



Editorial: Internationalization of Central and Eastern European firms: trends and strategies

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Internationalization of Central and Eastern European firms: trends and strategies

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Abstract

Purpose - This article aims to present the specific context of CEE economies and its impact on firms' internationalization. It also introduces the contributions to this special issue.

Design/Methodology/Approach – The article builds on existing studies and data on the internationalization of firms from transition and emerging economies.

Findings – The article shows that CEE countries have experienced more changes more quickly than any other region in the world over the last quarter-century, and specifically when it comes to the international operations of firms.

Originality/Value – The article contributes to the burgeoning literature on the impact of context on corporate strategy and performance.

Keywords Internationalization, Context of business, Central and Eastern Europe

Paper type General review

The impact of context on firms' internationalization

Over the last twenty years, management research has increasingly recognized the impact of context on corporate strategy and performance (Meyer et al., 2011; Meyer and Peng, 2016; Meyer, 2015). As an illustration of this trend, the 2015 *Journal of International Business Studies* Decade Award was awarded to an article by Meyer and Peng (2005) whose main argument is that mainstream management theories are challenged by socio-economic transformations in transition economies. Indeed, despite their recent slowdown, emerging and transition economies have experienced massive transformations over the last decades, and have become an integral part of global value chains. Their shift from the periphery to the heart of the world economy in the 2000s created a new reality that has led business and management scholars to challenge existing theories. For example, the international expansion of firms from emerging markets (Bandeira-de-Mello et al., 2015; Ciravegna et al., 2016, Dabić et al., 2014) has led to intense debate among scholars with regard to the validity and generalizability of theories concerning multinational firms in different contexts (Cuervo Cazorra, 2012). The emergence of new international ventures from emerging countries has also spurred theoretical debate among international entrepreneurship scholars (Kiss et al., 2012).

However, despite the increasing interest of international business (IB) scholars in the international operations of firms from emerging and transition economies, relatively few studies have analyzed the internationalization of Central and Eastern European (CEE) firms¹. In a recent study on emerging- and transition-market firms in fourteen top international management journals from 2000 to 2010, Jormanainen and Koveshnikov (2012) identify only two articles out of fifty that focused on the international activities of CEE firms. Indeed, although CEE economies have attracted a considerable amount of academic research since they were opened up in the 1990s, most studies have focused on foreign firms' operations in these markets and on the difficulty of adapting to a different institutional framework (Gelbuda et al., 2008). Only a few studies have considered the internationalization of CEE firms,

¹ In management literature, the Central and Eastern Europe (CEE) region has referred to different and changing geographic realities over the last twenty-five years. Interestingly, the definition of the region seems to depend on the institutional dynamics of each country. Until the mid-2000s, CEE frequently included all countries that had experienced communist ideology and central planning in Europe and part of Asia (see for example Meyer and Peng, 2005; Hoskisson et al., 2000). Recently, most studies refer only to former communist European countries that are members of the EU or that have initiated a process of EU membership. In this article and in this special issue we use this latter definition of the CEE region.

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3 although the topic has gained some momentum over the last few years (Caputo et al., 2016).
4 Most articles on the international operations of firms from emerging and transition markets
5 focus on China, and to a lesser extent on India and Latin America. Of course, CEE economies
6 share several characteristics with emerging or transition economies from other parts of the
7 world. All these economies have made widespread pro-market reforms in recent decades, as
8 analyzed extensively in the economics literature: privatization, enterprise restructuring, price
9 and foreign exchange liberalization, trade liberalization, adoption of a competition policy,
10 banking and financial market reforms and development. Moreover, they are all characterized
11 by significant ‘institutional voids,’ that is, the lack, or weakness, of market and legal
12 institutions (Khanna and Palepu, 2010), resulting in a high degree of informality in the
13 economy, corruption in the public sector and weak protection of investments. However, as
14 rightly pointed out by Kosteva and Hull (2016), although CEE countries present important
15 similarities with other transition and emerging countries, they also have unique features,
16 notably in terms of initial conditions, and the nature and process of change. “Treating them as
17 the same or even similar could lead to erroneous theoretical assumptions, oversimplification,
18 and less relevant research as a result” (Kosteva and Hull, 2016, p. 25). This idea is in line with
19 Hoskisson et al. (2013), who argue that “significant diversity of initial conditions, transition
20 paths, and competitive outcomes makes it imperative to move away from the all-
21 encompassing label of ‘emerging economies’” (Hoskisson et al., 2013, p. 1298).
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36 **Empirical facts**

