootorreisi Group decided to internationalize and seek a foreign partner for

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[100] On the other hand, the impact of foreign owners on the companies' selection of markets or foreign market entry modes is not apparent: for example, in the case of Hansabank and Baltika Group. CVO Group has also been independent in making decisions about internationalization. This effect will be more closely analyzed in the following subchapter.

his company to support this process. The general managers were also behind CVO Group's determination to internationalize and Baltika Group's decision to enter the USA.

We can conclude that the innovation- related internationalization models seem to embrace correctly several aspects of the seven firms' internationalization process. They have rightly pointed out that besides knowledge, several other factors impact firms' internationalization (for example, the small size of the home market or the availability of cheap labor). The importance of the foreign owners and local key decision-makers seems also relatively clear in the case of several firms. On the other hand, some of the model's limitations introduced in the subchapter 1.1.3 also hold. For example, the I-models indeed concentrate on exports and do not predict when companies move from one stage to the next. They are also unable to explain why some firms established subsidiaries in the countries that were not their main export markets while not establishing them in the ones that were.[101]

The Finnish model, examined in the two subchapters 1.1.2 and 1.1.3, asserts that inward internationalization can have a considerable impact on the following outward internationalization. In addition, it claims that the internationalization process could include leapfrogging, de- and re-internationalization and shows that a firm can internationalize in some terms more than the others.

The data from the seven case companies seem to support some of the model's propositions. Tarkon and Krenholm Group followed several stages of de- and re-internationalization. Tarkon had to move out of the previous export markets and find new ones in 1944 and 1992, Krenholm Group in 1918, 1945 and 1991. Saint-Gobain Sekurit Estonia and Baltika Group also had to find new markets in 1992 when the Soviet Union dissolved. In addition, some companies have left single markets. For example, Baltika planned to end its exports to the USA; Hansabank Group left Russia in 1999 and re-entered it in 2002 and CVO Group temporarily suspended its operations in Russia, Romania and Bulgaria. We have also found some support for the proposition about the firms being more international in some dimensions than the others. For instance, from the seven case companies, Saint-Gobain Sekurit Estonia seems to be the most international in terms of foreign markets, CVO Group has more different types of sales objects and Baltika Group uses more foreign operation methods. In addition, leapfrogging behavior (omitting some foreign market operation modes) can be observed in the case of CVO Group. This firm started servicing foreign customers by creating foreign subsidiaries. Likewise, the other service companies did not start from the export of goods.

On the other hand, there is not enough evidence to completely confirm the link between inward and outward internationalization. As it was shown in the

[101] For example, why Krenholm has no subsidiary in the USA but has one in the UK: the market shares are, respectively, 23 and 3 percent (see Appendix 11).

above, the foreign investor seems to affect some enterprises' outward internationalization. On the other hand, in the other firms, this impact does not seem to be so evident, especially in terms of influencing the choice of markets and entry modes. In addition, there does not seem to be clear evidence of the impact of the other foreign suppliers on the selection of foreign buyers.

In conclusion, the Finnish model seems to be relatively useful for examining the case firms' internationalization process. In accordance with this model's predictions, some firms have leapfrogged some stages or passed through de- and re-internationalization through their internationalization process. There is also some evidence in support of the proposition that a firm can internationalize in some senses more than the others. On the other hand, as shown in the subchapter 1.1.3, the link between inward and outward internationalization does not seem to be very clear. There is one exception: the foreign owners seem to have a strong positive impact on the firms' internationalization. This, unfortunately, is the area in which the model has still paid relatively little attention.

From the literature on **born globals**, introduced in the subchapter 1.1.2, we proposed that entrepreneurial firms could internationalize very quickly despite several obstacles. The authors of this research stream have also shown that internationalization might be triggered by a critical incident: for example, a change in ownership.

From the case enterprises, we can find only some support to the first proposition. CVO Group internationalized quickly, despite being small and not having considerable foreign market experience. Still, for that, it needed additional capital. Consequently, its resources were not actually constrained. The other two smaller companies, Saint-Gobain Sekurit Estonia and Mootor-reisi Group, also went to foreign markets fast, but like CVO Group; they had obtained the capital first.

The proposition that a critical incident may trigger an enterprise's internationalization has received more support. For example, for CVO Group, this event was the involvement of foreign capital. Tarkon, Krenholm Group, Saint-Gobain Sekurit Estonia and Baltika had to find new markets quickly when the Soviet Union dissolved. From the previous example, it can also be seen that a critical incident may inhibit foreign market development: these four companies had to decrease their exports to Russia and the other members of the CIS. In addition, Tarkon's and Baltika's internationalization was negatively influenced by the economic slowdown following September 11th.

We can conclude that the literature on born globals has added two important issues to our understanding of the internationalization process. First, a critical incident may both trigger and inhibit a firm's internationalization. Second, some companies can internationalize very quickly despite being small and having no market experience.

Based on discussion of the three internationalization models and the literature on born globals, we can conclude that all of them have been partly confirmed by the data from the seven foreign-owned companies in Estonia. The Uppsala model's proposition about the lack of knowledge leading to a slow internationalization has received some empirical support, especially for the firms with less capital and foreign experience. There is also some evidence to confirm the tendency from simpler toward more complicated foreign market entry modes and, to a smaller extent, from closer to more distant markets. The innovation- related internationalization models' idea that besides knowledge, several other factors and actors affect the companies' internationalization has also been supported. The Finnish model has predicted correctly that a firm's internationalization process may include leapfrogging, de-internationalization and re-internationalization and that it can internationalize in some terms more than the others. The literature on born globals also accepts the leapfrogging behavior and demonstrates the role of critical incidents.

On the other hand, the data from the seven case companies have not fully confirmed the U-model's proposition that the size may inhibit an enterprise's internationalization. The model does not explain why some firms have skipped some foreign market operation modes or not created any foreign affiliates or why they have pulled out of some foreign markets. The I-models, in turn, mostly concentrate on exports and cannot predict the companies' movement from one operation mode or country to the next. The Finnish model has paid relatively little attention to the foreign owners' impact on the firms' internationalization. The link between entrepreneurial behavior and quick internationalization, proposed in the literature on born globals is also not fully supported. Consequently, it would not be sufficient to examine only these research streams to analyze foreign-owned firms' internationalization. The role of firm characteristics, foreign owners and (their) networks will be discussed in the following subchapter.

2.3.2. The validity of the literature on the importance of networks, firms' and their foreign owners' characteristics

In this subchapter, the research streams discussing the importance of (foreign owners') networks (on internationalization), the role of firms in these networks and the impact of their entrepreneurial behavior will be examined. The current discussion will be based on the chapters 1.2, 1.3 and 2.2.

The literature on the importance of networks, examined in subchapters 1.2.1 and 1.2.3 will be analyzed below. According to this approach, firms have long-term relationships with a limited number of actors that (together with the partners' partners) influence them considerably. Through network membership, companies can obtain resources and develop capabilities necessary for accomplishing their goals.

Based on the evidence of seven foreign-owned companies in Estonia, we can at least partly confirm these propositions. Tarkon has several important partners: it cooperates with Tallinn Technical University, Tartu University, Elcoteq, Norma, Intermec and many others. Creation of a technological park, consisting of six firms, has reduced the firm's production costs and enhanced its market potential and value-added. Moreover, a long-term relationship with its owner Hallberg Sekrom has influenced the company considerably. HF Design Automation & Tools, belonging to Hallberg Sekrom, Tarkon's foreign owner, provides the enterprise with mechanical designs. Some of the owner's partners, like Ericsson and Allgon, are also Tarkon's partners. In addition, the company depends on some Hallberg Sekrom's customers with which it is not in direct contact. Through the owner and its network, Tarkon has acquired capital, know-how, market access and raw materials, developed new products, reduced production costs and increased its turnover and value-added. It has stated that without the foreign investment, their ability to invest in technology would have been considerably lower.

The other six companies have also several long-time partners. Hansabank has started co-operation with OKO Bank to develop an extensive service network between Estonia, Latvia, Lithuania and Finland. From the foreign owner, Swedbank, it has acquired knowledge and assistance in internal audit and risk management. As a result, its image and credit ratings have improved. Moreover, Hansabank has found some Scandinavian customers through Swedbank. Mootorreisi Group, in turn, has partners in Estonia, Latvia, Lithuania, Russia, Belarus, the Czech Republic, Denmark, Norway, Finland, Sweden and the UK. They sell each other's tickets and have developed new bus lines. Cooperation with the foreign investor, Deutsche Touring, has helped the enterprise to improve its image, minimize risks and gain easier access to financial resources. For Baltika Group, long-term relationships with buyers and suppliers are also very important. For example, as the firm does not sell to wholesalers, it selects the foreign retailers sharing the same vision. Through the foreign investor, the company has received financing and support. Krenholm Group is in a more close contact with its foreign owner, Borås Wäfveri AB. It has acquired capital, know-how, advice and support and improved its image. In addition, the firm co-operates with several buyers — IKEA, Marks & Spencer, Otto and others. Through the relationships, it has developed new products. Saint-Gobain Sekurit Estonia has benefited from long-term relationships. It sells almost all of its production to Saint-Gobain and its other subsidiaries. Through co-operation, the enterprise has acquired know-how, reduced risks and developed new products. Finally, CVO Group is in close co-operation with major newspapers, Internet portals and customers. Through the foreign investors' network partners; it has received know-how, ideas and assistance in entering foreign markets and finding new customers.

From the above, it can be concluded that the propositions of the network approach have been at least partially supported. All the seven firms have long-term relationships with a limited number of partners that influence them considerably. Through these relationships, the companies have increased their market potential and value- added, developed new products, acquired know-how, advice and assistance, improved their image, minimized risks and entered new markets. Although in this thesis, the whole networks of the seven companies, their foreign owners and other partners were not mapped[102], there was some evidence — for example, from Tarkon and Saint-Gobain Sekurit — to support the idea that due to the interdependence of network members, a company's performance might depend on the whole network. As shown in the subchapter 1.2.3, these conclusions can provide very important insights for understanding the role of networks for firms' behavior. The next section concentrates on their impact of the seven case companies' internationalization.

The studies in the impact of (foreign owners') networks on internationalization, examined in the two subchapters 1.2.2 and 1.2.3, have stated that through linking to the foreign owners' networks, foreign-owned companies could acquire capital, technology, business techniques, skilled personnel and access to market channels. Consequently, joining a (foreign owner's) network may considerably quicken a firm's internationalization. In addition, it has been concluded that through networking, enterprises may start their internationalization from more distant markets and more complicated foreign market entry modes but sometimes these relationships may inhibit their internationalization.

Data from the seven foreign-owned firms in Estonia seem to confirm these propositions. It was already shown in the subchapter 2.2.2 that Tarkon acquired capital, knowledge, know-how and contacts with foreign buyers from the foreign owner. Moreover, Hallberg Sekrom's assistance increased its turnover and exports and helped to renovate the company's machinery and production facilities. From its foreign owner, Swedbank, Hansabank Group has obtained assistance with internal audit and risk management. In addition, its credit rating and overall image have improved, leading to easier internationalization. Mootorreisi Group has also internationalized successfully partly due to Deutsche Touring, to which belongs 40 percent of the firm. The company has received assistance in financing and minimized some risks. Similarly, to Baltika Group, the foreign investor BRF, and to Krenholm Group, the foreign owner Borås Wäfveri AB, have granted some financing and support. In addition, Krenholm Group has improved its image. Through the foreign owner, Saint-Gobain, Saint-Gobain Sekurit Estonia has obtained know-how, materials, access to foreign markets and the trademark Saint-Gobain. Moreover, it has reduced its

[102] This would have required additional data from both Estonia and, especially, abroad. It would have been relatively difficult because the seven foreign-owned firms in Estonia were relatively reluctant to name their long-term partners, describe these relationships or even give an exact number how many partners they had.

financing and marketing risks. Finally, CVO Group has received know-how, advice and capital from the foreign investors — Esther Dyson and 3TS Venture Partners. The Estonian companies, in turn, have helped their own foreign subsidiaries: for example, with know-how (like Hansabank Group's IT solutions) and market access (Mootorreisi Group's bus lines).

We concluded from the previous sections that Tarkon and Saint-Gobain Sekurit Estonia export considerable amount of their turnover through their foreign owners' networks. The other companies have also stated that, at least to some extent, having foreign owners or investors has advanced their internationalization. When Hansabank bought a Lithuanian bank in 2001, it declared itself a Swedish, not an Estonian bank. Baltika Group's investor, BRF, has tried to find it an expansion possibility in Poland. CVO Group and Krenholm Group, in turn, would have not internationalized so quickly without their foreign owners' capital. The firms have also gained from relationships with other network partners: developed new products and services and entered additional markets. For example, Mootorreisi Group has clearly benefited from belonging to the Eurolines network. From the seven companies, only Tarkon has admitted that to some extent, the foreign owner has inhibited its internationalization. For instance, the firm is sometimes forced to do some simpler work or serve certain Swedish customers. This company has also stated that the other long-time relationships may also involve certain risks: when developing new products together, the partner may cancel the order and the firm's expenses will not be covered. Krenholm experienced it when K-Mart went bankrupt. Baltika had a similar experience with P.T.A. In addition, the enterprise has admitted that some foreign retailers' policies have slowed its international development. Mootorreisi Group has also had an unsuccessful attempt of cooperation and, at first, experienced some difficulties in the communication of its foreign partner, Deutsche Touring.

The proposition that through networking, firms may internationalize differently from the path described in the Uppsala model, has also received some support from the seven case companies. As it was concluded from the two subchapters 2.2.1 and 2.3.1, Saint-Gobain Sekurit Estonia and CVO Group have internationalized very rapidly. These two enterprises and Krenholm Group went quickly to several countries, including the ones relatively far from Estonia. For all of them, the foreign owners' assistance was very important. Moreover, three firms — Hansabank Group, Mootorreisi Group and CVO Group — started their internationalization from foreign affiliates. Although, for this type of firms, exporting (of products) cannot be an option as an entry mode, we can assume that without any network relationships, their internationalization might have been slower.

Consequently, this research stream seems to be relatively appropriate in analyzing the internationalization of the seven case companies after they became foreign-owned. It explains why some of these firms entered several foreign markets almost immediately, how they acquired necessary resources, capabilities and contacts and how foreign ownership quickened or inhibited their internationalization process. Still, the above-examined approaches are not able to demonstrate clearly, why some of the enterprises were able to gain more from foreign ownership than others. In this area, studies in the role of firms in their foreign owners' networks and the importance of entrepreneurial behavior should be examined. This will be done below.

Studies in the role of firms in their foreign owners' networks, examined in the two subchapters 1.3.1 and 1.3.3, have proposed that in a foreign owner's network, different subsidiaries have dissimilar roles, depending on their strengths and strategies and the head office assignment. Some of them develop higher value-added activities; exceptional managerial expertise and autonomy while the others do not. The authors of this research stream have also stated that for each firm, the web of specific relationships in which it is embedded is an important resource.

From the data of seven foreign-owned companies in Estonia, it can be concluded that the first two propositions have received some support. For example, Tarkon's main functions are new product introduction, mechanical works, assembly of mechanics, electronics and cables and system integration while the other plant belonging to Hallberg Sekrom, HF Design Automation & Tools, also deals with mechanical design and support equipment. Although the company has invested considerably into technology, it does not get many product development orders. From time to time, Hallberg Sekrom still forces it to follow some orders or serve certain customers it would not like to. Similarly, Saint-Gobain Sekurit Estonia has been given certain functions. If it develops a new product, it has to "sell" the idea to the corporation and gain support from other subsidiaries to get the right to produce it. Krenholm Group's foreign owners have also lately interfered in the firm's management. On the other hand, the other four companies — Hansabank Group, Mootorreisi Group, Baltika Group and CVO Group — seem to be more dependent from the foreign investors. This can be explained by different factors. In Mootorreisi Group, the share of foreign capital is only 40 percent. CVO Group's and Baltika Group's foreign owners are venture capitalists, not offering these types of products/services themselves. Baltika and Hansabank were relatively successful internationally already before the foreign investment. Still, it is not certain whether these firms made more efforts to increase their role and decision-making autonomy than the first three companies.[103]

The proposition, that a web of relationships is an important resource for the firm, has also gained some support. All the seven enterprises have admitted gaining from the relationships with their foreign owners and other partners. Mootorreisi Group has from the beginning valued having the right foreign partners. Baltika Group has tried to be as close to customers as possible. CVO

[103] Maybe Mootorreisi Group has struggled most to retain its independence.

Group also tries to build mutually beneficial long-term relationships with its customers. Moreover, some foreign owners and even their other affiliates have gained from the relationships with their companies in Estonia. For example, Tarkon has exchanged ideas with Hallberg Sekrom, Mootorreisi Group with Deutsche Touring, Krenholm Group with Borås Wäfveri and Saint-Gobain Sekurit Estonia with Saint-Gobain. Still, several enterprises have brought out some factors influencing their internationalization besides network relationships. For Tarkon, its main advantage is a large diversity of production processes. Qualified employees are also very important. Hansabank Group has stressed the importance of its employees' entrepreneurial spirit, openness to innovation, quality drive and high ethical standards. Similarly, Krenholm Group has emphasized the importance of innovation, market orientation and modern management practices. Saint-Gobain Sekurit Estonia, in turn, values its flexibility, production quality and qualified and educated employees.

From the above, we can conclude that the proposition about subsidiaries having different roles in a multinational can be confirmed. Some firms may be more autonomous and develop higher value-added activities than the others. As proposed, the role of a firm in a multinational network depends not only on its own strengths and strategies, but also the ones of the multinational. In this respect, even the other network members might be important. We could also support the idea that a web of relationships is an important resource. Still, several other factors like motivated employees and a large number of production processes should be emphasized.

The studies in the importance of entrepreneurial behavior, examined in the two subchapters 1.3.2 and 1.3.3, have found that entrepreneurial behavior can lead subsidiaries to higher value-added activities and successful internationalization. These studies have also demonstrated the importance of networks for entrepreneurial firms — they can acquire skills and gain access to external resources, capabilities and foreign market opportunities — and shown that managers can both quicken and inhibit the internationalization process.

The proposition that that entrepreneurial behavior could lead subsidiaries to higher value-added activities and successful internationalization has been partly confirmed. All the companies have taken risks, tried to innovate and increase their potential: in other words, act entrepreneurially.[104] They have all internationalized relatively successfully and also increased their value-added. On the other hand, it is evident that the seven enterprises are not equally international (this was also shown in Figure 10 in subchapter 2.2.3). Consequently, the impact of foreign owners on the firms' value-added activities and internationalization should not be ignored. For example, although Tarkon has developed new products, the owner sometimes forces it to follow some orders with a lower

[104] As stated in McDougall and Oviatt (2000), we should not exclude corporate entrepreneurship — entrepreneurial behavior inside large organizations.

value-added and serve some Swedish customers the company would not like to. Baltika and CVO Group, in turn, have had to develop their own products/services and enter foreign markets without any pressure and only a little assistance from the foreign owners. Probably, data from un-cooperative and non-innovative enterprises should also be added for comparison. In addition to the companies' current actions, their internationalization process might depend on their strategy and financial position before the FDI and the current share of foreign ownership.

The proposition about the importance of networks for entrepreneurial firms as a source of skills, external resources, capabilities and foreign market opportunities can be confirmed. As was already demonstrated in previous sections, all seven companies have received at least some assistance from their owners and other network partners. Through these relationships, they have accessed foreign markets, obtained the right to use their owners' trademarks, improved their image; acquired know-how, materials and financing and developed new products/services.

It also seems that at least some of the managers have considerably affected the firms' internationalization. For example, the managers of Baltika decided to enter the USA and later, withdraw. The owner-manager of Mootorreisi Group decided to internationalize and for that, involve a foreign investor. On the other hand, occasionally, the impact of foreign owners is larger. For example, the foreign owner, Borås Wäfveri, forced Meelis Virkebau to leave Krenholm Group as they did not share the same ideas on the firm's future. The managers of Tarkon and Saint-Gobain Sekurit Estonia also do not seem to have much freedom in selecting foreign markets.

From the above, it can be concluded that the studies in international entrepreneurship are relatively useful for examining the seven case firms' internationalization and the role of local managers and foreign owners. There seem to be some data supporting the proposition that entrepreneurial firms use networks as a source of skills, external resources, capabilities and foreign market opportunities. The conclusion that the managers may considerably influence the enterprises' internationalization process should be partially confirmed: although their role is important, the one of the foreign owners' managers and their strategies should not be left out. This is also true for examining the proposition that entrepreneurial behavior could lead subsidiaries to higher value-added activities and successful internationalization. In some firms, the value-added may still be relatively low and the internationalization process slow despite their managers' efforts: if the owners decide otherwise, the managers must follow the orders or leave.

