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*A GROUNDED THEORY APPROACH TO
FOREIGN-MARKET EXPANSION IN NEWLY-
EMERGING MARKETS
Two Finnish Companies in the Visegrád Countries*

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LIST OF ABBREVIATIONS

ARA	Actors-Resources-Actions model of the network perspective (Håkansson and Snehota 1995)
BCG	Boston Consulting Group
B-to-B	Business to business
BR	Bridgehead relationship (in section 3.1)
CEE	Central Eastern Europe
CEFTA	Central European Free Trade Agreement
COMECON	Council of Mutual Economic Assistance
CEO	Chief executive officer
CZ	The Czech Republic
DOSch (model)	Dwyer-Oh-Schurr (1987) model of business relationship development (in section 3.1)
EBRD	The European Bank for Reconstruction and Development
EU	European Union
EUR	Currency of the European Union
FDI	Foreign direct investment
FIM	Finnish markka, currency of Finland (before EUR)
FIN	Finland
FME	Foreign-market expansion
GDP	Gross Domestic Product
GT	Grounded theory
HQ	Headquarters
HR	Human Resources
HUF	Hungarian forint, currency of Hungary
HUN	Hungary
IB	International Business
IMP	Industrial Marketing and Purchasing Group (IMP Group 1982, Ford (Ed.) 1990)
ISO	International Organisation for Standardisation
JV	Joint venture
KEVSOS	Bilateral free trade agreement between Finland and the former small socialist countries of Europe
LC	Letter of Credit
OECD	Organisation for Economic Co-operation and Development

OLI	Ownership, Location, Internalisation (advantages) i.e., eclectic paradigm (Dunning 1980, 1988, 1995 and 2000)
MNC	Multi-national company
MTI	Ministry of Trade and Industry
NIE	Newly Industrialised Economies (South Korea, Taiwan, Singapore, Hong Kong)
POL	Poland
PPP	Purchase Power Parity
R&D	Research and development
SBU	Strategic Business Unit
SME	Small and medium-size enterprise
SOE	State-owned enterprise
S-O-R	Stimulus-organism-response, i.e., mechanism (Partington 2000)
TC	Transaction cost (e.g. Williamson 1991)
UNCTAD	United Nations Conference on Trade and Development
U.S.	United States
USD	US dollar, currency of the United States

1 INTRODUCTION

"This opposition with a work by another artist in some ways meant the loss of artistic freedom, which Picasso otherwise expressed in his art in an extreme manner. With these interpretations, despite the reshaping of tradition, Picasso recognised the earlier tradition." (Evelyn Weiss, Museum Ludwig Köln, 2000)

1.1 Background of the study

The Finnish domestic market is relatively small and open. The collapse of the socialist regimes in the eastern part of Europe caused a new situation for Finnish business actors. Many companies from different industries in Finland, even small and medium-sized companies, realised the importance of the Central Eastern European (CEE)¹ markets, among other new markets. Business relations between Finland and the centrally-planned CEE economies used to be on a relatively low level until the end of the 1980s², despite their geographical closeness. In general, it could be said that, like other foreign companies, Finnish ones had little or no experience of operating on the CEE markets before the early nineties (Kivikari 1983, Kiviranta 1992)

Various researchers have analysed how business operations under the planned-economy system differed from market-economy operations (Kornai 1990, 57-80, Hirvensalo 1993, 1996, Lavigne 1995, 33-36 and 65-91, Salmi 1995, Lehtinen 1996). In those markets, foreign trade/business was conducted by the state trade monopolies. The business conducted by Finnish companies in the CEE, most notably in the former Soviet Union, should be distinguished from operations today.

The late 80s represented a turning point in business relations between Finland and the CEE countries. This turning point can be traced to the period

¹ In this study Central Eastern Europe refers to the following countries: Poland, the Czech Republic, the Slovak Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Yugoslavia, Macedonia, Bulgaria, Romania, the Republic of Moldavia, Ukraine, the Baltic States and Belarus. Transition economies refer to the same countries. The study excludes the Russian Federation and avoids using the phrase Central Europe. The Visegrád countries or the Visegrád group refer to the Czech Republic, Hungary, Poland and the Slovak Republic.