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39 Contextual differences, and how they affect corporate strategy, are particularly important
40 issues when it comes to the international operations of firms. From this perspective, CEE
41 countries have experienced more changes more quickly over the last quarter-century than any
42 other region in the world, as illustrated by several indicators. Table 1 presents the Fraser
43 Institute Index of Economic Freedom for selected CEE and emerging countries between 1995
44 and 2013. It clearly shows that market-supporting institutions have improved significantly
45 more in CEE countries than in other emerging countries over the period. CEE countries
46 lagged behind in 1995 but outstripped the rest in 2013. The picture is even more striking when
47 one looks at the most recent World Bank Ease of Trading across Borders Index (Table 2):
48 seven CEE countries out of 16 rank first at world level, and they all rank in the top 20%. This
49 rapid trend towards trade facilitation is especially noticeable as several parts of the region
50 experienced political disintegration and conflicts at the beginning of the 1990s, which deeply
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3 affected trade flows within the region (De Sousa and Lamotte, 2007; Lamotte, 2012). The two
4 most important of the many reasons explaining this trend are (i) the internal reforms made by
5 CEE countries to reduce the cost of international trade and foreign investment; and (ii) their
6 global integration resulting from membership of the WTO and the EU, and from the
7 establishment of bilateral and multilateral free-trade agreements since the mid-nineties.
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13 Insert Tables 1 and 2 here
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16 This process of formal integration into the world economy echoes the trends in cross-border
17 trade and investments observed in the region. Table 3 shows that outward FDI has increased
18 significantly since the nineties and, on average, at a higher rate than that of many other
19 emerging countries. This shows that MNEs from CEE countries are particularly active and
20 successful in investing abroad. However, interestingly, multinationals from CEE are
21 underrepresented in the Financial Times Top 500 Emerging Markets Firms ranking; only ten
22 CEE companies are included in the ranking, and the highest-placed of these ranks 189th
23 (Table 4). This reflects the relatively small size of CEE multinationals. As for exports, CEE
24 firms have also reached impressive levels of performance in recent decades (Table 5).
25 International operations in CEE are not limited to large incumbent firms. The latest survey by
26 the Global Entrepreneurship Monitor shows that new ventures from the region are quite
27 internationally oriented (Table 6). In Croatia and Slovenia, more than one third of new
28 ventures make at least 25% of their sales abroad. Examples of internationally successful CEE
29 companies are numerous: Avast, a Czech security software package, has 230 million users
30 worldwide; PKN Orlen, a privatized Polish oil company owns thirty-four affiliates in nine
31 countries; the Hungarian pharmaceutical company Gedeon Richter made 89% of its sales
32 abroad in 2015, and it has customers in more than 100 countries worldwide. In sum, despite
33 their small size and limited resources, CEE firms are quite successful internationally. Several
34 reasons explain the international success of CEE firms, including the small size of their
35 domestic markets, trade and investment agreements, and their rapid integration in global value
36 chains. In the nineties, Western Europe and US companies responded to CEE privatization by
37 investing massively in the region, thus benefiting from an inexpensive but highly skilled
38 workforce, a central location in Europe and local government incentives. These foreign
39 investments sometimes resulted in knowledge spillovers and increased productivity for local
40 CEE firms (Damijan et al., 2009), which in turn became more competitive on foreign markets.
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6 **Directions for further research**
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10 The profound changes that CEE countries have experienced over the last twenty-five years,
11 particularly those related to the context in which local firms developed international
12 operations, contribute to and challenge existing knowledge and theories on firm
13 internationalization. Caputo et al. (2016) reviewed all the articles on the international
14 operations of CEE firms published so far, and identified three clusters of research:
15 internationalization behavior, internationalization performance and internationalization
16 benefits. Concerning internationalization behavior, CEE firms are motivated by both their
17 “hostile” environment and by market-seeking strategies. Regarding the success factors of
18 international operations, work on CEE points to the crucial role of networks of all kinds.
19 Finally, international expansion is a source of advantages in terms of knowhow, marketing,
20 and organizational skills; but it is also a source of risk that may lead some firms to withdraw
21 from foreign markets. Caputo and colleagues (2016) also show that so far, the literature on the
22 internationalization of CEE firms has mainly focused on one type of international