Based on the discussion of the four research streams examined in this subchapter, we can conclude that all of them have been useful to some extent for examining the case firms' internationalization and the role of (foreign owner's) networks and firms' characteristics. We can confirm that firms have long-term relationships with a limited number of partners influencing them considerably and that networks are important for increasing an (entrepreneurial) enterprise's value-added and market potential, acquiring materials, know-how and assistance and developing new products/services. Moreover, there is some evidence showing that through networking, companies can internationalize faster: for example, start from distant markets and skip some international entry modes. At the same time, the proposition that sometimes, joining a network may inhibit a firm's internationalization has received some support, as well. Besides, we could confirm that in a multinational corporation, subsidiaries have different roles. Consequently, some of them may develop higher value-added activities and be more autonomous than the others. Moreover, there is some evidence showing that a subsidiary's role in the foreign owner's network depends on both companies' strengths and strategies.

On the other hand, we lacked data to fully confirm the proposition that a company's performance depends on the whole network. The propositions that entrepreneurial behavior could lead subsidiaries to higher value-added activities and successful internationalization and the managers may considerably influence the enterprises' internationalization process have also received only partial support. The role of foreign owners seems to be larger.

In conclusion, it can be stated that all the four research streams examined in this subchapter have helped to understand the seven case firms' internationalization process. They have demonstrated the importance of networks, the firm's strategies and their managers' behavior. On the other hand, they have several limitations. Consequently, as was concluded from the section 1.3.3, there is no universal theory to study all the aspects of the impact of (foreign owners') networks on host country firms' internationalization. Using different complementary and sometimes contradictory theories should help to understand this complicated process in a better way. An attempt to generalize from all the main research streams examined in this thesis is made in the following subchapter.

2.3.3. The internationalization of foreign-owned firms: a generalization from the previous chapters

In this subchapter, we attempt to combine the conclusions from the theoretical and empirical part of the thesis to create a general framework for understanding how the internationalization of foreign-owned companies in Estonia depends on the firms' and their owners' characteristics, managers' behavior and network relationships. From the Figures 11 and 12 presented below we demonstrate two cardinally different internationalization processes: fast/successful and slow/ unsuccessful.

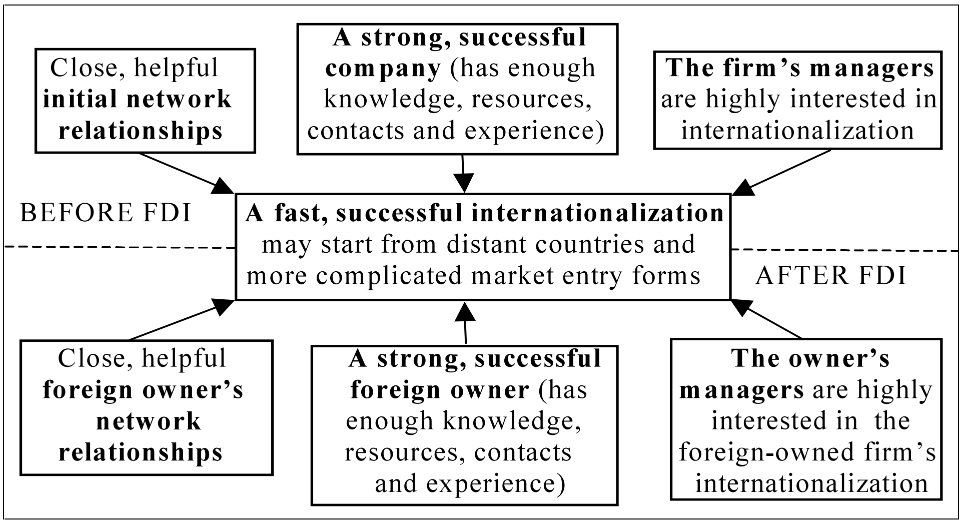

Figure 11. A fast, successful internationalization

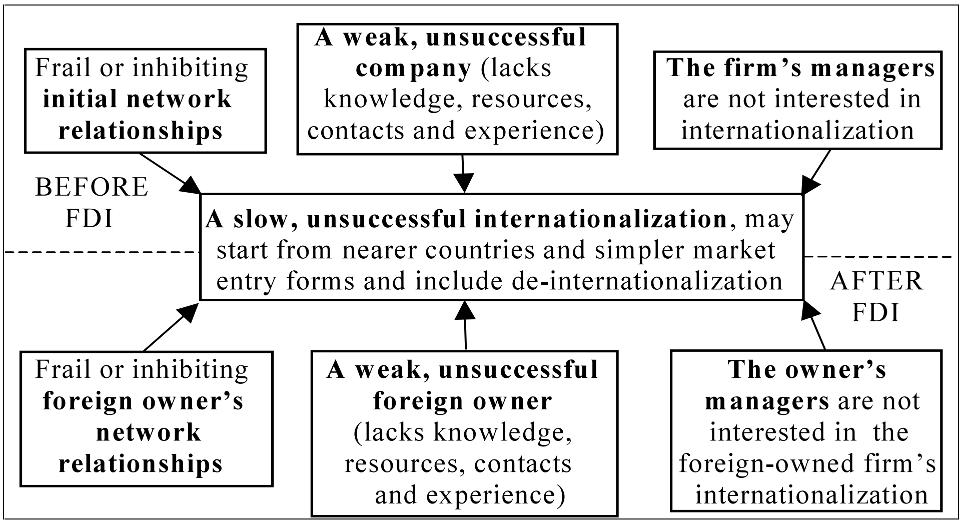

Figure 12. A slow, unsuccessful internationalization

From Figure 11 we can conclude that a firm might internationalize successfully if it has sufficient knowledge, resources, contacts and experience before involving a foreign investor, if its network relationships are close and helpful and the managers are highly interested in the company's internationalization. A strong, successful foreign owner with helpful network relationships and the managers interested in the foreign-owned firm's internationalization might quicken the internationalization process even further. On the other hand, as demonstrated in Figure 12, a firm's internationalization might be unsuccessful if it lacks the necessary knowledge, resources, contacts and experience, its network relationships are frail or inhibiting and its managers are not interested in the company's internationalization. A weak, unsuccessful foreign owner with inhibiting network relationships and with managers uninterested in the foreign-owned firm's internationalization might slow the internationalization process down even more or lead to de-internationalization.

From the above discussion, we can distinguish between four substantially different internationalization paths, depending on the situation before and after a foreign direct investment. They are presented in Table 18. The situations presented in Figures 11 and 12, can be placed, respectively, in quadrants I and IV.

Table 18. Four internationalization paths depending on the firm's and its foreign owner's characteristics

		Is a firm strong and successful, are its initial network relationships close and helpful and are the company's managers interested in internationalization?	
		Yes	No
Is a foreign owner strong and successful, are its network relationships close and helpful and are the enterprise's managers interested in the foreign-owned firm's internationalization?	Yes	I A **fast, successful internationalization**. A firm might be internationally successful already before the foreign direct investment. The owner's and its network's assistance might quicken the process even more.	II A **quickening internationalization**. A company might have no (considerable) international activities before the foreign direct investment. The owner's and its network's assistance might quicken the process.
	No	III A **reversing internationalization**. An enterprise might be internationally successful before the foreign direct investment. On the other hand, the owner's and its network's constraints might slow the process or even lead to de-internationalization.	IV A **slow, unsuccessful internationalization**. A firm might have no (considerable) international activities before the foreign direct investment. The owner's and its network's constraints might slow the process even more or lead to de-internationalization.

Naturally, there are many situations in between: for example, a firm's managers might be interested in the company's internationalization even if it lacks resources and has not yet created strong network relationships. It is also possible that an enterprise has a strong foreign owner that inhibits its subsidiaries' internationalization: for example, restricting their access to certain markets. In addition, if the circumstances change, a firm might move from one quadrant to the other. Below, we will examine the four internationalization paths in the context of the seven case companies and the research streams introduced in the previous chapters of the thesis.

From the seven enterprises, we could classify Tarkon as falling into a category between the quadrants II and IV. This firm did not have considerable exporting activities before the cooperation with its future owner, Hallberg Sekrom. After the FDI, Tarkon's turnover and exports increased considerably. On the other hand, in the last years, its internationalization has slowed down and the export share has decreased. It also seems that the owner has at least partly inhibited Tarkon's internationalization: forced it to fill the demands of a number of Swedish customers and follow some orders with a low value-added.

Hansabank Group could be placed into the first quadrant. This company was internationally successful already before the foreign investment. As was shown in the previous subchapters, the foreign owner, FöreningsSparbanken, has quickened this process even more. Baltika Group was also internationally active before involving a foreign investor, BRF. However, this enterprise was not as international as Hansabank. Consequently, we could place it between the first and the second quadrants as the foreign capital increased the firm's internationalization. A similar decision could be made in the case of Krenholm Group. This company should be located closer to the second quadrant.

Mootorreisi Group and Saint-Gobain Sekurit Estonia could be placed in to the category of quickening internationalization. The latter was foreign-owned from its foundation and the former also quickly found a foreign partner. Both Deutsche Touring and Saint-Gobain helped the firms in their international activities. Still, there is one difference: Mootorreisi Group that is 60 percent locally owned has received less assistance than the fully foreign-owned Saint-Gobain Sekurit Estonia.[105] CVO Group also seems to belong to this quadrant. The firm was local at first, entered its first foreign market in the end of 1999 and received the first foreign capital injection in the beginning of 2000 after which its internationalization quickened considerably.

The framework is in accordance with the three research propositions. It accommodates both a slow and fast internationalization, a positive and negative impact of network relationships and managers' actions.

The research streams, examined in this thesis (that led to the formulation of the three propositions) also do not contradict the four above-mentioned internationalization paths. The U-model's idea of slow internationalization and the trend toward distant markets and more complicated foreign entry modes is

[105] At the same time, one is not more international than the other: while Mootorreisi Group has more foreign affiliates, Saint-Gobain Sekurit Estonia serves a larger number of different markets.

in accordance with the internationalization described in the second quadrant. In addition, the model accepts a possibility of quicker internationalization by larger and experienced companies with sufficient resources that was placed into the first quadrant.

The I-models' propositions that individual decision makers and their attitudes influence internationalization have also been integrated into Table 18. If the managers are interested in the firm's internationalization, the process should be quicker than in the case they oppose to it. Moreover, the proposed matrix includes the role of foreign owners. They could both quicken and slow down their subsidiaries' internationalization process.

The Finnish model's idea that inward internationalization can considerably impact firms' outward internationalization also supports the division of enterprises. It may largely depend on the foreign investors whether a company should be placed in the upper (quadrants I and II) or lower (III and IV) part of the table. The idea that enterprises may de- and re-internationalize is also in accordance with the latter idea. In the third and the fourth quadrant, an enterprise might de-internationalize. On the other hand, after involving another foreign owner that is more interested in the company's internationalization, it might re-internationalize and move to the second quadrant. The matrix also does not oppose to the idea that a company can increase its internationalization in some dimensions more than others.[106]

The conclusion of the literature on born globals that some firms can internationalize very quickly after their foundation (despite their smallness, lack of resources and market experience) matches the internationalization path described in the first quadrant. Involving a highly supportive foreign investor with close network relationships might quicken the process even more. Similarly, the other critical incidents might explain both the placement of a company in a certain quadrant and its movement from one square to another.

The matrix also includes the importance of networks. Whether a firm's direct network partners and their partners help a company to obtain resources, acquire access to foreign markets and develop its capabilities, determines if it internationalizes quickly or slowly both before and after the foreign investment. Before involving foreign investors, the enterprises in the first and third quadrant should internationalize faster — for example, enter more distant markets from the beginning or skip some less complicated entry modes — than the companies belonging to the second or fourth quadrant that lack the support from their network partners. The foreign owner's networks, in turn, influence a firm's internationalization after the involvement of foreign investors. They might both advance (the 1st and the 2nd) and inhibit (the 3rd quadrant and the 4th quadrant) this process.

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[106] Still, this might lead to the problems in placing the enterprises in the four quadrants — for example, when we can decide that the internationalization is fast and successful. In this thesis, we did not turn much attention to this subject.

A subsidiary's role in its foreign owner's network might also determine whether it should be placed in the upper (it develops higher value-added activities, exceptional managerial expertise and autonomy and the head office supports its internationalization) or the lower part of the table. In the latter case, the foreign owner might control the company tighter and restrict its access to certain foreign markets or market segments. Here, the subsidiary's managers' role might also be important. They can find new network partners and through them, acquire skills and gain access to external resources, capabilities and foreign market opportunities. They can also try to reach a higher autonomy in the corporation. On the other hand, in some affiliates, the managers might be passive and inhibit a firm's internationalization.

Despite its simplicity and a limited amount of empirical work, the matrix can also escape some of the critique of the previous models. It includes several factors influencing internationalization, not just knowledge. All entry modes, dimensions of internationalization, country and firm types can be fitted into the table. It emphasizes the role of individuals and includes "leapfrogging" behavior, increasing and decreasing foreign commitment. It is dynamic by accepting the possibility of movement from one quadrant to another. Thus, practically every imaginable internationalization path can be examined by using this table. If necessary, the matrix could also be taken apart: the questions about pre- and post-foreign-ownership situations both contain three sub-questions. Thus, nine different pairs of questions emerge. Then, it can be shown more clearly what exactly caused a particular type of internationalization — the firm's managers, the owner's networks or something else. If necessary, additional variables like the market environment could be easily added.

In principle, the matrix could be even used for predictions: for example, if a company receives a foreign investment from a strong foreign owner interested in its internationalization, it should internationalize quicker. Some managerial advice could also be given. For instance, to stimulate its internationalization process, an enterprise should try to form strong network relationships and if it is foreign-owned, try to be innovative and active in cooperating with the other affiliates. Passive, disinterested managers, owners and network partners could considerably slow down a firm's internationalization. Finally, based on the matrix, we could offer some suggestions for shaping a country's economic policy. For example, as FDI inflows can both quicken and slow down foreign-owned companies' internationalization, Estonia should concentrate on attracting export-oriented investors, not those whose main goal is to serve the local market or even close the local production operations. Moreover, the local enterprises should be assisted in creating beneficial network relationships: for instance, by supporting their participation in international fairs.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

A short overview of the section

This thesis has mainly focused on the internationalization of seven foreign-owned companies in Estonia and the role of (foreign owners') networks and the firms' characteristics. The first part of the thesis examined the research streams explaining the enterprises' internationalization process, the essence and importance of networks, subsidiary roles and entrepreneurial behavior. It also analyzed the importance and limitations of all the approaches. The conclusions from the first part, together with the ones made from the short overview of the background of Estonian companies' internationalization, given in the second part of the thesis, were used afterwards for making the research propositions.

The second part of the thesis drew three propositions: the first about the firms' internationalization process, the second about the role of (foreign owners') networks in it and the third about the importance of the companies' characteristics and behavior. It presented the empirical evidence about the internationalization of the seven foreign-owned companies in Estonia — Tarkon, Hansabank Group, Mootorreisi Group, Baltika Group, Krenholm Group, Saint-Gobain Sekurit Estonia and CVO Group — and the factors influencing it. Then the propositions were examined and theoretical implications drawn.

In the concluding section, we will at first summarize the theoretical concepts of the thesis and the background of Estonian companies' internationalization and show how they led to the three research propositions. Then, we will continue with the conclusions from the research methodology, the empirical results from the seven foreign-owned companies in Estonia and a general framework for understanding the firms' internationalization process. Finally, some recommendations for future research will be given.

The theoretical concepts leading to the proposition about the firms' internationalization process

All the research streams examined in this thesis have investigated at least some aspects of internationalization: the process itself, the role of networks or the characteristics of firms and their foreign owners. In this section, we will mostly concentrate on the former. The Uppsala model has shown that lack of knowledge leads to a slow internationalization process, progressing from similar to more distant countries[107] and less to more complicated foreign entry modes. The authors have also stated that the model is more suitable for smaller and less experienced firms with fewer resources.

The innovation-related internationalization models and the Finnish model have supported the idea of increasing involvement in international operations. Both have demonstrated that knowledge is not the only factor influencing internationalization: the smallness of the home market, contacts with foreign buyers and several other factors are also important.[108] In addition, the authors of the Finnish model have shown that a company does not necessarily have to move to the last stage of its international development and that the internationalization process may include de- and re-internationalization.

The authors examining born globals have demonstrated that some firms reach a substantial share of foreign sales within a couple of years after their foundation. The Finnish model has also supported the tendency toward faster internationalization.[109] In addition, it has been shown in the literature on born globals that sometimes a critical incident (like involving a foreign investor) may trigger internationalization. The positive impact of foreign owners and their networks is also indicated in the network approach (to internationalization).

Based on the above discussion, we can **propose** that the internationalization of the companies not belonging to (their foreign owners') networks normally starts from similar/neighboring countries and simpler market operation modes and may progress to more distant markets and more demanding market operation forms. The larger, experienced companies with sufficient resources and supportive network relationships can internationalize faster. In addition, this process may differ in dimension and include de- and re-internationalization.

The research streams demonstrating the importance of (foreign owners') networks

The importance of network relationships for firms' internationalization has been demonstrated in several studies. It has been shown in the network approach that long-term relationships with a limited number of interdependent actors and the ones connected to them can influence companies considerably. They can, for example, obtain resources and develop their capabilities. It has also been stated in the literature on the role of firms in their foreign owners' networks that for an enterprise, the web of specific relationships is an important resource.

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[107] The tendency to invest and export to neighboring countries can also be noted in the Estonian export and foreign direct investment statistics (see Appendix 7).

[108] A similar conclusion can be made from Table 15.

[109] From the trends of the current global economic environment, examined in Appendix 5, we could see the same.

The impact of (foreign owners') networks on the internationalization of foreign-owned companies has been widely researched. It has been indicated in the network approach to internationalization that by joining a foreign (parent company's) business network, an enterprise could considerably quicken its internationalization, compared to the process described in the U-model. By acquiring the necessary capital, technology, know-how, skills and access to foreign buyers and suppliers it may start from distant markets and more complicated foreign operation modes. As shown in the previous section, the possibility of leapfrogging was also accepted in the Finnish model and the literature on born globals. In addition, the authors of the former approach have supposed that inward internationalization (for example, FDI inflows) could considerably affect enterprises' outward internationalization. The I-models and the literature on born globals also accept the possibility that foreign-owned firms might internationalize differently from locally owned companies. In the latter, it is even proposed that a change in ownership (as an example of a critical incident) may trigger an enterprise's internationalization.[110] On the other hand, belonging to a (foreign owner's) network may sometimes inhibit this process. This has been shown in the network approach to internationalization.

From the above discussion, we can **propose** that by joining a (foreign owner's) network, firms could considerably quicken their internationalization as through network relationships, they can obtain the necessary resources, develop their capabilities and gain market access. On the other hand, sometimes these relationships may inhibit the companies' internationalization.

The approaches stressing the importance of the firms' and the owners' characteristics influencing a foreign-owned company's internationalization

Besides (foreign owners') networks, examined in the previous section, the characteristics of companies and their foreign owners may influence foreign-owned firms' internationalization. This impact has been demonstrated in several studies. The importance of individual decision-makers and their attitudes has been stressed in both the I-models and the literature on international entrepreneurship. From the latter, we can conclude that entrepreneurial managers can lead their firms to higher value-added activities and quicken their internationalization (this possibility was also acknowledged in the Finnish model and the literature on born globals). On the other hand, the less cooperative, innovative and active leaders may sometimes also inhibit this process. In

[110] Some evidence on the positive impact of inward foreign direct investments on the foreign-owned firms' internationalization can also be found in Tables 14 and 15. It can be concluded that in Estonia, foreign-owned firms in general export more and have less problems than locally owned companies.

addition, from the literature on the role of firms in their foreign owners' networks, it can be concluded that the enterprises' characteristics and dissimilar head office assignments may lead to different roles of foreign affiliates. While some firms may develop higher autonomy and managerial expertise, the others do not.

Moreover, while the positive impact of networking has been demonstrated in the literature on international entrepreneurship and the literature on the role of firms in their foreign owners' networks, we could assume from the network approach to internationalization that sometimes it may inhibit the companies' internationalization. Consequently, the internationalization process of entrepreneurial firms may be dissimilar.

From the above, it can be **proposed** that a company's role and a level of autonomy in the foreign owner's network, determined by its and its foreign owner's characteristics, may considerably influence the course of its internationalization process. In addition, we can conclude that the managers' entrepreneurial behavior could lead foreign-owned firms to higher value-added activities, larger autonomy and exceptional managerial expertise and, as a result, to successful internationalization.