² For instance, exports from Finland to Czechoslovakia, Hungary and Poland increased threefold from 1988 until 1993. The percentage share of Finland's total exports was 0.89% in 1988, and 2.56% in 1993 (Kivikari 1997, Source OECD statistics).

when Czechoslovakia, Hungary, Poland - soon to be followed by other former socialist countries as well - irrevocably decided to take steps towards parliamentary democracy and a Western type of market economy.

This research project aims at understanding and explaining foreign-market entry and expansion in two Finnish medium-sized manufacturing companies during the nineties, in the Czech and Slovak Republics, Hungary and Poland. Let me give a brief explanation how this aim has been crystallised. First, the situation in the CEE transition markets is fairly new from the point of view of Finnish companies. Prejudicially the Visegrád markets are considered similar, so business operations can be conducted the same way in all (cf. Chapter 2), although it is hypothesised that involvement of locals may be necessary. In my opinion, this results that the initial conditions, which are incorporated into explanation of the foreign-market expansion process on those emerging markets, may be problematic. Secondly, as Chapter 3 of this report is going to reveal, there are problems with those propositions derived from established theories of international business research tradition in answering how companies expand in newly-emerging markets. I believe that the problems with the earlier theoretical frameworks are decidable by experience. Altogether, the above prejudice, the hypothesis and the problems guided me to select the specific cases, which may be of interest in gaining new experiences. The six case studies are used for generating a novel theoretical framework (cf. Chapter 4) in order to draw propositions, which of those will be confronted with the propositions of earlier theories (cf. Chapter 7). All in all, the emphasis in this study is on theoretical explanation since the initial conditions and the established theories are considered problematic.

1.2 Theoretical relevance

1.2.1 Positioning of the study

The integration of former centrally-planned economies into the international economy opened a rather different, new link between MNE (multi-national enterprises) and globalisation processes. Significant foreign direct investment in this region was occurring for the first time in the post war era (Ghauri & Holstius 1996, Shaukat 1997, Kalotay 2000). The economic dis-equilibrium that affects these economies offers many opportunities for enterprise (Caves 1998) in the transfer of proprietary assets, skills and experiences developed in mature industrial markets. This setting poses challenges for foreign business actors. Changes are currently underway in the transition economies. Questions to be addressed concern the type of opportunities that will emerge as the

dominant pull, and how the several vectors of forces will exert their pull on the incoming foreign investors/companies. There is a continuous search by companies for markets in which the resources earn the highest returns. Competencies might need to be changed as a result of the firm's strategic management policies involving adopting, integrating and reconfiguring internal and external organisational skills, resources and functional requirements to match the requirements of a changing business environment (Hansén 1981, 70-75, Teece, Pisano, Shuen 1997). It is relevant to study the strategies that foreign investors use in order to face the challenges posed by the particular conditions. New insight into management thought and practices in the contemporary global environment is necessary.

Competitive strategies have been a major focus in both management and marketing research in developed countries, i.e., in the countries belonging to the "triad regions" (Ohmae 1987) of North America, Europe and Japan. However, the significant insights brought by this research into strategies, and their impact on performance and on the contextual, organisational and environmental factors that affect strategic choices and consequences, have helped to explain the behaviour of companies competing in the "triad markets", and of multinationals competing through foreign direct investment. What has been studied from the Western point of view concerns the "who", "why" and "how" of entering or investing in operations in emerging markets. These questions have continuing relevance because the emerging markets exert unique institutional pressure on the companies (Khanna and Palepu 1997, Aulakh et al 2000). They also release different managerial processes (Meyer 1998, Grayson & Bodily 1998) and resource capabilities than the developed countries. The timing - the when questions - should be considered important as well (Hansén 1981, 239). However, timing in general has been somewhat neglected in research during the past decade (cf. Buckley & Casson 1998, Sels and Sleuwaegen 1998, Hurmerinta-Peltomäki 2001). Furthermore, two questions concerning the external validity of earlier models are still relevant (Aulakh et al 2000). First of all, are these models applicable to companies competing mainly through export operations from their home bases? Secondly, are they really applicable to companies competing outside the triad region?