23 development – export activities – and has used two main theoretical frameworks: those of
24 Uppsala (Johanson & Vahlne, 1977) and International New Ventures (Oviatt & McDougall,
25 1994) approaches. However, many topics have not yet been explored or are still under-
26 investigated, which opens promising avenues for future research.
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39 One area for further research is the interactions between the local context, innovation
40 capabilities and corporate internationalization processes and performance. Several papers
41 have emphasized the impact of the EU integration process on the motives of outward FDI
42 from CEE firms (Jindra et al., 2015) or on the international performance of new ventures
43 (Lamotte and Colovic, 2015). There is also an extensive literature on the internationalization-
44 innovation nexus. However, very little has been done so far to advance understanding of how
45 increased global integration and institutional convergence interact with innovation and
46 internationalization. One exception is Liu and Giroud (2016), who demonstrate how
47 increasing global integration and human mobility influences the knowledge flows and
48 knowledge acquisition of emerging multinationals, which may in turn affect their innovation
49 and internationalization behavior. Very little research has appeared either on interactions
50 between innovation and internationalization in different contexts and institutional settings.
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3 Previous research in this area has focused on Western countries, but there is some evidence
4 that innovators from some regions are more likely to penetrate foreign markets than those
5 from others (Lamotte and Colovic, 2013). In the same line of reasoning, few articles have
6 appeared on how the context affects spillovers from foreign FDI and the dynamics of global
7 value chains (Cui et al., 2006). As pointed out by Pavlinek and Zizalova (2016, p. 334):
8 “Potential benefits of FDI for host economies [...] strongly depend on the context of the
9 individual countries and are, therefore, highly spatially variegated.”
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16 Another area that needs further exploration is the role of the context on managerial choices
17 and on decision-making in international operations. Indeed, existing studies of how context
18 impacts international operations have thus far been conducted at firm-level. However,
19 exposure to a particular context may have a long-term impact on the people’s behavior and on
20 their international endeavors. In a recent study, Wyrwich (2013) shows that older East
21 Germans are less engaged in entrepreneurship than their West German peers, who were not
22 exposed to socialism. Wyrwich therefore argues that the socioeconomic heritage shapes
23 people’s mindset and affects their decisions. In the same line of reasoning, an exciting avenue
24 for further research would be to integrate context into the upper-echelon perspective
25 (Hambrick and Mason, 1984), which posits that firm strategy reflects the values and the
26 cognitive orientation of company leaders. In a similar vein, the recent microfoundations
27 movement (Felin et al., 2015), which explains corporate strategy and performance by
28 adopting a behavioral and individual-level approach to management, also offers a promising
29 direction for further research. Researchers have hitherto largely omitted to analyze corporate
30 internationalization behavior from this perspective.
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43 In addition to these directions for further research, contributing to IB theory by studying the
44 internationalization strategies of CEE firms requires the author to place more emphasis on the
45 distinctive characteristics of countries and firms than has so far been the case. In other words,
46 they must adopt a more sophisticated approach to the role of the context, for example by
47 differentiating between state-owned firms, privatized firms and entrepreneurial firms. Indeed,
48 several authors (Meyer and Peng, 2005; Kostova and Hull, 2016) suggest that the specific
49 characteristics of different companies in terms of resources, capabilities, networks,
50 governance, etc., lead them to follow different strategies. A better consideration of the context
51 would also imply extending cross-country and therefore cross-context comparisons. A recent
52 example of this approach is the article by Dermirbag and colleagues (2015), who study the
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3 impact of corruption on MNEs' strategic decision to reinvest profits across different contexts.
4 Finally, a further integration of different disciplines and fields – such as economic geography,
5 innovation studies, political science, history, psychology – may enlighten and provide new
6 perspectives on the role of the context, and generate theoretical insights for management
7 scholars.
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13 So, the internationalization of CEE economy firms deserves increased academic interest, as it
14 can make significant theoretical and empirical contributions to the IB and international
15 entrepreneurship literature. This special issue of the *European Business Review* aims to draw
16 scholarly attention to this issue and to develop new knowledge in this direction.
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20 21 **Contributions to this special issue** 22