The research methodology

To examine the above research propositions, the case study method was chosen. In several countries, this approach been widely used for analyzing different aspects of firms' internationalization. In Estonia, the importance of this method is also increasing. The case analysis has been found especially appropriate in new topic areas as it can develop novel, testable and empirically valid theoretical insights and criticize or specify previously researched topics. Case studies enable us to conduct theoretical reading and empirical research simultaneously and to collect data from different sources. For example, in this thesis, examining the internationalization process of the seven foreign-owned companies in Estonia, interviews, newspapers, surveys, the firms' annual reports, homepages and several other materials were used. In addition, the case study methodology enables researchers to ask "how" and "why" questions about a set of events, study real-time and long-term processes and understand them from multiple perspectives. This is especially important when examining such a complex issue as the role of networks on foreign-owned enterprises' internationalization: there is no general theory covering all the aspects of this topic.

Multiple cases were selected to investigate the internationalization of foreign-owned companies in Estonia from a wider perspective than from a viewpoint of a single enterprise. The case firms were chosen for theoretical reasons: each enterprise was selected so that we can understand an additional aspect of the foreign-owned companies' internationalization process and the factors influencing it, rather than to generalize the results in a certain industry or firm type. Consequently, the seven selected case companies had different spheres of activity (fine-mechanics, banking, coach transportation, clothing and retailing, textiles manufacturing, producing of car windshields and recruitment), years of foundation (from 1857 to 1996), shares of foreign ownership (from 40 to 100 percent), types of foreign owners (from the ones engaged in a similar field to venture capitalists) and levels of internationalization (from exporting to one country to franchising and establishing affiliates in several foreign markets). The number of the cases was limited to seven because of the limited capacity of the thesis, the need to cope with the volume of the data and the understanding that additional cases would have probably contributed to the thesis at a diminishing rate. Already with the seven cases, it was possible to get a sufficient understanding of the foreign-owned firms' internationalization process and the factors influencing it, to examine the three propositions and to provide theoretical implications. For the latter, at first, each case was examined as a separate entity. Then, the results were generalized across the seven cases.

The discussion of the research propositions

Based on the data of the seven foreign-owned companies in Estonia, we can conclude that there is considerable support for **the first proposition**. Although the case firms' internationalization processes have differed noticeably, there seems to be a general tendency to start internationalization from the closer markets (Latvia, Lithuania, Russia, Finland and Sweden) and simpler market operation modes (exporting and foreign representations). After that, the companies tend to continue with more distant markets (like Poland, Germany, Holland, the UK and the USA) and more complicated operation forms — for example, franchising and foreign sales subsidiaries. The tendency to begin from the closest countries seems to hold true especially for the enterprises' internationalization in the beginning of 1990s. Then, most of them lacked foreign market experience, resources (for example, capital and technology) and contacts abroad. Afterwards, in general, the firms' internationalization quickened: as they acquired the necessary experience, resources and contacts (and, in some cases, involved foreign investors), they were able to enter several countries simultaneously and increase their foreign market share. Only Tarkon's export share has decreased. It still exports mostly to Sweden and has not used any other foreign entry modes.

There is also some evidence to support the idea that the internationalization process of some enterprises — Tarkon and Krenholm Group — has included several stages of de- and re-internationalization. Hansabank Group, Baltika Group and Saint-Gobain Sekurit Estonia have also drawn back from some markets. Moreover, some critical incidents, for example, the dissolution of the Soviet Union, the terrorist attack on September 11th and a change in foreign ownership, have strongly impacted the firms' internationalization. While the first two events forced the companies to seek new export markets and exit from the existing ones (respectively, Russia and the USA, for example), the latter, in general, helped them to increase their share in the existing markets and enter new countries. Below, this effect will be investigated more closely.

The second proposition about the importance of networks for the enterprises' internationalization has also been supported. In their internationalization, all the seven firms received at least some assistance from their foreign owners: for example, advice, know-how, materials, financing; the right to use the foreign owner's trademark and contacts with foreign customers. In addition, the other network partners have contributed considerably to some companies' international development. Through the relationships, the firms have developed new products or services, reduced production costs and increased their turnover, market potential and value-added.

We can conclude that network relationships (with foreign owners), in general, seemed to have a positive impact on the internationalization of the seven firms. For example, most likely, without the support from their foreign owners, Saint-Gobain Sekurit Estonia, CVO Group and Krenholm Group would have not entered so many markets so quickly. On the other hand, there is some evidence from Tarkon, Baltika, Krenholm and Mootorreisi Group showing that sometimes, network relationships may be harmful: an enterprise may be forced to serve certain customers and it may lose if the relationship is not successful.

The third proposition should also be at least partly supported. Some firms seem to be more independent from their foreign owners than the others. This could be caused by several factors: for example, the share of foreign ownership, the nature of foreign owners and the companies' situation before the foreign investment. The enterprises' roles in the parent company's network and their internationalization processes have also been different. In addition, it seems that at least some managers have had considerable influence on their companies' internationalization: for example, they have decided to enter certain markets and involve foreign investors.

Still, the link between the foreign-owned firms' strategies, their autonomy, and success in internationalization is not that clear. All the seven enterprises have invested in (information) technology, developed new products and/or services, motivated and trained their employees and sought new foreign market opportunities. Consequently, their strategies have not been so different. At the same time, the firms' situation is dissimilar. For example, although Baltika Group and Mootorreisi Group have not gained as much from having a foreign owner than the others, they have internationalized successfully. These firms have been comparatively free in decision-making. CVO Group has also been relatively autonomous but it has gained more from foreign ownership, including assistance to internationalization. It is evident that without the foreign capital, this firm's internationalization would have been slower despite its innovative services. Hansabank Group and Krenholm Group, in turn, have not been as independent and, in terms of finding new market opportunities, have not gained as much from involving the foreign investor than CVO Group. Tarkon, on the other hand, has benefited more from being foreign-owned. The owner has clearly helped it to export to Sweden. In addition, the firm has received know-how, technology and materials. On the other hand, although being relatively innovative, Tarkon is less autonomous in decision-making than the former five companies. Saint-Gobain Sekurit Estonia is in a relatively similar situation: it has to act according to the corporation's strategies. At the same time, the firm's export share and selection of foreign markets is much bigger than Tarkon's. Consequently, although foreign-owned firms' entrepreneurial behavior may lead to a higher autonomy and a successful internationalization compared with the passive and less innovative companies, the international success may also depend on several other factors. For example, in addition to the strategies of the foreign owners, the actions of the other network members should be examined more closely.

The validity of the research streams

Based on the theoretical conclusions made in the first part of the thesis and the research into the seven foreign-owned companies in Estonia, we can conclude that all the research streams have contributed to our understanding of the internationalization process and the factors influencing it. At the same time, while some of these conclusions have found full support from the case study results, the other have been only partially confirmed.

From the three internationalization models, we found that the Uppsala model seems to be especially useful to examine the case companies' early internationalization. It states correctly that the firms, especially if they are small and lack foreign market experience and resources, tend to enter foreign markets at first with simpler operation modes like exporting and later use more complicated modes like FDI. The prediction that this type of enterprises usually starts their internationalization from the nearest markets has also been supported. On the other hand, a lack of capital seems to be a more important factor causing a slow internationalization than the companies' lack of knowledge. In addition, this model does not embrace leapfrogging behavior, does not include all foreign market operation modes and does not explain a firm's withdrawal from some markets or lack of interest in any other entry modes besides exports.

The innovation-related internationalization models have rightly supposed that the small size of the domestic market may force local firms to internationalize. In addition, these models correctly demonstrate several other factors influencing a company's internationalization besides knowledge: for example, the key decision-makers in both the foreign-owned enterprise and the foreign owner. On the other hand, they do not explain when firms move from one stage to the next or why they establish sales subsidiaries in less important export markets and not found them in more important ones.

The Finnish model has been correct in proposing that during their internationalization process, companies may leapfrog some stages, de- and re-internationalize. There is also some evidence to support the proposition that an enterprise may internationalize more in some dimensions (for example, sales objects or foreign markets) than the others (for example, foreign market entry modes). On the other hand, we could not fully confirm the link between inward and outward internationalization. Inward FDI is an exception. Its impact on internationalization is evident. The proposition of the literature on born globals — that a critical incident may trigger a firm's internationalization — has also been confirmed. In addition, we found some data to support the hypothesis that entrepreneurial firms can internationalize fast despite several impediments.

The propositions of the network approach have received considerable support. All the case companies were engaged in long-term relationships with a limited number of partners influencing them considerably: for example, increasing their value-added activities and market potential, assisting in new product development and improving their image. As these relationships were interdependent, an enterprise's performance seemed to depend not only on its direct partners but also its partners' partners: in other words, the whole network.

The conclusions of the network approach to internationalization were also at least partially confirmed. In their internationalization, the case firms received considerable assistance from their owners and other network partners. For example, some enterprises exported through their owners' sales networks, acquired the right to use the parents' trademarks and entered new markets in cooperation with their other partners. The proposition that due to network relationships, companies can enter more distant markets at once and start their internationalization from more complicated foreign market operation modes has also found some support. In addition, there is some evidence suggesting that sometimes, (foreign owner's) network relationships might also inhibit a firm's internationalization: for example, limit its selection of foreign markets.

There is also considerable evidence supporting the hypothesis of the literature on the role of firms in their foreign owners' networks that in the latter, subsidiaries have different roles and, as a result, the enterprises' value-added and autonomy also differ. They depend on the foreign-owned companies' strengths and strategies and the ones of the multinational and its other subsidiaries. In addition, we could support the hypothesis that a web of relationships is an important resource for each firm. Still, several other factors like motivated employees; high-quality production and a large number of production processes are also critical.

Finally, studies in international entrepreneurship have correctly proposed that entrepreneurial enterprises use network relationships very actively. In addition, these companies can internationalize successfully and achieve a higher value-added. On the other hand, the role of foreign owners should also not be overlooked.

In conclusion, each research stream has demonstrated some important aspects of firms' internationalization but not all of their conclusions were fully confirmed. Consequently, a wider approach seems to be more useful for examining the internationalization process of the seven foreign-owned enterprises in Estonia than a single research stream. Based on the data from seven foreign affiliates in Estonia, we were able to support the main aspects of the three main conclusions. First, before linking to their foreign owners' networks, the case firms started their internationalization from similar markets and simple entry modes like exports. Afterwards, most of them progressed to other markets and more demanding market operation forms. Second, the foreign owners and other network partners helped the companies with necessary resources and contacts with foreign customers, so all the firms were able to internationalize relatively quickly: enter more distant markets at once or start with more complicated entry modes. Third, different foreign-owned companies had dissimilar roles in the foreign owners' networks. Their level of autonomy and internationalization process also differed. In addition, we found evidence on de- and re-internationalization possibilities, different dimensions of internationalization and the negative impact of network relationships.

The theoretical discussion

Based on the theoretical and empirical results, we can propose that there are four cardinally different internationalization paths[111], depending on the characteristics of the firm, its foreign owner and their networks.

- If the enterprise and its owner are strong and successful, their network relationships are helpful and the managers interested in internationalization, a foreign-owned company could internationalize quickly, both before and after the foreign investment.
- A formerly unsuccessful firm might internationalize fast after finding a strong foreign owner with helpful network relationships and interested managers.
- If the enterprise is formerly successful, but the owner and its network constrain it, this may slow down its internationalization process or even lead to de-internationalization.
- If a company has no (considerable) international activities before the FDI and the foreign owner and its network partners are weak and uninterested, the firm might de-internationalize or remain (mainly) domestic.

[111] Naturally, situations in between can also exist; see also Table 18.

We also examined the four internationalization paths in the context of the seven case companies and found that Tarkon should be placed into the gap between the quadrants II and IV. Hansabank Group could be positioned into the first quadrant. Baltika Group and Krenholm Group could be placed between the first and the second quadrants. Finally, Mootorreisi Group, Saint-Gobain Sekurit Estonia and CVO Group could be positioned in to the second category.

The four above-mentioned internationalization paths do not contradict to the research streams, examined in this thesis. Some approaches' ideas fall into one of the four categories: for example, the Uppsala model's hypothesis of slow internationalization is similar to the internationalization path described in the second quadrant while the born globals should be located in the first quadrant. The other studies, in turn, help to determine to which half of the table an enterprise belongs. For instance, the firm's characteristics, managers, and networks influence its internationalization both before and after the foreign direct investment. Depending on them, a company could be placed either in the left or the right half of the matrix. The foreign owners' characteristics, managers and networks, in turn, determine whether the enterprises' internationalization is more similar to the paths described in the upper or the lower part of the table.

Based on the limitations of the examined research streams, it can be concluded that despite its simplicity and a limited amount of empirical work, our table with the four proposed internationalization paths can also escape some of the critique to the former approaches. The matrix can accommodate the whole internationalization process with different entry modes, dimensions, firm and country types and the factors and actors influencing it. It includes "leapfrogging" behavior, de- and re-internationalization and the possibility of movement from one quadrant to another. In principle, the table could also be used for making predictions, giving managerial advice or offering suggestions for shaping a country's economic policy.

Recommendations for the future research

Internationalization of foreign-owned companies is a complex process influenced by many factors. This thesis covered only some issues. Much research has still to be done. For example, the indirect impact of FDI inflows — the influence on the local firms which subcontract for foreign-owned enterprises and through these relationships obtain resources and contacts necessary for internationalization — should also be demonstrated. Up till now, relatively little attention has been paid to this aspect.

This thesis concentrated only on Estonia. On the other hand, in the other countries, the impact of (foreign owners') networks on enterprises' internationalization may not be similar. Different host countries, for example, smaller/ larger, more/less advanced should attract dissimilar types of foreign direct investments, thus, the foreign-owned companies' internationalization should also differ.[112] In addition, compared to Estonia, in larger advanced countries, a smallness of the home market should not be as important as a factor leading to host country firms' internationalization. Consequently, the impact of FDI on these enterprises' internationalization may be smaller. This should be taken into account.

The characteristics of foreign owners could also be important in describing their impact on firms' internationalization. This thesis pointed out to some differences between the impact of venture capitalists and the other foreign owners but the other dissimilarities should also be examined more closely. For example, agriculture/manufacturing, large/small, new/experienced companies should make different types of foreign direct investments, thus, their effect on their affiliates' internationalization should be dissimilar.

Moreover, the parent company's managers' different approaches, for example, a short-term/long-term perspective, seeking/avoiding long-term relationships, should also be analyzed more thoroughly: relationships between the parent and its subsidiary may largely depend on their managers, their capabilities to create, maintain and improve these relationships. This topic should be especially important in examining foreign affiliates' autonomy inside the parent company's business network. Similarly, future research could concentrate on the management views of the enterprises remaining in the home market. Some of them might have the necessary prerequisites for successful internationalization, but still not export or invest abroad because of the managers' resistance. The impact of FDI on these firms could differ from those without this problem.

It would be also interesting to analyze more thoroughly a company's experience in FDI in different Central and Eastern European countries. Economic, cultural and other differences influencing the firm's policy toward its foreign affiliates and their internationalization should also be studied.

Finally, more attention should be paid to the negative impacts of foreign direct investments on foreign affiliates' internationalization, for example, forcing them to follow certain export orders, blocking their access to some markets or even liquidating their previous international operations. It should be also examined why and how FDI fail: for example, how a foreign owner's bankruptcy could influence a foreign-owned enterprise's internationalization. Only then, is it possible to offer more specific suggestions to managers on how to act or react in certain situations and indicate what changes host countries should make, in order to attract more foreign direct investments or reduce the foreign trade deficit.

[112] This, in turn, should impact the division of firms between the four quadrants.

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APPENDICES

Appendix 1. A selection of internationalization models

Rogers (1962) 1. Awareness of an innovation: the individual is exposed to it. 2. Interest: the individual seeks more information. 3. Evaluation: the individual applies information to his/her situation. 4. Trial: the individual uses innovation on a small scale. 5. Adoption: the individual makes full use of the innovation.
Luostarinen (1970) 1. The starting phase of exporting operations. 2. The development —“—. 3. The mature —“—. 4. The starting phase of foreign operations. 5. The development —“—. 6. The mature —“—. 7. The phase of international operations: domestic operations decrease. 8. The phase of international firm: the firm has no home country.
Wind, Douglas and Perlmutter (1973) 1. Home country orientation (ethnocentrism): overseas operations are secondary to domestic operations. Their volume is insignificant. 2. Host country orientation (polycentrism): subsidiaries are established in overseas markets. 3. A regional orientation (regiocentrism): the company views the entire region as a potential market. 4. A world orientation (geocentrism): the firm views the entire world as a potential market.
Johanson and Wiedersheim-Paul (1975) No regular export activities → export via overseas agents → establishment of an overseas sales subsidiary → overseas production/ manufacturing.
Pavord and Bogart (1975) 1. No international activity. 2. Passive activity: the firm does not seek foreign orders but will accept unsolicited orders. 3. Minor activity: occasional soliciting of foreign orders. 4. Aggressive activity: the firm is continuously involved in soliciting of foreign orders.
Bilkey and Tesar (1977) 1. The management is not interested in exporting; it would not even fill an unsolicited export order. 2. —“— is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting. 3. *(Can be skipped if unsolicited export orders are received)* The company actively

explores the feasibility of exporting. 4. The firm exports on an experimental basis to some psychologically close country. 5. The firm is an experienced exporter to that country and adjusts exports optimally to changing exchange rates, tariffs, etc. 6. The management explores the feasibility of exporting to other countries that are psychologically further away.
Wiedersheim-Paul, Olson and Welch (1978) 1. Domestic firm: no or low willingness to start exporting, no or low information collecting, no or low information transmission. 2. Passive non-exporter: low to medium willingness to start exporting, low to medium information collecting, low information transmission. 3. Active non-exporter: medium to high willingness to start exporting, medium to high information collecting, low to high information transmission. 4. Exporter. *The authors do not directly point out to this stage.*
Bilkey (1978) Gaining basic export experience → exporting to psychologically close markets → moving to the next close market → concentrating on the most attractive markets and developing them in depth: for example, opening foreign production facilities.
Khan (1978) New exporters' market ventures → buyer initiated export market ventures → unplanned export market ventures → carefully planned export market ventures → experienced exporters' market ventures → exports through own sales subsidiary → export ventures located in Communist countries.
Luostarinen (1979) 1. Non-investment marketing operations — direct or indirect exports. 2. Direct investment-marketing operations — sales or marketing subsidiaries. 3. Non-investment production operations — licensing or contract manufacturing. 4. Direct investment production operation — production subsidiary. *Firms can skip some or all of the first three stages or not reach the last ones.*
Cavusgil (1980); Gankema, Snuff and Zwart (2000) 1. Domestic marketing. The firm sells only to the home market. It is not interested or willing to experiment with exporting at all. The export/sales ratio is 0. 2. Pre-export stage. —“— searches for information and evaluates the feasibility of undertaking exporting. However, basic information about costs, exchange risks, distribution, etc. is still lacking. The export/sales ratio is at or near 0. 3. Experimental involvement. —“— starts exporting on a limited basis to some psychologically close country. The export/sales ratio varies between 0-9 percent. 4. Active involvement. There is a systematic effort to increase sales through export to multiple countries. A suitable organizational structure is in place to support these activities. The export/sales ratio varies between 10-39%. 5. Committed involvement. The firm depends heavily on foreign markets. The managers are continuously faced with choices for the allocation of limited resources to either domestic or foreign markets. Many firms are engaged in licensing arrangements or direct investments. The export/sales ratio is 40% or more.
Reid (1981) 1. Export awareness. Low opportunity recognition, low need for exporting. 2. Export intention. Motivation, attitude, beliefs and expectancy about export contribution.

3. Export trial. Personal experience from limited exporting. 4. Export evaluation. Results from engaging in exporting. 5. Export acceptance. Adoption of exporting/ rejection of exporting.
Wortzel and Wortzel (1981) 1. Importer pull: foreign customer's orders. 2. Basic production capacity marketing. 3. Advanced production capacity marketing. 4. Product marketing — channel push. 5. Product marketing — consumer pull.
Czinkota and Johnston (1981) The unwilling → the uninterested → the interested → the experimenting firm → the semi-experienced small exporter → the experienced large exporter.
Czinkota (1982) 1. The completely uninterested firm: no exploration of feasibility to export. 2. The partially interested firm. Exporting is a desirable but uncertain activity. 3. The exploring firm. Planning for export and actively exploring export possibilities. 4. The experimental firm. Favorable export attitude but little exploitation of exporting possibilities. 5. The semi-experienced small exporter. Favorable attitude and active involvement in exporting. 6. The experienced large exporter. Very favorable export attitude and future export plans.
Cavusgil (1982) 1. Non-exporting firms, not interested in gathering export-related information. 2. Non-exporting firms, interested in gathering export-related information. 3. Exporting firms. Export less than 10% of their output. 4. Exporting firms. Export more than 10% of their output.
Reid (1983) 1. Occasional exporting: directly to a buyer. Low exports per turnover. 2. Indirect exporting via agents, manufacturing representatives, commission agents. Low exports per turnover. 3. Indirect exporting via foreign distributors. Low- medium exports per turnover. 4. Direct exporting. Medium- high exports per turnover.. 5. Formal export department: using both direct and indirect exporting. High exports per turnover. 6. Foreign sales subsidiary. High exports per turnover. 7. Foreign manufacturing. Low exports per turnover. 8. Licensing. Low exports per turnover.
Cavusgil (1984) 1. No exports. 2. Experimental involvement: the firm initiates restricted export marketing activity. 3. Active involvement: the firm systematically explores a range of export market opportunities. 4. Committed involvement: the firm allocates its resources on the basis of international marketing opportunities.
Barrett and Wilkinson (1985) 1. Non-exporters who never consider exporting. 2-3. Non-exporters who investigate exporting. Previous exporters.