There has been increasing interest toward the Visegrád markets first in early 1990s because of the political-economic changes and later on the late 1990s because of the EU enlargement negotiations (e.g. Larimo, Nieminen and Springer 2002). The findings of Shaukat (1997) and Fahy et al (1998) suggest that, given the dynamics - of particularly the Visegrád markets among other CEE countries - old market-entry theories may require revision. Sels and Sleuwaegen (1998), Meyer and Münschen (1999) have criticised the existence

of almost too many theoretical explanations of international operations. They have also argued that the breakdown of communism and the newly shaped world economy might provide opportunities to appraise our previous knowledge of internationalisation. Hence, newly-emerging markets - in this study the Visegrád countries³ - provide an attractive site for research.

Academics, by studying a newly-developing situation, assume that the co-ordination of entry and operation throughout the market mechanism might not in itself be efficient in the Central Eastern European markets. Managers of foreign companies perceive the various elements of governmental regulations, the local business networks, and the unique local cultural and consumption behaviour of customers as barriers to entry and operation on certain transition markets. There may arise a strong necessity for flexible and adjustable organisational structures (Meyer and Münschen 1999). The very disequilibrium conditions (Caves 1998) in these economies may raise the importance of local knowledge, which would put foreign investors at a disadvantage. However, the main effect of uncertainties in a market is not the absorption of the source of uncertainty within corporate boundaries, but the increased reliance on external partners who are known and trusted as reliable (Peng & Heath 1996, Schoenberg 1998, Lorenzoni and Lipparini 1999). Here, the relevance of studying how local business actors are involved in the business operations of Western companies is strengthened.

³ More details about these country-markets are placed in Chapter 2.

1.2.2 Context - The Visegrád⁴ countries as emerging markets

Trade and market-liberalisation policies around the world during the last two decades have provided new market, investment and outsourcing opportunities for companies. The size and economic importance of the newly-created free-trade areas are of world-wide importance (Paliwoda 1995). The markets of the future lie not only in the major industrialised nations (Craig and Douglas 1997), but also in emerging markets and newly industrialised economies. In the most general sense, of all the countries in the world, those that started their industrialisation after World War II are called emerging markets. However, today we need to recognise the differences that exist among the emerging markets (outside of the "triad region"). There are at least five types⁵ of developing countries, from the high-income oil-exporting countries (11 OPEC and nine non-OPEC countries, UNCTAD 2002) to primary-commodity producers (e.g. African countries). Two other groups are the old NIEs (Newly Industrialised Economies: Taiwan, Hong Kong, Singapore and South Korea - industrialising economies with strong states and low levels of debt problems), and the new NIEs - such as Malaysia, Indonesia and Vietnam. The fifth group consists of industrialising countries with an unstable state apparatus including the countries of South America and Central-Eastern Europe (cf. Word Bank Group (2003) country groups by region, income and indebtedness, and a

⁴ Visegrád is a small city in North Hungary by the side of the river Danube, 40 km from Budapest. The city had importance in earlier times in Hungarian history. To mention one important piece of history: in 1335 the Czech, Hungarian and Polish kings had a meeting in which they agreed on joint tactics against the Habsburg trade policy. They were opening a metal-trading route from the Baltic Sea to the Black Sea in order to avoid the taxation in Habsburg Austria. This was one of the few times when the three countries realised the benefit of their alliance. At that time, it showed strong positive developments in all three countries. There is no doubt, that sentimentalism among the politicians was a major reason for reinforcing the agreement in 1991 - once again in Visegrád. Czechoslovakia, Hungary and Poland signed the Visegrád agreement in February 1991. The free movement of capital and labour, to be promoted by market-based economic co-operation, and co-operation in infrastructure development and in the ecological sphere, were recommended in the Final Declaration (Lavigne 1995). However, there were no explicit mechanisms or regulations to ensure that the goal would be met. The Visegrád agreement was necessarily renewed in December 1992-1993, in Cracow, because of the Czech Republic and Slovakia were being split up at that time. The renewed Visegrád agreement attempted to solve another paradox, namely that all these countries had separately signed "Europe Agreements" with the EU in December 1991. The agreements between the EU and each of the Visegrád countries meant that these countries should maintain among themselves the kind of barriers that were dismantled between EU members. Later on, Slovenia signed bilateral free trade agreements with all the other Visegrád countries except Poland. Even if agreements are changing rapidly in the area, and they somewhat overlap each other, I use the term the Visegrád countries for the Czech and Slovak Republics, Hungary and Poland only. CEFTA (Central European Free Trade Agreement) concerns the same four countries, together with Slovenia. This second term is used less in this research, because the operations of the Finnish case companies in Slovenia is not an object of this study.