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24 The articles in this special issue address several issues related to the internationalization of
25 CEE-based firms, such as technological innovation, individual-, firm- or context-related
26 drivers of international operations, and cross-border M&As. It examines different types of
27 firms: entrepreneurial firms, SMEs, and large multinationals. It includes contributions that
28 examine specific economies – Bulgaria, the Czech Republic, Lithuania, and Poland – and a
29 comparative study. These contributions add to theoretical and empirical knowledge of the
30 strategies and performance of emerging and transition economy firms.
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38 The article “Technological innovation among internationally active SMEs in the Czech
39 Republic: role of human capital and social capital of CEO,” by Wadhwa, McCormick and
40 Musteen, examines the factors that foster technological innovation in internationally active
41 Czech SMEs. Drawing on the “upper-echelons” perspective and on the international
42 entrepreneurship literature, and based on an empirical study of 153 firms, the authors show
43 that two characteristics of CEOs are likely to impact their firm's technological innovation:
44 their functional background (throughput versus output functions) and their international
45 experience with foreign customers. These results improve understanding of how the CEO's
46 human and social capital influences the strategy of SMEs in transition economies.
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54 In “Inducing the internationalization of family manufacturing firms from a transition context”
55 Marinova and Marinov examine why and how family firms in a transition economy induce
56 their internationalization. The authors build on the international new venture theoretical
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3 framework to investigate internationalization inducement through a qualitative analysis of
4 nine Bulgarian firms. Their findings suggest that the early internationalization of these family
5 firms was driven by the manager-owners' international orientation and commitment, through
6 their social contacts. Moreover, in contrast with most of the literature on the topic, they point
7 out that family ownership and management, resource limitations, and newness liabilities and
8 outsidership did not hamper the early internationalization of the sample firms. Interestingly,
9 the authors also argue that the contextual combination of home and host countries inspires
10 Bulgarian firms to enter foreign markets: the institutional deficiency and volatility of the
11 domestic market encourages them to export to countries with more stable and market-oriented
12 institutions.
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21 The article "International acquisitions by Polish MNEs. Value creation or destruction," by
22 Nowiński, builds on the literature on the internationalization of emerging market
23 multinationals and that on cross-border mergers and acquisitions (M&As) to investigate value
24 creation (or destruction) in cross-border acquisitions by Polish multinationals. Based on an
25 empirical analysis of 104 M&As he finds that cross-border acquisitions carried out by Polish
26 multinationals create value for shareholders. Interestingly, his results also show that
27 acquisitions by Polish multinationals create more value when the targets are
28 emerging/transition economy firms than when they are from advanced economies. One
29 explanation for this result is that financial markets believe that acquirers from an
30 emerging/transition economy can better exploit their capabilities in similar institutional and
31 economic environments than in different ones. This contributes to the recent literature
32 showing that emerging multinationals may perform better in emerging countries.
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43 In "Factors leading to early internationalization in Central and Eastern European emerging
44 economies empirical evidence from new ventures in Lithuania", Sekliuckiene draws on the
45 international new ventures literature to explore the drivers of early internationalization. Based
46 on an in-depth analysis of six high-tech firms, the author identifies entrepreneur-, firm- and
47 context-level factors. Two entrepreneur-level characteristics enhance the internationalization
48 of new ventures: previous international experience, and involvement in informal networks. At
49 firm level, technological capabilities, product uniqueness and lower resource costs
50 compensate for the lack of resources of entrepreneurial firms that wish to deploy operations
51 abroad. Surprisingly, the characteristics of the Lithuanian market and institutions do not seem
52 to have a significant impact on early internationalization. The results of this study, confirming
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3 some previous research in the field while contradicting other work, highlight the fact that the
4 drivers of early internalization of entrepreneurial firms may significantly differ across
5 countries and industries.
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10 The article “Signaling legitimacy in global contexts: the case of small wine producers in
11 Bulgaria” by Castellano and Ivanova studies how firms in transition environments overcome
12 the liability of origin when seeking legitimacy to operate in global markets. The authors draw
13 on institutional theory, and more specifically on the process model of organizational
14 legitimacy, and conducted interviews of different actors in the Bulgarian wine industry.
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16 Interestingly, they find that a common pattern among Bulgarian wineries is to rely on local
17 normative and cognitive signals of legitimacy developed before the transition period.
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19 However, with regard to regulatory legitimacy, they highlight a difference between large
20 firms, which try to conform to global standards or create their own standards, and small firms,
21 which reject such standards.
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28 **Acknowledgements**