4. Current exporters with no direct investment abroad.
Vozikis and Mescon (1985); Chetty (1999) 1a. The firm does not explore the feasibility of regular exporting. 1b. —“— fills unsolicited export orders (if any). 2a. —“— explores the feasibility of regular exporting. 2b. —“— fills exports experimentally to one or few markets. 3a. —“— is an experienced exporter to some markets. 3b. —“— explores possibilities of exporting to additional markets.
Moon and Lee (1990) Lower stage → middle stage → higher stage of export expansion.
Lim, Sharkey and Kim (1991) 1. Awareness. Information search on export opportunities. 2. Interest in selecting exporting as a viable strategy. 3. Intention. Beginning to export. 4. Trial and adoption. Export intensity/status of firm with regard to export.
Rao and Naidu (1992) 1. Non-exporters. No current level of export activity, no future interest. 2. Export intenders. Current non-exporters, but would like to explore export opportunities. 3. Sporadic exporters. Exporting on a sporadic basis. 4. Regular exporters. Exporting on a regular basis.
Bamberger and Evers (1993) 1. Domestically-oriented firms: no present international activities and no interest in starting export activities in the near future. 2. Pre-involvement stage: firms do not have international operations but envisage the possibility of starting such operations in the near future. 3. Reactive involvement: the firm’s total export turnover is still low and there are no explicit long-term objectives and plans concerning it. 4. Active involvement: expansion of export volume and establishment of other kinds of foreign operations. 5. Committed involvement: international activities are a permanent and integrated part of the firm’s business; the proportion of turnover generated abroad becomes an essential component of total turnover.
Luostarinen (1994) The domestic → the inward → the outward → the cooperative stage.
Crick (1995) 1. Completely uninterested firm. 2. Partially interested firm. It has marketing and profit advantage, managerial urge and unique products. 3. Exporting firm: marketing and profit advantage and managerial urge. 4. Experimental exporter: marketing and profit advantage, managerial urge and competitive pressures. 5. Experienced small exporter: marketing and profit advantage and managerial urge. 6. Experienced large exporter. The firm has managerial urge, unique products and profit advantage and, to a lesser extent, competitive pressures and marketing advantage.
Leonidou and Katsikeas (1996) 1. The pre-engagement phase. Firms sell their goods solely in the domestic market.

2. The initial phase. —“— are involved in sporadic export activities. 3. The advanced phase. —“— are regular exporters with extensive overseas experience and frequently consider more committed forms of international business.
Buckley (1996) Home activities only → direct exporting → foreign agent → foreign sales subsidiary → foreign production subsidiary *Skipping some stages is also possible.*
Pauwels and Matthyssens (1999) 1. Initial and accumulating market commitment: performance does not continue to materialize as expected, although companies increase their market commitment. 2. Increasing stress as an immediate consequence of the perceived ineffectiveness of the tactical responses. 3. Two opposite reactions: either increasing commitment to the particular venture or searching strategic alternatives. 4. Toward a stress threshold: increasing stress, a catalytic incident may act as a final straw to the export withdrawal. 5. Confrontation at the threshold: the accumulation of stress reaches a threshold at which the export withdrawal is decided. 6. Learning beyond the withdrawal: a firm’s degree of internationalization may even increase.
Lundan and Hagedoorn (2001) Domestic mergers → initial foreign production via “greenfield” investment → joint ventures and minority investments → knowledge- seeking mergers and strategic alliances.
Knight and Liesch (2002) 1. The management encounters a trigger alerting it to an internationalization opportunity (for example, elimination of trade barriers or an unsolicited export order). 2. —“— is alerted to an internationalization opportunity. 3. —“— launches an information search. 4. —“— transforms internationalization information into knowledge within the firm. 5. —“— becomes informed on internationalization. 6. —“— becomes ready for internationalization. 7. The firm internationalizes.
Freeman (2002) International awareness → interest → trial → adoption

Appendix 2. The classification of organization forms

Organization form	Description of the organization form
Unitary form (U-form) or vertically integrated functional organization	Firms are high-volume, standardized, low-cost and production-oriented, organized into a number of functionally specialized departments: for example, production, sales and purchasing. They perform complementary tasks; none is independent of the others. This form allows managing an increase in specialization and the division of labor most effectively but is not suitable if the organization grows, becomes geographically diverse and faces increasing competition.
Multidivisional organization (M-form)	Functions are grouped together according to products or markets/ industries. Organizations are more market and product oriented; responsibility is decentralized to operating divisions whose activities are planned, co-coordinated and controlled by the general office. The headquarters hold critical resources (including management expertise).
Holding company (H-form)	Like the M-form, this structure adopts a divisional approach, but relies on a weak, rather than strong, central office. As such, it gains the advantages of distributed decision-making, but it may not be able to harness the efficiencies arising from the coordination of action across independent divisions. This form makes possible for firms to acquire relatively unrelated businesses. Acquired operations are permitted to function almost as an independent company.
Matrix organization (MX-form)	A matrix structure combines two or more dimensions of function, product, customer or place. The organization has minimal hierarchical levels and decentralized authority. Employees report to two superiors: the product team manager and the functional manager. This structure has lateral relationships and dual lines of responsibility and authority; aligning marketing groups more closely with scientific and engineering functions.
Network organization (N-form)	This structure is composed of a cluster of different organizations whose actions are coordinated by contracts and agreements rather than a formal hierarchy and authority. Many of the value creation activities are outsourced. Several success factors are external to the firm, firms are smaller, flexible, more focused and vertically disaggregated.

Sources: Achrol 1997; Achrol et al. 1999; Bartlett and Ghoshal 1993; Bercovitz et al. 2000; Birkinshaw and Morrison 1995; Chandler 1962, 1977; Jones 2000; Kangas 1996; Powell 1990; Williamson 1975.

Appendix 3. Reasons for participating in and avoiding networks and strategic partnerships

Reasons for participating	Reasons for avoiding
Market-related • Facilitating international expansion: gaining market knowledge — e.g. about local customers' tastes, business and other social customs, legal system, institutional framework, decreasing marketing costs, getting initial brand recognition or obtaining new brands. • Penetrating or speeding up entry into new markets or distribution channels: getting links with major buyers, obtaining marketing channel control and enjoying first mover advantage. • Overcoming unfavorable market conditions: for example, high barriers to entry. • Reducing the period between product invention and market introduction. • Obtaining foreign market power, increasing market share and maintaining its stability.	*Fear of dependency*. Companies fear becoming dependent on the partners, losing their personal or organizational control or flexibility in choice of suppliers. Partner's opportunistic behavior is also a threat. Firms are especially vulnerable if their partners are considerably larger: they may be forced to fulfill their needs. This reduces their capacity to adapt their strategy to changing circumstances, leads to a narrowing of expertise and limitations on creativity and competitiveness. *Lack of perceived value in the relationship.* Partnerships may not always result in significant cost reductions, revenue growth, superior market position, new competencies' development or social rewards. *Fear of free rider problem.* Managers may fear giving away crucial information and know-how without getting anything useful in return.
Resource- and capability-related • Gaining access to higher-quality inputs with better availability, delivery and/or lower price. • Gaining access to capital, new product or process technology, raw materials or additional assets, e.g. mining rights or patents. • Gaining additional capacity. • Gaining access to information and knowledge, new insights to problems, news of technical breakthrough or failures. • Acquiring or bringing together complementary skills, talents and ideas. • Gaining access to the other resources not owned by the company itself but by the partner or its other partners.	*Lack of suitable partners.* Companies are reluctant to partner with firms that: • Are small relative to the company's total demand; • Avoid strong long-term relationships; • Are unimportant as suppliers or customers; • Cannot fulfill main quality requirements; • Are unreliable in fulfilling agreements; • Are unable to contribute enough to the partnership; • Have an unfamiliar cultural or economic background, different attitudes, objectives or management styles. *Actor-relationship incompatibility.* Other companies may perceive relations with specific actors as threats or regard them unacceptable in some way. They may even inhibit the relationships.

<table>
<tr><td>Product (production)-related
• Accelerating new product development, developing new products or product lines or filling gaps in present product lines.
• Differentiating or adding value to products (e.g., improving their quality and design).
• Achieving economies of scale and/or scope.</td><td>Lack of relational orientation. Restraining company policies and corporate belief systems, inflexible organization structure, transaction-based reward systems or restricted flows of communication may cause managers’ low interest in close relationships.</td></tr>
<tr><td>Competition-related
• Improving firm’s competitive position.
• Creating a (temporary) monopoly.
• Pre-empting rivals from entering a market or gaining access to scarce resources.
• Preventing the partner from forming strong long-term relationships with the other firms or breaking their existing partnerships.</td><td>Rapid growth, technological, design or model changes. In this case, companies will resist in engaging in long-time relationships, as additional (management, administrative and travel time and expense required to support these relationships) costs may be larger than benefits.</td></tr>
<tr><td rowspan="3">Other
• Gaining a good reputation, image and prestige, e.g. signaling greater commitment to the foreign market.
• Forecasting and reducing risk and uncertainty and achieving greater stability.
• Increasing flexibility, efficiency, creativity and innovativeness.
• Defining technological standards.
• Externalizing non-core activities.
• Reducing dependence on the other partners.
• Solving problems collaboratively.
• Deriving new incremental sources of revenue.
• Developing different views on marketing, production, changing corporate culture.</td><td>Fear of relationship dissolution. When partnerships dissolve (e.g. partners go out of business), relation-ship-specific investments may be worth much less than the firm has spent on them. Sometimes, a former partner may become an even stronger competitor.</td></tr>
<tr><td>Fear of additional (time) costs for co-coordinating production, innovation and other plans and setting up a relationship: sometimes it leads to breaking with another one.</td></tr>
<tr><td>Other: national pride, negative stereotypes about foreign firms, language problems, governments’ protective measures and agreements with unions.</td></tr>
</table>

Sources: Adarkar et al. 2001; Ahuja 2000; Alguire et al. 1994; Anderson et al. 1994; Arias 1995; Bengtsson and Kock 1999; Bessant and Francis 1999; Biong et al. 1997; Brown et al. 1994; Chan and Wong 1994; Child and Faulkner 1998; Coviello and Munro 1995; Dennis 2000; Devlin and Bleackley 1997; Doz 1988; Echeverri-Carroll et al. 1998; Ebers and Jarillo 1997/98; Elg 2000; Garai 1999; Håkansson and Snehota 1989, 1995, 2000; Hertz 1996; Jarillo and Stevenson 1991; Johanson and Johanson 1999; Johnsen and Johnsen 1999; Koza and Lewin 2000; Larson 1992; Lewis 1990; Lorange et al. 1997; McLoughlin and Horan 2000; Samli et al. 1996; Spekman et al. 1996; Tikkanen 1998; Varadarajan and Cunningham 1995; Vyas et al. 1995; Welch and Welch 1996; Werther 1998; Wilkinson and Young 2002; Zeffane 1995.

Appendix 4. The classification of subsidiary roles

White and Poynter (1984)

- ***The marketing satellite*** is an importing company with some local value added. It has no or a very low autonomy. By facilitating the local distribution and marketing of goods produced elsewhere in a multinational's supply network, it provides the most basic, and probably initial, type of involvement with a country's economy.
- ***The rationalized manufacturer*** is producing a designated set of component parts or products according to the host-country's industrial specialization for distribution in other parts of the group's international network.
- ***The miniature replica*** is producing and marketing some of the parent's product lines. It produces for the host country. Because it encompasses local marketing it has wider functional scope than the rationalized manufacturer.
- ***The product specialist*** is developing, producing and marketing a limited product line — product areas related to the core business of the multinational parent — for global markets. Autonomy within this product scope is rather high.
- ***The strategic independent*** has the freedom and the resources to develop business lines for local, regional or global markets. It has far reaching access to resources, the freedom to pursue new business opportunities and the highest autonomy.

Bartlett and Ghoshal (1986)

- ***Strategic leader*** has high competence located in strategically important markets. It serves as a partner of headquarters in developing and implementing strategy.
- ***Contributor*** has high competence but located in a strategically unimportant market. It utilizes the benefits of certain local facilities or capabilities and applies them to worldwide operations.
- ***Implementer*** has just enough competence to maintain its local operations in a non-strategic market. It has limited market potential and generates resources supporting strategic processes of the company. The majority of subsidiaries play this role.
- ***Black hole*** is located in strategically important markets. It should be playing the role of a strategic leader but lacks the competence to do so. The black hole is not an acceptable strategic position, but it is not easy to change it.

Crookell (1987)

- ***A tightly controlled factory center*** manufactures a parent company product or component in sufficient scale to serve an international market, but is dependent on the parent for non-operational strategic management.
- ***A world product mandate*** enhances its autonomy by managing all facets of its chosen product line, even carries out its own R&D and formulates product marketing plans to be executed by the parent company's sales force.

Porter (1990)

- ***Scanning units:*** often R&D units with a limited development capability of their own. They contribute to as well as draw from the knowledge base of the cluster.
- ***Transplanted home- bases:*** consist of the top management, R&D activities and main manufacturing operations of an entire product division.

Jarillo and Martinez (1990)

- ***The autonomous subsidiary*** has a high degree of localization and a low degree of integration. It carries out most of the functions of the value chain. It is relatively independent of its parent organization and other subsidiaries.

• ***The receptive subsidiary*** has a low degree of localization and a high degree of integration. It performs only a few functions in the value chain, mainly marketing and sales or purely manufacturing or extraction. • ***The active subsidiary*** has a high degree of localization and integration. It performs many activities in close coordination with the rest of the firm.
Gupta and Govindarajan (1991) • ***Local innovator:*** low knowledge outflow, low inflow. The subsidiary has almost complete responsibility for the creation of relevant know-how in all key functional areas. However, the knowledge does not have much use for the other units. • ***Implementer:*** low knowledge outflow, high inflow. The subsidiary engages in little knowledge creation on its own and relies heavily on knowledge inflows from the parent or its other subsidiaries. • ***Global innovator:*** high knowledge outflow, low inflow. The subsidiary serves as a source of knowledge for other units. • ***Integrated player:*** high knowledge outflow, high inflow: it also creates knowledge that can be utilized by other subsidiaries, but it can fulfill its own knowledge needs.
Birkinshaw (1993b) • ***Integrated.*** Business managers control subsidiary operations at the regional or world headquarters. Operations may be regional or global in scope (e.g. manufacturing plants), but they are managed from the headquarters. • ***Sales & marketing satellite.*** The subsidiary is responsible for selling and maybe marketing the range of products dictated by the central business groups. • ***World/regional mandate.*** One or more divisions of the subsidiary have responsibility for a product or group of products for either the region or the world market. The subsidiary has substantial managerial and technical capabilities. • ***Mini-replica.*** The subsidiary is completely responsible for its own business range. It mostly manufactures and sells to its local market. Coordination with other affiliates is minimal.
Birkinshaw and Morrison (1995) • ***The local implementer*** has limited geographic scope, usually a single country, and a severely constrained product or value-added scope. It also has a low strategic autonomy, high product dependence on the parent, high inter-affiliate purchases and low international configuration of downstream activities. Its main role is to adapt global products to the needs of the local market. • ***The specialized contributor*** has considerable expertise in certain functions or activities but is tightly co-coordinated with other subsidiaries. It has medium strategic autonomy, high product dependence on the parent, high inter-affiliate purchases and high international configuration of downstream activities. • ***The world mandate*** has worldwide or regional responsibility for a product or entire business. It has high strategic autonomy in managing its activities worldwide, its product scope is typically unconstrained and it has low inter-affiliate purchases and medium international configuration of downstream activities.
Birkinshaw (1996) • ***The "commodity"*** mandate has high strategic relatedness but low value-added: the activity is seen as a strategic priority for the corporation but it can be performed more effectively by another corporate entity. • ***The "isolated" mandate*** has high distinctive value-added but low strategic

relatedness: the activity is not seen as a strategic priority for the corporation but it can not be performed more effectively by other corporate entities. • ***The "niche" mandate*** has low strategic relatedness and value-added. • ***The "large integrated" mandate*** has high strategic relatedness and value-added.
Surlemont (1998) • ***The dormant center*** has a low domain and a low scope of activities. • ***The administrative center of excellence*** has a low domain and a high scope. • ***The strategic center of excellence*** has a high domain and a low scope. • ***The global headquarters*** has a high domain and a high scope.
Ferdows (1997) • ***An offshore factory*** is established for low-cost production. Its products are exported either for further work or sale. It is not innovative. Its managers follow the instructions, methods, and plans handed down to them. Investments in technical and managerial resources are kept at the minimum required for production. Local managers rarely choose key suppliers or negotiate prices. They rely on others to provide the expertise in new processes, products and technologies. • ***A source factory*** is also established to gain access to low-cost production but it has the resources and expertise to develop and produce a part or a product for the company's global markets. Its managers have greater authority over procurement, production planning, process changes, outbound logistics; product customization and redesign decisions. A source factory has the same ability to produce a product or a part as the best factory in the company's global network. • ***A server factory*** is a production site that supplies specific national or regional markets. It typically provides a way to overcome tariff barriers and to reduce taxes, logistics costs or exposure to foreign exchange fluctuations. Although it has relatively more autonomy than an offshore plant to make minor modifications in products and production methods to fit local conditions, its authority and competence in this area are very limited. • ***A contributor factory*** serves a local market and is responsible for process improvements, product customization, modifications or development. It competes with the company's home plants to test new process technologies, computer systems and products. It has its own development, engineering and production capabilities. A contributor factory also has authority over procurement decisions and participates in the choice of key suppliers for the company. • ***An outpost factory*** is established primarily to gain access to the knowledge or skills that the company needs. It is placed in an area where advanced suppliers, competitors, research laboratories or customers are located. Nearly all outpost factories have a secondary strategic role — as a server or an offshore, for example. • ***A lead factory*** has the ability and knowledge to innovate and create new processes, products and technologies for the company. It not only collects data for headquarters but also transforms the knowledge into useful products and processes. Its managers have a decisive voice in the choice of key suppliers and often participate in joint development work with suppliers. Many of its employees stay in direct contact with end customers, machinery suppliers, research laboratories, and other centers of knowledge; they also initiate innovations frequently.
Taggart (1997a), based on Jarillo and Martinez (1990) • ***The autonomous subsidiary*** has low integration and high responsiveness.

• ***The receptive subsidiary*** has high integration and low responsiveness. • ***The constrained independent*** has high integration and high responsiveness. • ***The quiescent subsidiary*** has low integration and low responsiveness.
Taggart (1997b) • ***The collaborator*** has low autonomy, except in capacity and marketing decisions. It has high procedural justice, particularly concerning corporate knowledge of local circumstances and headquarters' propensity to account for its strategic decisions. • ***The vassal has*** low autonomy, especially in making decisions about R&D, and low procedural justice. In particular, these firms have poor communications with headquarters and have little opportunity to challenge corporate strategic views during the process of strategy formulation. • ***The militant*** has very high autonomy, particularly in marketing and production, and low procedural justice, especially in terms of headquarter knowledge of local circumstances, headquarters' propensity to account for its strategic decisions and the overall consistency across the network of headquarter decisions. • ***The partner*** has high autonomy, especially in marketing. Technology decisions, however, tend to be headquarters-oriented. Its procedural justice is high, particularly in terms of headquarters' propensity to account for its strategic decisions.
Taggart (1998) • ***The strategic auxiliary*** is highly focused and has fairly limited autonomy. • ***The confederate subsidiary*** also has limited autonomy but acts in a participative and responsive way. • ***The autarchic subsidiary*** has a higher level of autonomy and performs more value-chain activities locally. • ***The detached subsidiary*** should not exist at all except as a transitional form. It is a temporary phase that all subsidiary managers would like to leave as soon as possible.
Forsgren and Pedersen (1998) • ***The local supplier*** produces for the local market. Its R&D intensity is low. • ***The international supplier*** is allowed to sell outside the local market as in case of the local supplier. Similarly, the products are developed elsewhere in the MNC. • ***The local developer*** has a high R&D intensity but it serves only its local market. • ***The product mandate*** also has a high R&D and may sell outside the local market.
Birkinshaw (1998b) • ***The sales subsidiary*** simply sells the parent company's products or services in the local market. It may sometimes undertake some local marketing and after-sales service. This subsidiary has the lowest level of value-added and the lowest contribution to the host country economy, providing local employment, a small amount of investment and imported products for local sale. • ***The local sales and manufacturing subsidiary*** also undertakes production for the local market. In addition, it may do some related development or engineering work. This firm has a higher value-added than the sales subsidiary. • ***The regional hub subsidiary*** has a certain amount of international responsibility. It typically exports to neighboring countries or markets in a region. • ***The world product mandate subsidiary*** provides the highest level of value-added, typically having R&D, manufacturing and management activities for an entire

business or division. It is recognized for its technological and commercial leadership. This subsidiary also makes the highest contribution to the host country economy: high levels of employment and investment, sourcing opportunities for local suppliers, export sales and technological innovation.