⁵ There are countries that do not fit into any of these groups - such as China and Russia - because of their size, endowment with human or other resources, and because of their special position in world politics.

different grouping of countries by UNCTAD 2002). Differentiation is important because of the deepening differences in economic structure⁶ within these five groups. With regard to the economic development of the emerging markets, the major distinction between them is that they are either export-oriented or import-substitution environments (Guillen 2000, UNCTAD 2002). The export-oriented markets are opening up, and growing rapidly. Rapid growth characterises the earlier closed economies of Asia, Latin America and, since the early nineties, Central Eastern Europe (Aulakh et al 2000).

It has become clear for the CEE countries that reliance on state enterprises in a protectionist environment is no longer feasible. Drastic reforms were needed to institute economic growth (Kornai 1990, Aulakh et al 2000), including the privatisation of state companies and the concurrent increasing of the role of private companies. Domestic markets were opened to foreign competition in order to bring in foreign capital and new technologies, and to provide high-powered incentives for efficient enterprises. Policies were initiated to invigorate non-commodity and higher value-added industries, and emphasised export-led growth. There is no doubt that these emerging economies are aiming to move away from inward-oriented import-substitution policies to outward-oriented export-led growth.

The opening of the Central Eastern European markets to Western products is a historically unique situation. Never before has there been such an abrupt transition from a command to a market economy. The start of the transition was admittedly unpredictable, and the underlying changes pursued in the Central Eastern European countries in the early 1990s were truly revolutionary (e.g. Liuhto 1999, Csaba 1998). The direction of the macro-development of these countries has been decided and sustained during the last ten years. Changes that take place must be fundamental and relative to the system before they can be considered irreversible (Paliwoda 1995). However, the adoption of western business concepts is clearly an ongoing process. The route to such adoption - in the building of a free market economy - is not a fast and easy process in these countries. Thus, there are differences in the business environments of the Western and the transition economies. Differences exist in government regulations, in the local business networks and in the unique local cultural and consumption behaviour (Paliwoda 1997). In the early nineties, Central Eastern European consumers were particularly impatient to imitate the West. Nevertheless, the purchasing power in the region is only gradually increasing (Tiusanen 1997, Tiusanen & Talvitie 1997).

Probably the most revolutionary change - another immediate concern of Western business actors - is that business transactions are carried out in

⁶ Obviously, the development of a country is more complex. Not only economic but also political and social differences prevail.

companies nowadays; the state bureaucracy is less involved than previously (Lavigne 1995, 155-191, Clark 1998).

Multinational companies are influenced by the different political-economic contexts (Murtha & Lenway 1994). For instance, in advanced economies, government antitrust and tax policies may hold the key to understanding diversification. Foreign-trade and investment policies are more relevant in emerging economies than in developed economies (Guillen 2000), which in turn affects the interactions between firms and entrepreneurs. Diversification in emerging markets follows the logic of repeated access to resources under asymmetric foreign trade and investment, rather than the logic of technological, marketing and financial strength. Companies in emerging markets have to perform basic functions themselves (Khanna and Palepu 1997). Without adequate information, they may even be reluctant to do business. The regulators often place political goals over economic efficiency, which may distort the functioning of the market. Markets depend on a juridical system that is strong enough to enforce contracts in a reliable and predictable way.