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32 agreed to host this special issue on the internationalization of CEE firms. They also thank all
33 the authors who submitted papers to the special issue as well as all the reviewers who gave the
34 authors significant help to improve their work.
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Tables and figures

Table 1 Index of economic freedom of selected CEE and emerging economies, 1995-2013.

Country	1995		2013	
	Rank	Index	Rank	Index
Central and Eastern Europe				
Albania	96	5.05	45	7.30
Bulgaria	104	4.62	50	7.23
Czech Republic	65	6.16	31	7.49
Estonia	67	6.07	22	7.59
Croatia	97	5.05	52	7.21
Hungary	62	6.20	46	7.29
Lithuania	88	5.31	56	7.17
Latvia	89	5.29	44	7.30
Poland	87	5.36	47	7.28
Romania	118	3.79	25	7.53
Slovakia	85	5.40	42	7.31
Slovenia	92	5.17	90	6.43
Other emerging economies				
Brazil	103	4.73	94	6.36
China	93	5.17	98	6.25
India	74	5.80	79	6.61
Indonesia	45	6.62	58	7.17
Mexico	54	6.43	71	6.77
Russia	108	4.42	87	6.49
South Africa	47	6.57	67	6.88
Turkey	71	5.89	82	6.56

Note: The index is not available for some CEE countries.

Source: Fraser Institute

Table 2 Ease of trading across borders index of selected CEE and emerging economies, 2016.

Country	Rank	Index
Central and Eastern Europe		
Albania	37	91.61
Bosnia-Herzegovina	28	93.59
Bulgaria	20	97.45
Croatia	1	100
Czech Republic	1	100
Estonia	24	94.89
Hungary	1	100
Lithuania	19	97.7
Latvia	22	95.26
Macedonia	26	93.87
Montenegro	42	88.75
Poland	1	100
Romania	1	100
Serbia	23	95.08
Slovakia	1	100
Slovenia	1	100
Other emerging economies		
Brazil	145	52.43
China	96	69.13
India	133	56.45
Indonesia	105	64.75
Mexico	59	82.09
Russia	170	37.39
South Africa	130	58.01
Turkey	62	81

Source: World Bank, Ease of Doing Business.

Table 3 FDI outward stock to GDP ratio (%) in CEE, 1990-2014.

Country	1990	2014
Albania	NA	1.81
Bosnia-Herzegovina	NA	1.12
Bulgaria	1.08	3.87
Croatia	NA	9.53
Czech Republic	0.24	9.28
Estonia	1.54	23.86
Hungary	0.46	28.65
Lithuania	0.01	5.55
Latvia	4	3.74
Macedonia	NA	0.99
Montenegro	NA	9.19
Poland	0.1	11.97
Romania	0.30	0.35
Serbia	NA	6.43
Slovakia	0.89	2.97
Slovenia	2.36	12.51

Note: Data for Baltic States and Slovenia are for 1995 and 2014.

Source: UNCTAD-World Investment Report 2015 and World Bank-World Development Indicators.

Table 4 CEE companies listed in the FT Top 500 Emerging countries, 2015.

Rank	Company name	Country	Sector
189	CEZ	Czech Republic	Electricity
199	Bank Polska Kasa Opieki	Poland	Bank
244	PKO Bank	Poland	Bank
247	PZU Group	Poland	Insurance
271	Polska Grupa Energetyczna	Poland	Electricity
346	Polish Oil & Gas	Poland	Oil & Gas
347	Bank Zachodni Wbk	Poland	Bank
358	Komerčni Banka	Czech Republic	Bank
453	PKN Orlen	Poland	Oil & Gas
479	KGHM	Poland	Industrial Metals & Mining

Note: The companies are ranked by market capitalization.

Source: FT Top 500 Emerging countries.

Table 5 Exports to GDP ratio (%) in CEE, 1990-2014.

Country	1990	2014
Albania	14.87	28.25
Bosnia-Herzegovina	20.41*	33.90
Bulgaria	33.12	65.11
Croatia	27.61*	46.28
Czech Republic	33.21	83.82
Estonia	67.85*	83.91
Hungary	28.76	89.25
Lithuania	37.14*	81.22
Latvia	34.59*	59.50
Macedonia	25.82	47.86
Montenegro	36.81**	40.14
Poland	26.31	47.45
Romania	16.63	41.13
Serbia	8.11*	44.34
Slovakia	25.03	91.85
Slovenia	45.61*	76.53

Note: * data for 1995, ** data for 2000.

Source: World Bank Development Indicators.

Table 6 International orientation of early stage entrepreneurial activity of selected CEE and emerging economies (%)

Country	2015
Central and Eastern Europe	
Bulgaria	7.93
Estonia	20
Croatia	37.60
Hungary	18.32
Latvia	19.70
Macedonia	16.53
Poland	10.50
Romania	21.98
Slovakia	20.77
Slovenia	33.68
Other emerging economies	
China	5.46
India	11.88
Indonesia	0.32
Mexico	1.45
South Africa	22.29

Note: The measure is the proportion of the adult-age population involved in early stage entrepreneurial activity who respond that they have 25% or higher number of customers in other countries

Source: Global Entrepreneurship Monitor, Adult Population Survey.