Mudambi (1998)

- ***The local assembly subsidiary*** has a national extent of responsibilities and a low extent of strategic decision- making.
- ***The regionally rationalized assembly subsidiary*** has a regional extent of responsibilities and a low freedom in strategic decision- making.
- ***The world product mandate*** has a global extent of responsibilities and a low extent of strategic decision- making.
- ***The national mandate*** has a national extent of responsibilities and a high freedom in strategic decision- making.
- ***The regional subsidiary mandate*** has a regional extent of responsibilities and a high extent of strategic decision- making.
- ***The global subsidiary mandate*** has a global extent of responsibilities and a high freedom in strategic decision- making**.**

Tavares and Pearce (1999)

- ***A truncated miniature replica (TMR) subsidiary*** focuses on the supply of established products to the host country market, having a notable market-seeking rationale. It has a very narrow market scope. The product range mirrors the one of the parent company. This subsidiary type is associated with an import-substitution context and its inefficiency is evident when exposed to a free trade environment.
- ***The rationalized product subsidiary (RPS)*** is specialized in the production of a small part of the multinational's product range for a wide market area. It is strongly dependent on group coordinated supply networks. Its functional/creative scope is usually even more restricted than those of TMRs. The role often results from the exposure of the innate inefficiency of TMRs when trade barriers disintegrate.
- ***Product mandate (PM) subsidiaries*** are very distinct. They have functional scope to develop products using/activating local creative inputs. Their production is directed at export markets. When the relevant market is the world market, a world product mandate exists, and for the regional market the subsidiary in question is a regional product mandate. They are strongly specialized and their pervasive in-house creative scope and autonomy represent the key elements of differentiation relatively to the more dependent and passive TMRs and RPSs.

Holm and Pedersen (2000)

- ***A center of excellence*** must continuously update its competence and, on the other hand, perform corporate activities leading to use among other subsidiaries**.**
- ***A unit of excellence*** is a subsidiary with a distinctive competence that has been developed but is used autonomously from the rest of the multinational.
- ***A unit with local threshold competence*** has neither distinctive competencies nor extensive corporate usage of their competencies.
- ***A non-excellent center*** has a central position within the multinational but without a distinctive competence. This position is unstable and will either develop into a center of excellence or regress to a unit with local threshold competence.

Harzing (2000)

- ***Global companies*** operate in industries with relatively standardized consumer needs. Since price competition is important, the dominant strategic requirement is efficiency and these companies therefore integrate and rationalize their production to produce standardized products cost-efficiently. Subsidiaries typically fulfill roles as "pipelines" for headquarters and are usually very dependent on headquarters for their sales and purchases. They are not supposed to respond actively to the local market demands, except in the area of marketing adaptation. Local production and local R&D are less common than in subsidiaries of other types of MNCs.

- ***In multidomestic companies,*** products or services are differentiated to meet differing local demands. The companies can be characterized as decentralized networks. Subsidiaries are responsive to the local market and adapt both products and marketing to local circumstances. Products are often produced locally and contain a large proportion of local R&D. Subsidiaries are relatively independent from other affiliates and especially from headquarters: they buy/sell a very low proportion of their input/output from headquarters or other subsidiaries.
- ***Transnational companies*** try to respond simultaneously to the sometimes-conflicting strategic needs of global efficiency and national responsiveness. The companies can be characterized as interdependent networks. Expertise is spread throughout the organization with large flows of people, products and knowledge between subsidiaries. Subsidiaries can serve as strategic centers for a particular product-market combination. They are usually also responsive to the local market. Products and marketing are adapted for local markets and there is a higher proportion of local production and R&D than in subsidiaries of global companies. Subsidiaries in this type of company are more dependent on other subsidiaries for their inputs and outputs than on headquarters.

Narula (2001)

- ***A truncated miniature replica*** is essentially a duplication of the parent firm, although perhaps with a smaller scale of production and value-adding activities. It does not undertake basic research but may modify and adapt products originally developed by the parent. It has a large product range but a limited and isolated market. It also is considerably autonomous from the parent but the latter still has strategic control, for example, over the product range. Its primary motive is market- seeking.
- ***A rationalized affiliate*** is much more closely integrated into the multinational network. Its primary motive is efficiency- seeking, aimed at optimizing costs over multiple locations. It often produces a small range of products.
- ***A single-activity affiliate*** undertakes a single aspect of value adding activity, for example, trading or resource-extracting. It may be part of a company’s rationalized strategy: the location may be best suited for such an activity. Still, such an affiliate is often marginal for the firm. It is not involved in decision-making or strategic planning and can be easily replaced.

Appendix 5. The global and CEE economic environments

The current global environment	CEE in the beginning of 1990s
• Opening-up of the world economy: liberalization of foreign trade, services, capital flows and labor force movements, decreasing costs of transportation and IT. Structural adjustment in former centrally planned economies and linking them to world production networks. • Increasing business complexity, specialization and intensity of global competition. Accelerated rate of technological change. Shorter product life cycles. • Increasing importance of networks and strategic alliances. Through them, the firms exploit the assets, skills and experiences of foreign competitors, suppliers and customers. • Increasing number of born globals. Many small firms internationalize immediately or rapidly following inception. • To the extent that its affiliates learn and benefit more rapidly from participating in the multinational's knowledge-sharing network, the firm becomes a more attractive partner, which in turn further reinforces its competitive advantage by providing it with opportunities to access and absorb external resources. • Many companies are concentrating production and development in the same organizational and geographical unit. The foreign plant is not any more a producer of what has been designed and developed at corporate headquarters. • Multinationals increasingly locate their factories in the areas that have the most advanced infrastructure and workers' skills.	• Centrally planned coordination of economic activities and assets, the rationing of under-priced foreign exchange, the absence of a rational product and factor price system, a large distortion of factor prices; a lack of labor productivity incentives and a poor image of products. • Socialization and concentration of firms. 80 percent of manufacturing companies were large or medium size. High vertical integration. Increasing investments in heavy-industrial technologies, exhibiting a tendency to diminishing returns. Failure to promote the creativity and innovation required for the development of knowledge-based industries. • Isolation from world production networks: the absence of FDI and multinational enterprises, the separation of national production systems. • Depressed aggregate level of consumption and poor consumer product differentiation. • Most enterprises were in dire need of modernization to compete with imports and new firms, whose production processes were based on market principles. • Failure to reach the growth rates necessary to close the competitive gap with the developed market economies or newly industrializing countries. By 1989, Eastern Europe had become, after Africa, the least competitive region in skill-intensive industries.

Sources: Axelsson 2001; Axelsson et al. 2000; Barrell and Holland 2000; Brunner 1994; Dunning 1995, 2001; Ferdows 1997; Holmlund and Kock 1998; Kanter 1999; Kubielas 1996; Kubielas 1996; Luostarinen 1994; Madhok and Phene 2001; Meyer 2000; Oviatt and McDougall 1994, 1999; Pels 1999; Snow and Miles 1992; UNCTAD 2002.

Appendix 6. The Estonian investment climate

The investment climate indicators in 2002 in the Baltic Sea region

Index and **rank**	**Estonia**	Latvia	Lithuania	Poland	Russia	Finland	Sweden	Norway	Denmark	Germany
Economic freedom[119]	1.80 **6.**	2.45 **33.**	2.35 **29.**	2.90 **66.**	3.70 **135.**	1.90 **11.**	1.90 **11.**	2.30 **27.**	1.80 **6.**	2.10 **19.**
Foreign investment	1.0	2.0	2.0	3.0	3.0	2.0	1.0	3.0	2.0	1.0
Trade	1.0	2.0	2.0	3.0	4.0	2.0	2.0	2.0	2.0	2.0
Corruption perception[120]	5.6 **29.**	3.7 **52.**	4.8 **36.**	4.0 **45.**	2.7 **71.**	9.7 **1.**	9.3 **5.**	8.5 **12.**	9.5 **2.**	7.3 **18.**
Competitiveness[121]	63.4 **21.**	n.a.	n.a.	30.2 **45.**	39.0 **43.**	84.4 **2.**	76.2 **11.**	67.7 **17.**	80.4 **6.**	70.9 **15.**
Business efficiency	60.7 **23.**	n.a.	n.a.	30.9 **46.**	36.8 **45.**	83.2 **3.**	74.4 **10.**	65.1 **19.**	79.2 **6.**	63.1 **21.**
Infrastructure	57.7 **24.**	n.a.	n.a.	30.1 **48.**	37.0 **43.**	86.7 **2.**	82.7 **3.**	73.1 **14.**	78.0 **8.**	77.2 **11.**
Growth competitiveness[122]	**26.**	**44.**	**36.**	**51.**	**64.**	**2.**	**5.**	**9.**	**10.**	**14.**
Technology	**14.**	**29.**	**40.**	**36.**	**66.**	**3.**	**4.**	**10.**	**11.**	**12.**
Microeconomic competitiveness	**30.**	**45.**	**40.**	**46.**	**58.**	**2.**	**6.**	**21.**	**8.**	**4.**
Company operations and strategy	**36.**	**48.**	**39.**	**46.**	**62.**	**4.**	**6.**	**23.**	**9.**	**2.**
National business environment	**28.**	**42.**	**39.**	**45.**	**56.**	**2.**	**8.**	**19.**	**9.**	**4.**
Political risk[123]	76.0	76.5	73.5	78.0	62.0	94.5	93.5	92.0	93.5	88.5
Political stability[124]	0.73	0.50	0.29	0.69	-0.41	1.61	1.38	1.32	1.34	1.21
Government effectiveness	0.86	0.22	0.26	0.27	-0.57	1.67	1.51	1.35	1.62	1.67
Regulatory quality	1.09	0.30	0.30	0.41	-1.40	1.42	1.08	0.73	1.09	1.08
Human development[125]	0.83 **42.**	0.80 **53.**	0.81 **49.**	0.83 **37.**	0.78 **60.**	0.93 **10.**	0.94 **2.**	0.94 **1.**	0.93 **14.**	0.93 **17.**

Sources: Heritage 2002; IMD 2002; Kaufmann et al. 2002; PRS 2001; Transparency 2002; UNDP 2002; World 2002.

119 Each of the 161 countries was given a score ranging from 1 through 5 for 10 factors where 1.0: the freest and 5.0: the most economically repressed.
120 In total, there were 102 countries. The score ranged from 10 (highly clean) to 0 (highly corrupt).
121 49 countries were analyzed. 0: the least competitive, 100: the most competitive.
122 For this and the following four indicators, in total, 80 countries were ranked.
123 The score ranged from 0…49.5: very high risk, 80…100: very low risk.
124 For this and the two indicators below, the score ranged from –2.5 (the worst) to 2.5 (the best).
125 Data were presented from 173 countries. 0: the lowest, 1: the highest.

Changes in the Estonian investment climate since the initial investment, perceived by foreign-owned exporters[126]

	2001	**2000**	**1999**	**1998**
The telecommunications system	4.19	4.09	4.13	3.76
The banking sector	4.06	3.93	3.77	3.62
Estonia's liberal economic environment	3.81	3.64	3.61	3.54
Prospects of Estonia joining the European Union	3.60	3.86	3.59	3.44
Political stability	3.67	3.66	3.75	3.48
Possibilities for (Estonian) market growth	3.50	3.28	3.23	3.59
Harbors	3.39	3.54	3.59	3.26
Attitude towards foreign investors	3.37	3.44	3.42	3.47
Internal transportation network	3.31	3.31	3.55	3.08
Availability of the required raw materials	3.15	3.07	3.13	2.98
Estonia's position vis-à-vis the Russian/ CIS market	2.94	2.65	2.45	2.72
The Estonian workforce	2.91	3.08	3.28	3.42
Production costs	2.62	2.53	2.45	n.a.

Sources: Tartu and Estonian 1998, 1999b, 2000b, 2001a; author's calculations

[126] 1 – significant change for worse; 2 – change for the worse; 3 – unchanged; 4 – change for the better; 5 – significant change for the better.

Appendix 7. The Estonian investment, balance of payments and foreign trade structure

Estonia's direct investment stock by countries and fields of activity by the end of the 3rd quarter 2002

	FDI in Estonia		FDI from Estonia to other countries		
	Million EEK	%		Million EEK	%
Countries					
Sweden	25 809	40.9	Lithuania	4361	43.6
Finland	16 960	26.9	Latvia	3124	31.2
USA	5 091	8.1	Cyprus	1383	13.8
Netherlands	2 544	4.0	Italy	631	6.3
Norway	2 077	3.3	Russia	175	1.7
Denmark	1 584	2.5	Ukraine	171	1.7
Great Britain	1 445	2.3	Poland	102	1.0
Germany	1 344	2.1	Spain	23	0.2
Liechtenstein	1 002	1.6	Sweden	15	0.1
Other countries	5 264	8.3	Other countries	24	0.4
Fields of activity					
Finance	17 319	27.4	Finance	3 909	39.1
Transport, storage, communication	14 234	22.6	Transport, storage, communication	2 164	21.6
Manufacturing	11 781	18.7	Real estate, renting and business activities	1 825	18.2
Wholesale, retail trade	8 427	13.4	Manufacturing	1 195	11.9
Real estate, renting and business activities	6 032	9.6	Wholesale, retail trade	655	6.5
Electricity, gas and water supply	1 555	2.5	Construction	104	1.0
Other fields of activity	3 772	5.8	Other fields of activity	157	1.7
TOTAL	**63 120**	**100**	**TOTAL**	**10 009**	**100**

Source: Bank 2003c; author's calculations.

Balance of payments of Estonia (million EEK)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current account	**430**	**279**	**-2 146**	**-1811**	**-4 807**	**-7 810**	**-6 760**	**-3 608**	**-5 093**	**-5 890**	**13 322**
Trade balance	-1 092	-1 925	-4 616	-7 616	-12 288	-15 653	-15 726	-12 097	-13 144	-13 784	18 518
Exports	5 549	10 763	15 829	19 428	21 833	31 847	37 786	36 995	56 346	58 667	57 806
Imports	-6 641	-12 688	-20 444	-27 044	-34 122	-47 499	-53 512	-49 092	-69 490	-72 451	-76 323
Services	511	997	1 363	4 330	6 245	8 233	8 049	8 342	9 575	10 160	8 087
Income	-158	-185	-378	28	26	-2 011	-1 164	-1 506	-3 483	-4 926	-5 340
Transfers	1 169	1 392	1 486	1 446	1 210	1 620	2 080	1 654	1 959	2 660	2 449
Capital account	**327**	**0**	**-8**	**-9**	**-8**	**-2**	**25**	**18**	**279**	**90**	**321**
Financial account	**301**	**2 909**	**2 230**	**2 845**	**6 404**	**10 955**	**6 845**	**5 899**	**7 234**	**5 417**	**13 246**
Direct investments	973	2 071	2 789	2 284	1 330	1 781	7 990	3 208	5 601	5 901	3 119
Abroad	-23	-82	-30	-29	-485	-1 913	-82	-1 240	-1 043	-3 528	-2 037
To Estonia	997	2 153	2 819	2 313	1 814	3 694	8 071	4 448	6 645	9 430	5 156
Portfolio investments	0	-3	-183	-255	1 784	3 655	-23	156	1 855	1 629	3 683
Other investments	-673	841	-377	817	3 290	5 519	-1 122	2 535	-223	-2 114	6 444
Reserve assets	**-1 006**	**-2 576**	**-396**	**-1 200**	**-1 228**	**-2 771**	**-126**	**-1 798**	**-2 271**	**730**	**-927**

Source: Bank 2003a

Estonian foreign trade by groups of goods (%)

	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Exports								
Machinery and equipment	9.7	14.0	14.2	18.1	22.2	23.2	36.3	33.1
Timber, paper and products thereof	11.8	14.1	14.4	16.5	17.1	20.6	15.8	15.2
Clothing, footwear, headgear	17.7	17.5	19.2	16.3	16.0	16.3	13.3	14.0
Furniture etc	5.8	6.1	6.8	5.9	6.4	7.6	6.5	8.1
Foodstuffs	21.8	16.2	15.0	16.2	13.2	8.8	6.8	8.0
Non-precious metals and metal products	7.8	6.9	6.5	6.8	8.0	7.7	7.0	6.9
Products of chemical industry	8.8	10.5	10.2	8.5	7.4	6.6	6.0	6.3
Transport vehicles	6.1	4.8	4.1	3.6	3.3	2.9	2.5	3.2
Mineral products	6.8	6.5	5.8	4.4	2.6	2.5	2.4	2.1
Other goods	3.6	3.4	3.8	3.8	3.7	3.8	3.4	3.2
Total (billion EEK)	**15.6**	**19.0**	**21.2**	**31.6**	**37.5**	**36.8**	**55.8**	**57.8**
Imports								
Machinery and equipment	20.6	22.6	22.7	25.3	29.5	30.7	38.5	33.5
Products of chemical industry	11.9	12.8	13.0	12.2	11.6	12.8	11.1	11.8
Clothing, footwear, headgear	13.5	13.0	12.4	11.0	11.0	11.2	9.5	10.3
Foodstuffs	15.1	13.7	14.4	12.7	11.3	10.8	8.6	9.4
Transport vehicles	7.6	7.0	7.3	10.6	9.6	7.6	6.9	8.9
Non-precious metals and metal products	5.6	7.2	8.1	8.5	9.3	8.2	8.1	8.1
Mineral products	13.6	10.6	9.2	7.9	5.8	6.0	6.1	6.1
Timber, paper and products thereof	4.2	5.0	4.8	4.7	4.9	5.2	4.9	5.2
Furniture etc	2.9	3.0	2.9	2.6	2.6	2.6	2.3	2.6
Other goods	5.0	5.1	5.1	4.6	4.4	4.9	4.0	4.0
Total (billion EEK)	**20.1**	**27.4**	**34.7**	**48.9**	**55.2**	**50.5**	**72.2**	**75.1**

Source: Bank 2003d; author’s calculations

Estonian foreign trade by main trade partners (%)

	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Exports								
Finland	18.9	23.3	20.8	19.0	22.1	22.4	31.2	33.9
Sweden	11.5	11.8	13.2	17.1	19.5	21.9	19.8	14.0
Germany	7.1	7.3	7.3	6.7	6.2	8.2	8.2	6.9
Latvia	8.2	7.5	8.2	8.4	8.8	8.0	6.8	6.9
Great Britain	2.9	3.3	3.6	4.4	4.5	5.4	4.2	4.2
Denmark	3.0	3.3	4.0	3.8	4.0	4.5	3.3	3.5
Lithuania	4.9	4.5	5.2	4.6	4.1	3.3	2.7	3.0
Netherlands	3.2	4.4	3.3	3.3	2.2	2.5	2.4	2.8
Russia	22.4	16.3	14.1	14.4	10.5	5.2	2.3	2.7
Italy	0.9	0.8	1.0	0.9	0.8	1.1	1.0	1.0
Other	16.8	17.6	19.3	17.5	17.2	16.3	14.7	17.1
Customs free zone	0.0	0.0	0.0	0.0	0.0	1.3	3.5	4.0
Total (billion EEK)	**15.6**	**19.0**	**21.2**	**31.6**	**37.5**	**36.8**	**55.8**	**57.8**
Imports								
Finland	37.7	39.3	38.7	37.0	37.2	36.9	37.6	30.0
Germany	8.9	8.5	9.3	10.4	10.4	9.3	9.5	11.2
Sweden	9.6	9.2	9.0	10.6	10.1	9.9	10.5	10.0
Russia	15.9	14.4	10.9	8.5	7.6	7.2	8.0	7.8
Latvia	2.1	3.0	3.3	3.6	4.0	4.4	4.1	4.0
Netherlands	3.5	3.4	3.6	3.9	3.5	3.3	3.1	3.9
Lithuania	3.0	2.0	2.1	2.0	2.1	2.0	2.0	3.0
Denmark	3.0	2.9	2.9	3.2	3.4	3.1	3.0	3.0
Italy	1.9	2.3	2.5	2.5	2.7	2.8	2.4	2.8
Great Britain	1.7	1.8	2.3	2.5	2.5	1.9	1.9	2.1
Other	12.8	13.2	15.4	15.9	16.6	19.2	17.8	22.3
Total (billion EEK)	**20.1**	**27.4**	**34.7**	**48.9**	**55.2**	**50.5**	**72.2**	**75.1**

Source: Bank 2003d; author's calculations

Appendix 8. The purposes and types of theory-building activities

Purpose	Research question	Research structure
1a. *Discovery (exploration)*: uncover areas for research and theory development	• What is going on? • Is there something to justify research?	• In-depth case studies • Unfocused, longitudinal field study
1b. *Description*: explore territory	• What is there? • What are the key issues? • What is happening?	• In-depth case studies • Unfocused, longitudinal field study
2. *Mapping*: identify/ describe key variables, draw maps of the territory	• What are the key variables? • What are the prominent/ critical themes, patterns and categories?	• Few focused case studies • In-depth field studies • Multi-site case studies • Best-in-class case studies
3. *Relationship (theory) building*: improve maps by identifying the linkages between variables, identify why the relationships exist	• What are the key variables? • What are the patterns or linkages between variables? • Can an order in the relationships be identified? • Why should these relationships exist?	• Few focused case studies • In-depth field studies • Multi-site case studies • Best-in-class case studies
4. *Theory validation (testing)*: test the theories developed in the previous stages, predict future outcomes	• Are the theories we have generated able to survive the test of empirical data? • Did we get the behavior that was predicted by the theory or did we observe another unanticipated behavior?	• Experiment[127] • Quasi-experiment • Multiple case studies • Large scale sample of population
5. *Theory extension/ refinement*: to expand the map of the theory, to better structure the theories in light of the observed results	• How widely applicable/generalizable are the theories that we have developed? • Where do/ do not these theories apply?	• Experiment • Quasi-experiment • Case studies • Large scale sample of population

Source: Based on Handfield and Melnyk 1998, pp. 324-325 and Voss et al. 2002, p. 198.

[127] **Experimental** or **quasi-experimental studies** rely, for example, on simulated business organizations using student participants or scenarios presented in survey format (Johnston et al. 1999).

Appendix 9. Some examples of previous case studies on firms' internationalization, networks and/or entrepreneurship

Authors	Main subject	Number of case firms	Total number of interviews
Andersson (2002)	The internationalization process of a wholesaler based on a network approach	1	0[128]
Andersson (2000)	Companies' internationalization process from an entrepreneurial perspective	3	41
Blankenburg (2001)	A network approach to foreign market entry	2	0[129]
Chetty (1999)	Dimensions of manufacturing firms' internationalization	5	5
Crick and Jones (2000)	Small, technologically oriented firms' overseas expansion processes	10	10
Fletcher and Barrett (2001)	Embeddedness and evolution of global networks	1	2
Halinen and Törnroos (1989)	The role of embeddedness in the evolution of networks	5	0[130]
Jaklič (1998)	The importance of networks in companies' internationalization	2	0[131]
Johanson and Wiedersheim-Paul (1975)	The internationalization of the firm[132]	4	n.a.[133]
Karlsen, Silseth, Benito and Welch (2003)	The role of inward-outward connections and knowledge creation in a company's internationalization	1	7
McAuley (1999)	The importance of networks for small instant exporters	3	3[134]
Pauwels and Matthyssens (1999)	A strategy process perspective on export withdrawal	4	13

[128] P. Andersson carried out some interviews previously in earlier papers with some other authors, but none for this paper.
[129] D. Blankenburg did not interview any managers herself. Each of the cases was based on a bachelor study written by another author.
[130] The five cases were based on some previous studies of the two authors and some studies made by other authors.
[131] M. Jaklič did not carry out any interviews. The two cases were based on several studies made by other authors.
[132] The Uppsala model is largely based on this paper.
[133] The cases were based on published data and an unspecified number of interviews.
[134] A. McAuley in total used 15 case firms and conducted 15 interviews (one in each company) but he concentrated mainly on three companies.

Appendix 10. The questionnaire used for the seven interviews (pre-prepared questions)

1. What do you think is your company's strength compared to that of your competitors?
2. In which areas do you think your company has most room for development in the future, including the international context?
3. Which steps can you bring out in your company's international activities (at the start and during its development)?
4. What has made you change your company's international activities?
5. How has your international experience affected your attitude toward threats and opportunities of international activities?
6. Describe your view on the impact of changes in foreign countries' economic and business environment on your company's international activities?
7. Approximately with how many foreign and local enterprises have you cooperated or you are previously partnering on internationalization?
8. Describe your foreign partners' or owners' role in supplying your company with information, people and technology, creating market opportunities or in some other areas.
9. Describe your company's relationships with partners in Estonia and abroad.
10. How much does Estonia as your place of operation give you advantage in international activities?
11. How much has your company's size (large or small) given you advantage in internationalization?
12. How much have you perceived that you foreign partners could learn something from you? If yes than in what area?
13. Describe your company's clients', employees', owners' and competitors' role in your company's international activities.
14. Describe the importance of persons/personalities and the organization as a whole in developing your company's international activities?
15. How do you get new ideas for your company's international activities?
16. To what extent have cooperative relationships with your owner's other affiliates or other foreign enterprises supported or inhibited your company's international activities?
17. Which positive and/or negative effects of international activities on your company's development can you see?

Appendix 11. The case firms and their foreign owners: additional evidence

The revenues of Hansabank Group by geographic regions

	2002		2001		2000		1999		1998	
	Mln. EEK	%	Mln. EEK	%	Mln. EEK	%	Mln. EEK	%	Mln. EEK	%
Estonia	3020.5	58	2768.5	61	2554.9	72	2265.7	80	1416.2	86
Latvia	1158.1	22	1065.8	24	855.9	24	552.4	19	264.6	16
Lithuania	1115.8	22	749.6	17	187.3	5	87.7	3	67.8	4
Other	—	—	11.0	0	14.7	0	18.8	1	21.4	1
Eliminations	-118.9	-2	-76.7	-2	-65.5	-2	-90.0	-3	-128.5	-8
Total	**5175.5**	**100**	**4518.2**	**100**	**3547.3**	**100**	**2834.6**	**100**	**1641.5**	**100**

Sources: Hansabank 2000, 2001, 2002, 2003a; author's calculations.

Mootorreisi Group: the share of different markets in total turnover

	Germany	Russia	Latvia	Estonia	Lithuania	Scandinavia	**Total**
2001	57	24	8	7	4	0	**100**
2000	61	19	10	4	5	1	**100**
1999	61	19	9	4	6	1	**100**

Sources: Mootorreisi 2001, 2002.

Selected economic indicators of AS Baltika and Baltika Group

	1994	1995	1996	1997	1998	1999	2000	2001	2002
AS Baltika									
Turnover (million EEK)	114	134	188	209	228	210	265	349	414
Baltika Group									
Turnover (million EEK)				252	280	289	341	414	485
The share of exports per turnover (%)[135]	47.7	50.7	59.2	63.7	67.8	64.5	65.8	70.5	73.1
—“— of own production per turnover (%)	70.8	75.4	77.5	74.9	75.3	72.6	75.7	81.5	89.1
Net profit (million EEK)	11.5	13.1	13.4	11.1	1.4	1.8	16.5	15.7	6.8

Sources: Baltika 1997, 2002a, 2003a; Olek 2002

[135] For 1994-1996, data for this and the two following rows are for Baltika AS only.

The turnover of Baltika Group by markets in 2002

	Million EEK	%		Million EEK	%		Million EEK	%
Estonia	130.8	27.0	Russia	51.2	10.5	UK	17.1	3.5
Lithuania	71.9	14.8	Latvia	48.2	9.9	Others	1.5	0.3
Ukraine	54.4	11.2	Poland	35.0	7.2			
Finland	53.0	10.9	Sweden	22.3	4.6	**Total**	**485.4**	**100.0**

Source: Baltika 2003a, author's calculations

The share of different markets in Krenholm Group's total turnover in 2001

USA	23	Finland	9	UK	3	Italy	1
Germany	16	Holland	5	Lithuania	3	Other	8
Estonia	14	Belgium	4	Latvia	1		
Sweden	11	Norway	4	Ukraine	1	**Total**	**100**

Source: Kreenholmi 2002

The main markets of Saint-Gobain Sekurit Estonia

	2001		**2000**		**1999**	
	Million EEK	%	Million EEK	%	Million EEK	%
Holland	33.50	25.1	24.03	24.6	13.69	14.6
Germany	23.21	17.4	25.73	26.3	36.26	38.6
Belgium	21.92	16.4	0	0.0	0	0.0
Sweden	10.42	7.8	12.38	12.7	7.45	7.9
Poland	9.66	7.2	9.52	9.7	7.77	8.3
Austria	7.93	6.0	6.57	6.7	9.96	10.6
Estonia	5.93	4.4	4.82	4.9	4.96	5.3
Norway	5.04	3.8	4.70	4.8	4.03	4.3
Italy	3.57	2.7	0	0.0	0	0.0
France	3.49	2.6	1.54	1.6	1.75	1.9
Russia	2.30	1.7	1.45	1.5	0.08	0.1
Lithuania	2.00	1.5	0.96	1.0	1.69	1.8
Finland	1.75	1.3	0.65	0.7	0	0.0
Greece	1.56	1.2	1.17	1.2	0.81	0.9
Latvia	0.52	0.4	1.63	1.7	2.30	2.5
Croatia	0.49	0.4	2.68	2.7	1.35	1.4
Denmark	0	0.0	0	0.0	1.56	1.7
Ukraine	0	0.0	0	0.0	0.22	0.2
Total	**133.28**	**100.0**	**97.82**	**100.0**	**93.86**	**100.0**

Sources: Saint-Gobain Sekurit 2001, 2002

The foreign owners of the seven case firms: short description

	Description
1	**Tarkon's** foreign owner, *Hallberg Sekrom Fabriks*, was founded in 1922 (Hallberg 2003). It belongs to Gunnar Bergström (Rajalo 2002). In 2002, it employed, together with Tarkon, 800 employees. For 2003, the group's total turnover should be about 590 million EEK. This company is one of the leading suppliers in Sweden. Its headquarters is in Täby, Stockholm and has a factory in Visby. Hallberg Sekrom Fabriks helps its customers to design and produce a complete product. The design unit, HF Design Automation & Tools is located in Visby. The firm also has a substantial export business. In 2002, it acquired Automation & Tools from Flextronics and founded Medeto — Medical Device Technology (Hallberg 2003).
2	**Hansabank Group's** foreign owner, *FöreningsSparbanken (Swedbank)*, was founded in 1820. It is one of the largest banking groups in the Nordic area. The group has approximately 16 000 employees, of which are 9700 in Sweden. The number of private customers is 7.3 million 4.1 million of them in Sweden. It has Sweden's largest Internet bank, with about 1.1 million customers, and Sweden's largest telephone bank, with 2 million customers. The firm owns 25% of SpareBank 1 in Norway and Aktia Sparbank in Finland. In addition to Hansabank, it has a subsidiary FIH in Denmark and FöreningsSparbanken Luxembourg, S.A. in Luxemburg. FöreningsSparbanken has international branches in New York, London and Oslo, as well as representative offices in Tokyo and Shanghai. It also offers products and services through such subsidiaries as Robur (fund management), Spintab (mortgage institution), Swedbank Markets (investment bank) and FöreningsSparbanken Finans (FöreningsSparbanken 2003).
3	**Mootorreisi Group's** foreign partner, *Deutsche Touring GmbH* is one of the oldest members of the Eurolines network. It was founded in 1948. In 2001, its total sales amounted to more than 800 million EEK with approximately two million passengers. Shareholders of Deutsche Touring GmbH are Deutsche Bahn AG (German Rail) and Europaeische Reiseversicherungs AG (European Travel Insurance). Deutsche Touring is one of the most important bus companies in Europe. In cooperation with foreign partners, it provides regular international services linking over 700 cities throughout Europe (Deutsche 2003).
4	*The Baltic Republics Fund* is an investment vehicle to facilitate investment by large Western European financial investors into the Baltic Republics. The fund's shareholders are a broad spread of banks, funds, and pension funds based mainly in the UK and Switzerland (Trigon 2003). In addition to **Baltika**, BRF (Baltic Republics Fund) has invested in several other Estonian enterprises: Helmes, Viisnurk and Microlink (Leesmann 2002b).
5	**Krenholm's** foreign owner, *Borås Wäfveri AB*, founded in 1870, is one of Europe's more prominent textile companies. Its products covering a wide variety of producer- as well as consumer goods. In Sweden, the firm has approximately 550 employees. Krenholm constitutes about a half of the company's total turnover: in 2002, the turnovers were respectively 1.2 and 2.5 billion EEK (Borås 2003).

6	**Saint-Gobain Sekurit Estonia's foreign owner,** *Saint-Gobain*, was founded in 1665 (when it made the mirrors for Versailles) and has operated internationally over 100 years. Consisting of over 1000 companies, it is among the 100 largest industrial corporations in the world. In 2002, its net sales were approximately 474 billion EEK. Saint-Gobain produces glass, ceramics, plastics, cast iron and other materials. Operating in 46 countries worldwide, it is a market leader in the whole world, including Europe. It has over 170500 employees (Saint-Gobain 2003). In addition to Saint-Gobain Sekurit Estonia, it also has some other investments in Estonia: AS Baltiklaas, AS Saint-Gobain Isover Eesti and AS Autover-Autoklaas (Illisson 2002). In total, it has invested 470 million EEK into Estonia and created 300 jobs (Niitra 2003). Saint-Gobain is a diversified industrial group with a decentralized organization. Each of the nine divisions manages its own global strategy. Within each country or bloc of countries, each delegation (in total, there are 12) coordinates the actions of all companies, promotes synergy between the divisions and represents the Saint-Gobain group locally. The Compagnie de Saint-Gobain runs the functional departments (Saint-Gobain 2003).
7	From **CVO Group's** foreign partners, *3TS Venture Partners* is a joint venture of 3i Group plc (UK), Strategic European Technologies (Germany), SITRA (the Finnish national institute for technology and research), EBRD and some other investors. *Esther Dyson*, an investor/commentator, focuses on emerging technologies and business models, emerging markets and emerging companies (Lepmets 2001).

Appendix 12. The validity of the examined research streams

Research stream	Conclusion	Proposition No.	Validity[136]
	Internationalization models		
The Uppsala (U-) model	A lack of foreign market knowledge leads to a slow internationalization process.	1, 2	++
	Companies usually enter similar countries first.	1	++
	Enterprises will progress from simpler to steadily more demanding market operation forms.	1	+++
	This model mostly applies to smaller and less experienced firms that have fewer resources.	1, 2	+++
Innovation-related internationalization (I-) models	Besides knowledge, many other factors influence firms' internationalization.	1, 2, 3	+++
	Individual decision-makers may considerably affect a company's internationalization process.	3	++
	Foreign-owned firms' internationalization could be influenced by different factors and thus differ from local companies' internationalization.	2, 3	+++
The Finnish model	Inward internationalization (for example, inward FDI or imports from foreign suppliers) can have a considerable impact on firms' outward internationalization.	2	0/+
	The internationalization process may also include de- and re-internationalization.	1	+++
	Sometimes, firms can leapfrog some stages and speed up their internationalization.	1, 2, 3	++
	An enterprise can increase its internationalization in some dimensions more than others.	1	++
The literature on born globals	Some firms can internationalize very quickly despite being small, having limited resources, no market experience and acting in most volatile markets.	1, 3	0/+
	A critical incident (for example, a change in ownership) may trigger a company's internationalization.	1, 2	+++

[136] The symbols have the following meanings:
+++: strong support to the whole conclusion: confirming evidence from at least five case companies;
++: some support (from 3-4 firms);
+: weak support (from 1-2 enterprises);
0/+: partial support: only a part of the conclusion can be confirmed.

The importance of networks (for foreign-owned companies' internationalization)			
The importance of networks	Firms have continuous relationships with a limited number of companies that influence them considerably.	2	+++
	Through interdependencies among third parties, an organization's performance depends on the whole network.	2	0/+
	By belonging to a network, an enterprise can accomplish its goals, for example, obtain resources and develop its capabilities.	2, 3	+++
The impact of (foreign owners') networks on internationalization	Through linking into their foreign owners' networks, the affiliates may acquire capital, technology, business techniques, skilled personnel and access to market channels.	2	+++
	By joining a foreign (parent company's) business network, a firm can considerably quicken its internationalization.	1,2,3	++
	By linking into a network, a company might start its internationalization by entering more distant markets.	2	++
	As through networking, enterprises can obtain access to the other firms' knowledge, they can skip some stages of their internationalization process: for example, enter a market directly with their own manufacturing units.	2, 3	++
	Besides driving or facilitating a firm's internationalization, network relationships sometimes also inhibit it.	2, 3	++
The impact of foreign-owned firms' and their foreign owners' characteristics and their managers' behavior			
The role of companies in their foreign owners' networks	For each firm, the web of specific relationships in which it is embedded is an important resource.	2, 3	++
	In their owner's networks, different affiliates are assigned dissimilar roles.	3	++
	In a multinational corporation, a subsidiary can develop higher value-added activities, exceptional managerial expertise and autonomy.	3	++
	The role of a foreign affiliate in the owner's network depends on its strengths and strategies and the head office assignment.	3	+++
The role of firms' entrepreneurial behavior	Through networking, entrepreneurial firms can acquire skills and gain access to external resources, capabilities and foreign market opportunities.	2, 3	+++
	Entrepreneurial behavior can lead subsidiaries to successful internationalization and higher value-added activities.	3	0/+
	The managers can both quicken and inhibit firms' internationalization.	3	0/+

KOKKUVÕTE

VÄLISOSALUSEGA EESTI ETTEVÕTETE RAHVUSVAHELISTUMINE: LAIENDATUD VÕRGUSTIKUKÄSITLUS

Uurimistöö ajendid

Ettevõtete rahvusvahelistumist on uuritud juba üle 40 aasta. Selle aja jooksul on esile kerkinud erinevaid arusaamu firmade kasvavast välistegevusest. Mõned neist kirjeldavad rahvusvahelistumist kui astmelist protsessi, teised rõhutavad võrgustiksuhete[137], otseste välisinvesteeringute[138], juhtkonna ettevõtliku tegevuse [139] või muude tegurite tähtsust.

Hoolimata käsitluste paljususest pole siiski loodud ühtset teooriat, mis selgitaks seoseid otseste välisinvesteeringute, võrgustike ja rahvusvahelistumise vahel. Ei otseste välisinvesteeringute teooriad, rahvusvahelistumise mudelid ega võrgustikukäsitlused ei suuda eraldivõetuna käsitleda kogu (välisosalusega) ettevõtete rahvusvahelistumise protsessi ega seda mõjutavaid tegureid. Järelikult tuleks selle protsessi paremaks mõistmiseks hõlmata erinevaid lähenemisviise.

Ettevõtete rahvusvahelistumist mõjutavate tegurite uurimise vajadus on eriti suur üleminekumaades. Eestis on kaubandusbilansi defitsiit suhteliselt kõrge. Väikest rahvaarvust tingitud siseturu väiksus tingib selle, et isegi väikesed firmad ei saa piirduda ainult koduturuga. Samas pole rahvusvahelistumine kerge, sest eriti väiksematel ja hiljuti asutatud ettevõtetel napib ressursse, teadmisi ja sidemeid välismaiste ostjatega. Ka suurematel ja vanematel firmadel pole olnud kerge välisturule minna: pärast Nõukogude Liidu lagunemist katkesid paljud senised kontaktid ning enamik ettevõtteist pidi leidma välismaalt uusi ostjaid ja tarnijaid. Järelikult on Eestis nii vanemad kui uuemad firmad vajanud rahvusvahelistumisel abi väljastpoolt.

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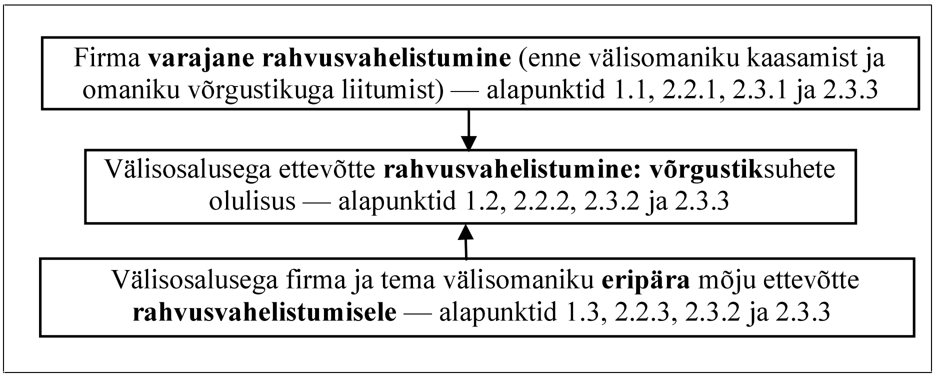
[137] **Võrgustik** on lihtsustatult öeldes ettevõtete või teiste subjektide omavahel ühendatud suhete kogum.

[138] **Otsesed välisinvesteeringud** on reeglina pikaajalised investeeringud, millega välisinvestor omandab vähemalt 10 protsenti teise riigi ettevõttest ja mille abil ta saab selle juhtimist mõjutada.

[139] **Ettevõtliku tegevuse** ehk **ettevõtlikkuse** (*entrepreneurial behavior*) all mõistetakse innovaatilist, proaktiivset, riskivõtvat, iseseisvat ja agressiivset käitumist.

Otseste välisinvesteeringute sissevoolu suurendamist võib pidada üheks võimaluseks Eesti ettevõtete rahvusvahelistumise kiirendamiseks. Välisinvesteeringute ligimeelitamisel on Eesti seni olnud suhteliselt edukas. Varasemad uuringud on näidanud, et Eestis ekspordivad välisosalusega firmad rohkem kui kohaliku kapitaliga ettevõtted. Kahjuks pole eriti tähelepanu pööratud sellele, kuidas välisinvestorite võrgustikes osalemine mõjutab välisosalusega firmade rahvusvahelistumist ning millist mõju avaldab sellele ettevõtete esialgne olukord ning juhtide tegevus. Riigi väiksus, firmade rahvusvahelistumise vajadus (ja samas selle keerukus) ning suur sõltuvus välisinvesteeringutest teevad Eestist väga huvitava uurimisobjekti.

Käesoleva töö põhiraamistik on esitatud joonisel 1. Töös ei uurita ainult välisomaniku võrgustikuga liitumise mõju ettevõtte rahvusvahelistumisele, vaid ka firmade varajast rahvusvahelistumist ja nende eripära nii enne kui pärast rahvusvahelistumist. Ilma esialgset olukorda mõistmata oleks raske uurida, kuidas rahvusvahelistumise käik sõltub välisomaniku võrgustikuga liitumisest. See mõju võib juba enne investeeringu saamist edukalt väliturgudel tegutsevate firmade puhul erineda. Ka ettevõtte ja tema välisomaniku eripära uurimine on vajalik: näiteks passiivsete juhtidega ja nõrkade välisomanikega firmade rahvusvahelistumine ei pruugi sarnaneda tugevate välisomanike ja aktiivsete juhtidega ettevõtete rahvusvahelistumisega. Varajase rahvusvahelistumise ja võrgustike rollile mõju avaldavate tegurite sissetoomine peaks nii Eesti kui rahvusvahelises kontekstis aitama parandada arusaamist, kuidas võrgustikud mõjutavad välisosalusega firma rahvusvahelistumist. Sellisel kujul pole seda teemat tõenäoliselt kunagi varem uuritud.



Joonis 1. Töö põhiraamistik

Lisaks sellele, et töös luuakse välisosalusega ettevõtete rahvusvahelistumisest senisest erinev teoreetiline käsitlus, võivad antud doktoritöö tulemused ka praktikutele abiks olla. Peale selle saab nende põhjal soovi korral teha ettepanekuid Eesti majanduspoliitika kujundajatele.

Töö eesmärk ja ülesanded

Käeoleva töö eesmärgiks on tõestada, et võrgustikud ja nende liikmete eripära[140] mõjutavad välisosalusega Eesti ettevõtete rahvusvahelistumist. Eesmärgi saavutamiseks on püstitatud kolm alljärgnevat uurimisülesannet.

- Teoreetiliste käsitluste ning Eesti majanduskeskkonna põhjal tehtud järelduste kaudu tuua välja põhilised uurimisteesid välisosalusega firmade esialgse rahvusvahelistumise ja võrgustike ning ettevõtete eripära mõju kohta.
- Kontrollida saadud uurimisväiteid, rakendades juhtumianalüüsi seitsme välisosalusega Eesti ettevõtte kohta.
- Analüüsida erinevaid uurimiskäsitlusi välisosalusega Eesti firmade rahvusvahelistumise kontekstis ja luua raamistik mõistmaks, kuidas välisosalusega ettevõtete rahvusvahelistumine sõltub nende firmade ja välisomanike eripärast ning võrgustiksuhetest .

Ettevõtete rahvusvahelistumise teoreetilised käsitlused

Kõik käesolevas töös käsitletud teooriad on selgitanud vähemalt mõningaid ettevõtete rahvusvahelistumise aspekte: kas protsessi ennast või seda, millist mõju avaldavad sellele firmade ja välisomanike eripära ja võrgustiksuhted. Esmalt peatume eelkõige rahvusvahelistumise protsessi uurinud lähenemistel ning näitame, kuidas jõudsime esimese uurimisväiteni.

Uppsala (U-) mudel on näidanud, et teadmiste puuduse tõttu on firmade rahvusvahelistumine tavaliselt aeglane. See algab lähiturgudest[141] ja lihtsamatest turule sisenemise meetoditest — näiteks ekspordist. Alles hiljem sisenetakse kaugematele turgudele ja kasutatakse keerulisemaid sisenemisviise — luuakse välismaal müügi- ja tootmisüksused. U-mudel on leidnud rohket tõestust, eriti varasemate rahvusvahelistumise staadiumide selgitamisel. Selle mudeli autorid on väitnud, et ülaltoodud viisil sisenevad välisturgudele eelkõige väiksemad ja vähemkogenud ettevõtted, kellel napib ressursse.

Innovatsioonil põhineva rahvusvahelistumise mudelite ja Soome mudel on samuti toetanud järkjärgulise rahvusvahelistumise ideed. Mõlemad on ka näidanud, et teadmised pole ainus rahvusvahelistumist mõjutav tegur: koduturu väiksus, kontaktide puudus välismaa ostjatega ja paljud muud tegurid on samuti

[140] Viimase all peetakse selles töös eelkõige silmas firmade ja nende välisomanike eripära: näiteks nende rahvusvahelistumist enne välisinvesteeringu saamist (sealhulgas eelmisi võrgustiksuhteid) ning juhtkonna tegevust.

[141] Sarnast tendentsi on näha ka Eesti väliskaubanduse ja välisinvesteeringute statistikast.

olulised.[142] Peale selle erinevad ülaltoodud kaks mudelit Uppsala mudelist selle poolest, et nende arvates ei pea firma oma rahvusvahelistumise protsessis kindlasti jõudma selle viimasele astmele — välismaa tootmisüksuseni. Lisaks sellele väidavad Soome mudeli autorid, et see protsess võib ka hõlmata (mõnelt) turult väljatõmbumist, sinna naasmist ja mõne rahvusvahelistumise astme vahelejätmist ning et ettevõte ei pea olema võrdselt rahvusvaheline kõigi kriteeriumide (näiteks toodete, turgude ja välisturu teenindamise meetodite arvu) järgi.

Rahvusvahelisena sündinud ettevõtete (*born global*) teemal kirjutatud töödes on samuti uuritud kiiresti rahvusvahelistunud firmade tegevust.[143] Kiirema rahvusvahelistumise võimalust ei välistata ka Soome mudelis. Lisaks sellele on rahvusvahelisena sündimist uurinud autorid näidanud, et mõnikord võib selle protsessi käivitada mingi kriitiline sündmus: näiteks välisomaniku kaasamine. Välisomanike ja nende võrgustiku positiivset mõju rahvusvahelistumisele on kinnitanud ka võrgustikukäsitlusega tegelevad autorid.

Ülaltoodu põhjal võime püstitada alljärgneva teesi. ***Need ettevõtted, mis ei kuulu (välisomanike) võrgustikesse, alustavad oma rahvusvahelistumist tavaliselt naabermaadest ja lihtsamatest sisenemismeetoditest. Hiljem võivad nad siseneda kaugematesse riikidesse ja kasutada keerulisemaid meetodeid***. Suured, kogenud firmad, kellel on piisavalt ressursse ja keda võrgustikud toetavad, võivad rahvusvahelistuda kiiremini. Lisaks sellele võime oletada, et rahvusvahelistumise protsess võib hõlmata mõnelt turult tagasitõmbumist ja sinna tagasipöördumist ning erineda kriteeriumide lõikes.

(Välisomanike) võrgustike olulisust demonstreerivad uurimissuunad

Alljärgnevas alapunktis uurime, kuidas on käsitletud (välisomanike) võrgustike tähtsust ettevõtete rahvusvahelistumisel, ja jõuame teise uurimisväiteni. Eelkõige peatume erinevatel võrgustikukäsitlustel.

Võrgustikukäsitlus (*network approach*) on näidanud, et pikaajalised suhted piiratud arvu iseseisvate partneritega võivad ettevõtteid tuntavalt mõjutada. Nad saavad näiteks omandada uusi oskusi ning pääseda ligi partnerite ressurssidele, potentsiaalile ja turuvõimalustele. Mõned ettevõtete rolli uurinud autorid on isegi väitnud, et suhetevõrgustik on firma kõige olulisem ressurss.

Ettevõtete rahvusvahelistumise võrgustikukäsitlusi uurides selgub, et (välisomaniku) võrgustikuga ühinemise kaudu võib firma oma rahvusvahelistumist tuntavalt kiirendada. Kapitali, oskusteabe ja väliskontaktide piisavuse tõttu ei

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[142] Sama võib järeldada ka välisosalusega ning kodumaise kapitaliga Eesti eksportööride ekspordiprobleemide loetelust.

[143] Kiirema rahvusvahelistumise tendentsi on näha ka maailma üldist majanduskeskkonda analüüsides.

pea ta välisturgudele sisenema nii, nagu ennustas Uppsala mudel, vaid võib alustada kohe kaugematest turgudest ja keerulisematest turule sisenemise meetoditest. Nagu võisime näha eelmisest alapunktist, ei välista kiiremat rahvusvahelistumist ka rahvusvahelisena sündinud firmasid uurivad ja Soome mudeli autorid. Viimatinimetatud käsitlusviisis väidetakse ka, et sissepoole suunatud rahvusvahelistumine (*inward internationalization*), näiteks sissetulnud otsesed välisinvesteeringud, võib ettevõte (väljapoole) rahvusvahelistumist oluliselt mõjutada.[144]

Seda, et välisosalusega firmade rahvusvahelistumist mõjutavad teised tegurid kui kodumaise kapitaliga ettevõtete välisturgudele sisenemist, on tunnistanud ka innovatsioonil põhineva rahvusvahelistumise mudelite ja rahvusvahelisena sündinud ettevõtteid uurivad autorid. Viimatinimetatud väidavad, et omanikeringi muutus selle võib protsessi isegi käivitada. Samas on ettevõtete rahvusvahelistumise võrgustikukäsitlustest teada ka see, et (välisomaniku) võrgustik võib mõne firma rahvusvahelistumist aeglustada või takistada.

Ülaltoodud järelduste põhjal võime püstitada järgmise teesi. ***(Välisomaniku) võrgustiku liikmeks saamise kaudu võivad ettevõtted oluliselt kiirendada oma rahvusvahelistumist, sest nad saavad võrgustiksuhete kaudu vajalikke ressursse, võivad arendada oma oskusi ja pääseda ligi välisturgudele. Samal ajal võivad need sidemed ka mõnikord ettevõtete rahvusvahelistumist aeglustada.***

Firmade ja nende välisomanike eripära poolt ettevõtete rahvusvahelistumisele avaldatava mõju käsitlused

Lisaks (välisomanike) võrgustikele, mida käsitleti eelmises alapunktis, mõjutavad välisosalusega firmade rahvusvahelistumist ka mitmed teised tegurid. Alljärgnevalt näitame, millist mõju avaldab sellele firmade ja nende välisomanike eripära, ja jõuame kolmanda uurimisväiteni.

Innovatsioonil põhinevas rahvusvahelistumise mudelites rõhutatakse otsusetegijate ja nende suhtumise tähtsust. Rahvusvahelise ettevõtluse alastest uurimustest selgub, et ettevõtlikud firmad võivad väga kiiresti rahvusvahelistuda, hoolimata oma väiksusest ning ressursside ja turukogemuse puudusest. Lisaks sellele on selle uurimissuuna autorid rõhutanud juhtide rolli olulisust: nad võivad nii suurendada oma ettevõtte lisandväärtust ja kiirendada selle rahvusvahelistumist (seda võimalust ei välista ka Soome mudeli ja rahvusvahelisena sündinuid uurinud autorid) kui ka seda mõnikord takistada. Multinatsionaalsete võrgustike käsitlustest selgub, et firma eripära ja emaettevõtte strateegia võib määrata ka tema rolli emafirma võrgustikus. Mõned neist on otsuste tegemisel vabamad kui teised. Peale selle võime eelmises alapunktis

[144] Seda, et otseste välisinvesteeringute sissevool võib firmade rahvusvahelistumist kergendada, võisime järeldada ka alapunktis 2.1.1 toodud tabelitest.

toodud järelduste põhjal väita, et peale rolli erineb ka ettevõtete rahvusvahelistumise käik ja võrgustike mõju sellele.

Ülaltoodu põhjal võime püstitada järgmise teesi. ***Välisosalusega ettevõtte roll ja otsustamisvabadus omaniku suhtevõrgustikus, mis sõltub firma ja tema omaniku eripärast, võib oluliselt mõjutada tema rahvusvahelistumise käiku.*** Lisaks sellele võime järeldada, et juhtide ettevõtlikkus võib suurendada välisosalusega ettevõtte lisandväärtust, välisomanikust sõltumatust ja selle tulemusena ka viia eduka rahvusvahelistumiseni.

Uurimismetoodika

Eestis on ettevõtete rahvusvahelistumise uurimisel põhiliselt piirdutud küsitlustulemuste analüüsiga. Kahjuks võimaldab kirjalike küsitluste piiratud maht esitada vaid suletud küsimusi. See omakorda raskendab rahvusvahelistumise protsessi mõistmist. Seetõttu kasutati käesolevas töös selle teema uurimiseks juhtumianalüüsi (*case study*). Seda on erinevate rahvusvahelistumise aspektide uurimisel kasutatud laialdaselt paljudes riikides ja viimasel ajal on ka Eestis selle teema juures juhtumianalüüsi tähtsustama hakatud. See meetod on eriti kasulik uute teemade (sealhulgas välisosalusega ettevõtete rahvusvahelistumist mõjutavate tegurite) uurimisel. Juhtumianalüüsi tulemusena võib tihti saada mingist valdkonnast uue, kontrollitava ja empiiriliselt kehtiva ettekujutuse. Seda meetodit võib ka kasutada olemasolevate käsitluste kriitiliseks analüüsimiseks ja olemasolevate teemade või tulemuste täpsustamiseks. Ta võimaldab ka tegelda paralleelselt teoreetilise kirjanduse ning empiiriliste tulemuste uurimisega ning vajadusel lisada uusi käsitlusi. Lisaks sellele võib juhtumite/kaasuste analüüsimisel tugineda erinevatele allikmaterjalidele. Näiteks käesolevas töös kasutati seitsme välisosalusega Eesti ettevõtte rahvusvahelistumise uurimiseks intervjuusid, küsitlusi, ajalehti, ettevõtete aastaaruandeid, kodulehekülgi ja mitmeid muid materjale. Peale selle saab juhtumianalüüsi abil küsida mingite sündmuste kohta "kuidas" ja "miks" küsimusi, mis on kirjaliku küsitluse korral raskendatud, uurida reaalajas toimuvaid ja pikaajalisi protsesse ning neid ja nende vahelisi seoseid mitmest erinevast seisukohast mõista. See on eriti oluline, et uurida nii komplitseeritud teemat nagu võrgustike mõju välisosalusega ettevõtete rahvusvahelistumisele. Selle teema kõiki aspekte ei uuri ükski teooria.

Töös uuriti mitut näidisettevõtet, sest sooviti saada mitmekülgsem arusaam välisosalusega Eesti firmade rahvusvahelistumisest, kui vaid ühe ettevõttega piirdudes. Firmade valikul lähtuti teoreetilisest seisukohast: iga valitud ettevõte pidi aitama mõista mingit täiendavat aspekti välisosalusega Eesti firmade rahvusvahelistumisest ja seda mõjutavatest teguritest. Seega polnud töö eesmärgiks saadud tulemuste üldistamine mingi firmatüübi või tööstusharu jaoks. Sellest tulenevalt olid valitud ettevõtetel erinevad tegevusalad (peenmehhaanika, pangandus, bussitransport, rõivaste tootmine ning kaubandus, tekstiilitootmine, autoklaaside tootmine ja personaliotsing). Erinesid ka asutamisaastad (1857. kuni 1996. aastani), väliskapitali osakaalud (40 kuni 100 protsendini), välisomanike tüübid (samal alal tegutsevatest firmadest riskikapitalistideni) ning ettevõtete rahvusvahelistumise tase (peamiselt ühte riiki eksportimisest frantsiisilepingute ja müügiesindusteni mitmetes maades). Näidisfirmade arvuks jäi seitse töö piiratud mahu ning vajaduse tõttu suuta saadud andmeid töödelda. Lisaks sellele oleks iga täiendava ettevõtte lisamine arvatavasti saadud tulemustele järjest vähem juurde andnud. Juba seitsme firma andmete abil oli võimalik saada piisav ülevaade välisosalusega ettevõtete rahvusvahelistumise protsessist ning seda mõjutavatest teguritest ja teha teoreetilisi järeldusi.

Peamiste uurimisväidete analüüs

Põhinedes seitsme näidisettevõtte uurimistulemustel, saame järeldada, et **esimese teesi** toetuseks on küllaltki palju andmeid. Kuigi firmade rahvusvahelistumine on mitmesuguste rahvusvahelistumise kriteeriumide lõikes oluliselt erinenud, on märgata üldist tendentsi, mis näitab, et alguses sisenevad nad lähiturgudele (Läti, Leedu, Venemaa, Soome ja Rootsi) ja kasutavad lihtsamaid rahvusvahelistumise meetodeid (eksporti ja välisesinduste rajamist). Hiljem püütakse liikuda kaugematele turgudele (näiteks Poola, Saksamaale, Hollandisse, Suurbritanniasse ja USA-sse) ning kasutada keerukamaid sisenemisviise nagu frantsiisi ja müügiüksusi. Lähiturgudest alustamine oli eriti iseloomulik 1990ndate alguses. Siis nappis paljudel firmadel (välisturul tegutsemise) kogemusi, ressursse (näiteks kapitali ja tehnoloogiat) ning kontakte välismaiste ostjate ja tarnijatega. Hiljem nende rahvusvahelistumine üldjuhul kiirenes. Nad hankisid kogemusi, ressursse, kontakte, kaasasid väliskapitali ning suutsid seetõttu siseneda korraga mitmele turule ja suurendada oma turuosa. Ainult Tarkon on vähendanud eksporditava kauba osakaalu. Ta ekspordib siiani peamiselt Rootsi ning pole välismaale investeerinud.

On ka andmeid selle kohta, et mõned ettevõtted — näiteks Tarkon ja Kreenholmi Grupp — on oma rahvusvahelistumisel läbinud mitmeid turgudelt tagasitõmbumise ja taas sisenemise etappe. Ka Hansapank, Baltika Grupp ja Saint-Gobain Sekurit Eesti on pidanud mõnelt turult (ajutiselt) lahkuma. Peale selle võib seitsme firma andmete põhjal öelda, et mõned kriitilised sündmused — näiteks Nõukogude Liidu lagunemine, 2001. aasta 11. septembri terrorirünnak ja omanikeringi muutus — on samuti nende rahvusvahelistumist mõjutanud. Kui esimesed kaks sündmust sundisid ettevõtteid mõnelt turult (vastavalt näiteks Venemaalt ja USA-st) lahkuma ning uusi välisturge otsima, siis välisomaniku kaasamine üldjuhul aitas neil oma turuosa tõsta ja uutesse riikidesse siseneda. Seda mõju alljärgnevalt põhjalikumalt uuritaksegi.

Seitsmest näidisettevõttest saadud andmete abil saame toetada ka **teist uurimisväidet** (omanike) võrgustike olulise kohta. Kõik uuritud firmad on oma rahvusvahelistumise jooksul saanud suuremal või vähemal määral abi oma välisomanikelt. Näiteks on nad saanud teadmisi, nõuandeid, materjale, kapitali, omandanud õiguse omaniku kaubamärgi kasutamiseks ning sõlminud omanike kaudu sidemeid välismaiste ostjatega. Ka teised võrgustiku liikmed (partnerid) on ettevõtteid oluliselt aidanud — koostööd on tehtud uute toodete ja teenuste väljaarendamisel; selle tulemusena on vähenenud kulud ja kasvanud käive, turupotentsiaal ja lisandväärtus.

Ülaltoodust saab järeldada, et (välisomaniku) võrgustikud on üldiselt mõjutanud näidisettevõtete rahvusvahelistumist positiivselt. Näiteks Saint-Gobain Sekurit Eesti, CVO Grupp ja Kreenholmi Grupp poleks ilma välisomanike toetuseta arvatavasti nii paljudele välisturgudele korraga siseneda suutnud. Teisest küljest, on ka andmeid (Tarkoni ja väiksemal määral Mootorreisi Grupi puhul) selle kohta, et mõnikord võivad teised võrgustiku liikmed firmasid kahjustada: näiteks sundida teda teatud turge teenindama. Lisaks sellele võib mõne pikaajalise koostöösuhte lõpetamine ettevõttele olulisi kulutusi kaasa tuua. Viimast on kogenud Baltika ja Kreenholmi Grupp.

Kolmanda uurimisväite toetuseks on ka võimalik seitsme välisosalusega Eesti ettevõtte andmetest mõningast teavet leida. Nagu oletati, sõltusid mõned firmad välisomanikest rohkem kui teised. Nad erinesid üksteisest väliskapitali osakaalu, välisomanike tüübi ja investeeringueelse majandusolukorra poolest. Erinev oli ka ettevõtete roll välisomaniku võrgustikus ning rahvusvahelistumise käik. Lisaks sellele võib näha, et firmade juhtkond on olulisel määral mõjutanud nende rahvusvahelistumist: näiteks on mitmes ettevõttes just nemad valinud firma toodete turustamiseks välisturud või otsustanud kaasata välisinvestoreid.

Samal ajal pole seos välisosalusega ettevõtete strateegiate, nende otsustusvabaduse ja rahvusvahelistumise edukuse vahel nii selge, kui oletati. Kõik seitse firmat on investeerinud (info-) tehnoloogiasse, arendanud välja uusi tooteid või teenuseid, motiveerinud ja koolitanud oma töötajaid ning otsinud uusi turuvõimalusi. Järelikult pole nende juhtide strateegiad kuigi oluliselt erinenud. Samas erineb ettevõtete olukord tunduvalt. Näiteks kuigi Baltika ja Mootorreisi Grupp pole välisomanduses olekust nii palju kasu saanud kui mõned teised firmad, on nad suutnud edukalt rahvusvahelistuda. Lisaks sellele on nad otsuste tegemisel suhteliselt vabad. Ka CVO Grupil on suhteliselt suur otsustusvabadus, samas on ta välisomanikult saanud suhteliselt palju abi, sealhulgas rahvusvahelistumisel. On selge, et see ettevõte poleks innovaatilistest lahendustest hoolimata tõenäoliselt suutnud ilma väliskapitalita nii kiiresti välisturgudele siseneda. Hansapanga Grupp ja Kreenholmi Grupp, mis pole oma otsustustes nii sõltumatud olnud, pole samal ajal arvatavasti välisomaniku kaasamisest (vähemalt turuvõimaluste loomist silmas pidades) nii palju võitnud kui CVO Grupp. Tarkon on seevastu saanud välisomanikult suhteliselt palju abi. Omanik on tal aidanud edukalt Rootsi eksportida. Lisaks sellele on Tarkon saanud näiteks teadmisi, tehnoloogiat ja materjale. Samas, hoolimata kasvavast innovaatilisusest, pole Tarkon oma otsuste tegemisel nii vaba kui eelpooltoodud viis ettevõtet. Ka Saint-Gobain Sekurit Eesti peab pidevalt arvestama oma välisomaniku strateegiaga. Samas on selle firma ekspordi osakaal ja välisturgude arv palju suurem kui Tarkonil. Ülaltoodu põhjal võime järeldada, et juhtkonna ettevõtlikkus võib suurendada firma otsustusvabadust ja viia mõnikord edukama rahvusvahelistumiseni, samas pole see alati kindel. Lisaks välisomaniku strateegiale võib seda arvatavasti mõjutada ka teiste võrgustiku liikmete tegevus.

Uurimissuundade kehtivus

Töö esimeses peatükis tehtud teoreetiliste järelduste ja seitsme näidisettevõtte kohta kogutud andmete põhjal võime öelda, et kõik töös käsitletud uurimisvaldkonnad on aidanud kaasa rahvusvahelistumise protsessi ja seda mõjutavate tegurite mõistmisele. Samal ajal pole kõik nende põhjal tehtud järeldused täielikku kinnitust leidnud.

Uppsala mudel tundub olevat tõhus firmade esialgse rahvusvahelistumise uurimiseks. Välisosalusega Eesti ettevõtetest saadud andmete põhjal võime kinnitada selle mudeli aluseks olevat väidet, et firmad, eriti need, mis on väikesed, tunnevad puudust välisturu kogemustest ja ressurssidest, sisenevad tavaliselt esmalt lähiturgudele ja kasutavad lihtsamaid välisturu teenindamise meetodeid, näiteks eksporti. Alles hiljem üritatakse hakata teenindama kaugemaid tuge ja kasutada keerulisemaid sisenemisviise: näiteks otseseid välisinvesteeringuid. Samas pole täielikku kinnitust leidnud väide, et aeglast rahvusvahelistumist põhjustab eelkõige teadmiste nappus. Kapitali puudus võib palju olulisem olla. Lisaks sellele on Uppsala mudeli probleemiks ka mitmete välisturu teenindamise viiside väljajätmine, mõnede rahvusvahelistumise astmete vahelejätmise võimaluse vähene uurimine ning suutmatus selgitada, miks mõned ettevõtted tõmbuvad turult tagasi või ei püüa peale ekspordi muid sisenemismeetodeid kasutada.

Innovatsioonil põhineva rahvusvahelistumise mudelite aluseks olev väide, et koduturu väiksus ja paljud muud tegurid (näiteks välisosalusega ettevõtte ning omanikfirma põhiotsustajad) mõjutavad ettevõtte rahvusvahelistumist, on samuti kinnitust leidnud. Samas on nendel mudelitel ka puudusi: nad ei selgita, millal firma liigub oma rahvusvahelistumise järgmise astmeni või miks mõned ettevõtted investeerivad suhteliselt väheatraktiivsetele turgudele, kuid ei asuta tütarfirmasid olulisemates riikides.

Soome mudel on õigesti väitnud, et ettevõtted võivad oma rahvusvahelistumise käigus mõningaid astmeid vahele jätta, mõnelt turult tagasi pöörduda ja hiljem sinna uuesti siseneda. Toetust on leidnud ka väide, et firma võib mõnes valdkonnas rohkem rahvusvahelistuda kui teises: näiteks võib ta tegutseda korraga mitmel turul, kuid kasutada vaid üht sisenemismeetodit või vastupidi. Samas ei ole täielikku kinnitust leidnud väide, et sissepoole suunatud rahvusvahelistumine (näiteks import) võib firma väljapoole suunatud rahvusvahelistumist (näiteks eksporti) oluliselt mõjutada. Otsesed välisinvesteeringud on siin erandiks: on selge, et nad rahvusvahelistumist mõjutavad.

Samas võime toetada rahvusvahelisena sündinud ettevõtteid uurivate autorite väiteid. Kriitiline sündmus võib rahvusvahelistumist oluliselt mõjutada või isegi selleni viia. Mõningast toetust on leidnud ka see, et ettevõtlikud firmad võivad mitmetest takistustest hoolimata väga kiiresti rahvusvahelistuda.

Võrgustikukäsitluse väidetele oleme samuti kinnitust leidnud. Kõik seitse näidisettevõtet olid pikaajalistes suhtes piiratud arvu partneritega, kes nende tegevust oluliselt mõjutasid: näiteks suurendasid nende lisandväärtust ja turupotentsiaali, aitasid arendada välja uusi tooteid/teenuseid ning parandasid mainet. Kuna need partnerid olid tihedates suhetes teiste firmadega, mõjutasid ka nemad (ehk, teiste sõnadega, kogu võrgustik) näidisettevõtete tegevust.

Ka rahvusvahelistumise võrgustikukäsitluse ideid võime vähemalt osaliselt toetada. Nii välisomanikud kui teised võrgustiku liikmed aitasid firmadel rahvusvahelistuda: mõned ettevõtted eksportisid emafirma müügivõrgustiku kaudu, omandasid õiguse kasutada omaniku kaubamärki või sisenesid uutele turgudele koostöös teiste partneritega. Tänu sellele jõudsid nad kiiresti mitmele välisturule ja võisid juba algusest peale kasutada keerulisemaid sisenemisviise. Lisaks sellele on mõningaid andmeid, mis kinnitavad, et lisaks kasule võib (välisomaniku) võrgustikku kuulumine ka firmat kahjustada: näiteks piirata tema ligipääsu mõnele välisturule.

Multinatsionaalsete võrgustike käsitluste toetuseks võib samuti Eesti ettevõtetest andmeid leida. Nende firmade rollid, lisandväärtus ning otsustusvabadus erinevad küllaltki tuntavalt. See sõltub nii välisosalusega ettevõtete kui omanikfirma eripärast ja strateegiatest. Lisaks sellele võime ka toetada selle uurimissuuna väidet, et võrgustiksuhted on firma jaoks oluline ressurss. Samas on ka teised tegurid (näiteks motiveeritud töötajad, toodangu kõrge kvaliteet või tootmisprotsesside paljusus) väga tähtsad.

Me võime toetada rahvusvahelise ettevõtluse suuna autorite arvamust, et ettevõtlikud firmad kasutavad võrgustiksuhteid väga aktiivselt. Peale selle võime näidisettevõtetest saadud andmete põhjal mõningal määral kinnitada väidet, et juhtkond võib firma rahvusvahelistumist väga olulisel määral mõjutada. Muidugi ei tohiks tähelepanu alt välja jätta ka omanike rolli, aga sellele pole see uurimissuund eriti palju tähelepanu pööranud.

Kokkuvõtteks võime väita, et kuigi iga uurimissuund on aidanud mõista mingit olulist ettevõtete rahvusvahelistumise aspekti, on täielikku kinnitust leidnud vaid osad nende teooriate väited. Järelikult õigustas ennast laiema lähenemisviisi kasutamine seitsme välisosalusega Eesti ettevõtte rahvusvahelistumise uurimiseks. Hoolimata sellest, et mõnede uurimissuundade väiteid sai vaid osaliselt toetada, võime öelda, et meie poolt püstitatud kolme uurimisväite põhipunktid leidsid kinnitust. Esiteks, enne välisomaniku võrgustikuga liitumist alustasid näidisettevõtted rahvusvahelistumist lähiturgudelt ja lihtsamatest turule sisenemise meetoditest. Hiljem sisenes enamik firmadest kaugematele turgudele ja kasutas keerulisemaid sisenemisviise. Teiseks, et välisomanikud ja teised võrgustiku liikmed aitasid neid ettevõtteid vajalike ressursside ja kontaktidega, suutsid vaatlusalused firmad rahvusvahelistuda suhteliselt kiiresti: siseneda kohe (mitmele) kaugemale turule ja kasutada keerulisemaid sisenemis-viise: näiteks otseseid välisinvesteeringuid. Kolmandaks täitsid näidisettevõtted oma välisomanike võrgustikes erinevaid rolle. Erinesid ka nende otsustus-vabadus ning rahvusvahelistumise käik. Lisaks sellele leidsime kinnitust, et rahvusvahelistumise käigus võib ettevõte mõnelt turult tagasi tõmbuda ja sinna uuesti siseneda, et firma võib mõnes valdkonnas rohkem rahvusvahelistuda kui teises ning et mõnikord võivad võrgustikud seda protsessi ka takistada.

Teoreetilised järeldused

Eelpooltoodud teooriate ja nende empiirilise kontrolli tulemuste põhjal võime eristada nelja kardinaalselt erinevat rahvusvahelistumise teed[145], mis sõltuvad firma ning tema välisomaniku eripärast ja võrgustiksuhetest (vt. tabel 1).

Saadud nelja tee kontseptsiooni võib uurida ka seitsme näidisettevõtte kontekstis. Tarkon peaks kuuluma esimese ja neljanda kvadrandi vahele. Hansa-panga Grupi võib paigutada esimesse kvadranti. Baltika Grupp ja Kreenholmi Grupp kuuluvad esimese ja teise kvadrandi vahele. Ülejäänud kolme ettevõtte — Mootorreisi Grupi, Saint-Gobain Sekurit Eesti ja CVO Grupi — rahvusvahelistumine on kõige sarnasem teises kvadrandis kirjeldatule.

Toodud maatriks ei ole vastuolus ühegi eelpool uuritud hüpoteesi ega teooriaga. Mõned käsitlused vastavad üsna täpselt mõnele rahvusvahelistumise teele. Näiteks Uppsala mudeli poolt kirjeldatud aeglane rahvusvahelistumine sobib teise kvadranti, samas kui rahvusvahelisena sündinud firmade alastes uurimustes toodu vastab esimesele kvadrandile. Ülejäänud käsitlustest on abi firmade paigutamisel tabeli ühte või teise ossa. Näiteks see, milline on firma eripära, millised on tema juhid ja võrgustikud, määrab ära, kas tema rahvusvahelistumine on nii enne kui pärast välisinvesteeringu saamist aeglane (kvadrandid II ja IV) või kiire (kvadrandid I ja III). Välisomanike eripära, võrgustikud ja juhtkonna tegevus mõjutavad omakorda seda, kas ettevõtte rahvusvahelistumine vastab pigem tabeli ülemises või alumises pooles toodule.

Uurides varasemate lähenemisviiside puudusi, võime ka järeldada, et vaatamata oma lihtsusele ja suhteliselt piiratud empiirikale tuginemisele suudab antud maatriks küllaltki olulisel määral eelmistele teooriatele tehtud kriitikat vältida. Ta sisaldab rahvusvahelistumise protsessi kogu tema mitmekesisuses. Ükski sisenemisviis, dimensioon, firma või riigi tüüp või seda protsessi mõjutav tegur ei ole toodud tabeliga vastuolus. Maatriksiga võib selgitada ka mõne rahvusvahelistumisviisi vahelejätmist, mõnelt turult tagasitõmbumist või sinna

[145] Loomulikult on olemas ka vahevariandid.

uuesti sisenemist. Ka ühest kvadrandist teise liikumise ja täiendavate tegurite (näiteks majanduskeskkonna) lisamise võimalus pole välistatud. Põhimõtteliselt saab tema abil anda ka soovitusi firmajuhtidele või majanduspoliitika kujundajatele.

Tabel 1. Neli rahvusvahelistumise teed sõltuvalt firma ja tema välisomaniku eripärast ning võrgustiksuhetest

		Kas firma on tugev ja edukas, kas ta esialgsed võrgustiku partnerid on lähedased ja abivalmid ja kas ettevõtte juhid on rahvusvahelistumisest huvitatud?		
		Jah		Ei
Kas välisomanik on tugev ja edukas, kas omaniku võrgustiku partnerid on lähedased ja abivalmid ja kas omanikfirma juhid on välisosalusega ettevõtete rahvusvahelistumisest huvitatud?	Jah	I **Kiire, edukas rahvusvahelistumine**. Firma võib olla rahvusvaheliselt edukas juba enne otsese välisinvesteeringu saamist. Välisomaniku ja tema võrgustiku abi võib seda protsessi veelgi kiirendada.		II **Kiirenev rahvusvahelistumine**. Ettevõttel ei pruugi enne välisomaniku kaasamist välisturul olulist edu olla. Välisomaniku ja tema võrgustiku abiga võib see protsess kiireneda
	Ei	III **Aeglustuv rahvusvahelistumine**. Ettevõte võib olla enne välisomaniku kaasamist rahvusvaheliselt edukas. Samas võivad omaniku ja tema partnerite piirangud seda protsessi aeglustada või viia välistegevuse lõpetamiseni.		IV **Aeglane, edutu rahvusvahelistumine**. Firmal pole enne välisomaniku kaasamist olulist välistegevust. Omaniku ja tema võrgustiku liikmed takistavad teda veelgi enam, viies protsessi aeglustamise või välistegevuse lõpetamiseni

Soovitusi tulevasteks uuringuteks

Välisosalusega ettevõtete rahvusvahelistumine on keeruline protsess, mida mõjutavad paljud tegurid. Käesolevas töös käsitleti vaid mõningaid sellega seonduvaid aspekte. Seega võib seda teemat veel mitmes suunas edasi uurida. Näiteks võiks rohkem tähelepanu pöörata otseste välisinvesteeringute sissevooluga kaasnevatele kaudsetele mõjudele — sellele, kas välisosalusega firmade siseriigis asuvad kodumaise kapitaliga partnerettevõtted hakkavad allhankesuhete kaudu rahvusvahelistumiseks vajalikke kontakte ja ressursse hankides ka proovima otse välisturule minna. Siiamaani pole seda teemat eriti põhjalikult uuritud.

Lisaks sellele keskendus käesolev töö vaid Eestile. Samas võib teistes riikides (välisomanike) võrgustike mõju firmade rahvusvahelistumisele erineda.

Oma suuruse, majandusarengu ja muude näitajate poolest erinevad maad peaksid ligi tõmbama ka erinevate motiividega välisinvestoreid. Järelikult võiks erineda ka nendes riikides asuvate välisosalusega ettevõtete rahvusvahelistumine.[146] Peale selle peaks Eestist suuremates ja rohkem arenenud maades mõjutama nende rahvusvahelistumist pigem muud tegurid kui siseturu väiksus. Seetõttu võivad välisomanikud nendes riikides asuvate firmade rahvusvahelistumist vähem mõjutada. Ka sellega tuleks arvestada.

Välisomanike eripära võib samuti osutuda oluliseks ettevõtete rahvusvahelistumist mõjutavaks teguriks. Käesolevas töös toodi välja paar riskikapitalistide ja teiste välisinvestorite vahelist erinevust. Samas võiks uurida ka muid eripärasid. Näiteks võivad erinevates tööstusharudes, erineva suuruse ja välisturu kogemusega omanikfirmad teha erinevat tüüpi otseseid välisinvesteeringuid. Seega ei pruugi sarnaneda ka neid saanud ettevõtete rahvusvahelistumine.

Ka omanikfirmade juhtide orienteeritust lühiajalistele või pikaajalistele eesmärkidele ning pikaajaliste suhete loomisele või vältimisele tuleks põhjalikult analüüsida. Välisomaniku ja tütarettevõtte vahelised suhted sõltuvad suuresti nende juhtidest ning nende võimest neid suhteid luua, säilitada ja parandada. Selle aspekti uurimine on eriti tähtis, et uurida välisosalusega firma rolli omanikfirma suhtevõrgustikus.

Peale selle tuleks uurida koduturuga piirduvate ettevõtete juhtkonna tegevust. Mõnel neist firmadest võivad olla kõik eeldused välisturul edu saavutamiseks, kuid nad võivad siiski mitte eksportida või investeerida, sest juhid on selle vastu. Otsesed välisinvesteeringud võivad selliste ettevõtete rahvusvahelistumist erinevalt mõjutada.

Lisaks sellele võiks põhjalikumalt analüüsida mõne ettevõtte kogemust näiteks erinevates Kesk- ja Ida- Euroopa riikides. Majanduslikud, kultuuri- ja muud erinevused võivad välisomaniku suhtumist oma tütarettevõtte rolli oluliselt mõjutada. Seega võib erineda ka nende firmade rahvusvahelistumine.

Lõpuks tuleks rohkem tähelepanu pöörata otseste välisinvesteeringutega kaasnevatele negatiivsetele mõjudele: näiteks võib välisomanik sundida tütarettevõtet teenindama teatud turge, piirata teistesse riikidesse pääsu või sealse tegevuse isegi lõpetada. Ka ebaõnnestunud otseseid välisinvesteeringuid ja nende mõju võiks senisest enam uurida: näiteks kuidas mõjutab välisomaniku pankrotistumine tema tütarettevõtete rahvusvahelistumist. Ainult siis võime suurema kindlusega soovitada firmajuhtidele, mida mõnes konkreetses olukorras ette võtta, ja öelda, kas ja kuidas sihtmaad võiks senisest rohkem otseseid välisinvesteeringuid ligi meelitada või kaubandusbilansi defitsiiti vähendada.

[146] See peaks mõjutama igas kvadrandis paiknevate ettevõtete osakaalu.

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