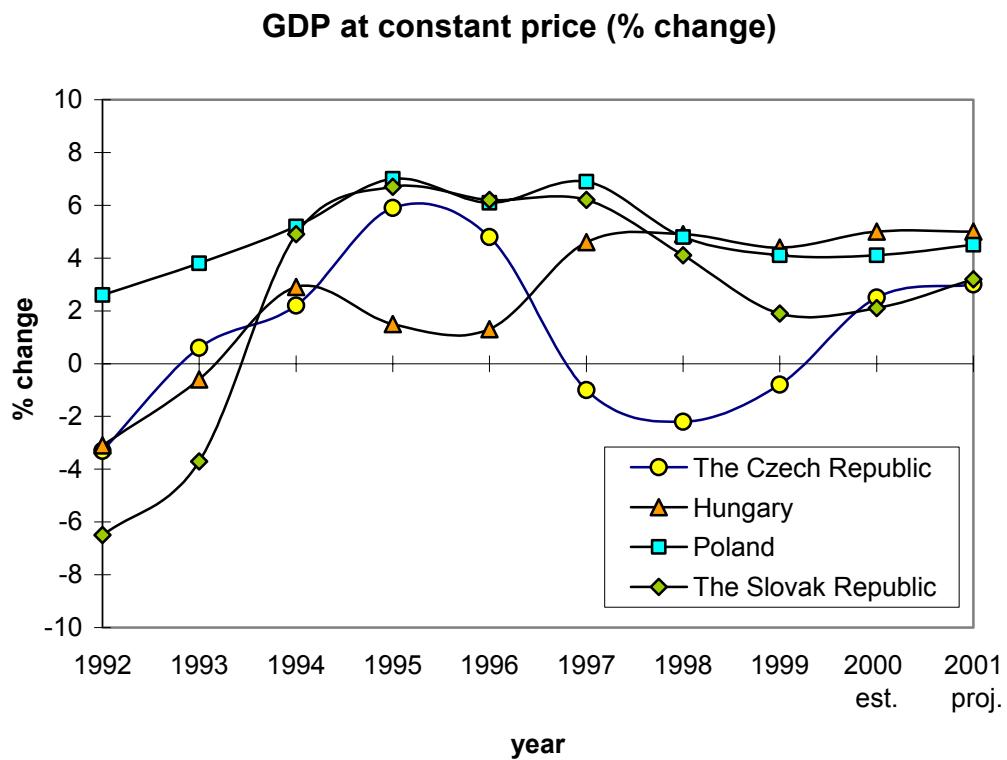


Figure 1 Percentage changes of GDP at constant prices in the Visegrád countries
(Source: EBRD (2001) online www fifoost.org/EU/statistik)

In the light of these kinds of differences, it is no surprise that Western businessmen and academics describe transition economies as potential areas of conflict and chaos still characterises them (Ghauri & Holstius 1996). However, the Visegrád countries have enjoyed notable economic growth (Figure 1), which is partly a result of the political and economic changes that have transformed them.

The so-called Visegrád group representing the most advanced transition economies (Lavigne 1995, European Commission 1997, Borish and Noël 1997) comprises the geographical area of this research. Today, these markets provide feasible but challenging business environments for western companies - feasible because of the potential demand in those markets (Shaukat 1997). The Visegrád countries' GNP per capita in PPP (purchase power parity) in 2001 is shown in Table 1 in order to give preliminary evidence of their future market potential. The markets are challenging because of their earlier separateness (e.g. Marinov and Marinova 1999), thus they are less known by Western business actors.

Table 1 The size of the economies in question in 2001

Source: 2003 World Development Indicators, www.worldbank.org/data

	Population <i>Million 2001</i>	PPP gross national income		Gross domestic product	
		<i>Per capita USD 2001</i>	<i>Rank 2001</i>	<i>% growth 2000-01</i>	<i>Per capita growth 2000-01</i>
Europe EMU	307	23,800		1.4	0.9
Finland	5	24,030	28	0.7	0.4
The Czech Republic	10	14,320	55	3.3	3.8
Hungary	10	11,990	59	3.8	3.1
Poland	39	9,370	73	1.0	1.0
The Slovak Republic	5	11,780	60	3.3	3.2

Progress in the Visegrád countries is demonstrated by increased GDP, rising productivity, the growing number of foreign direct investments, increasing linkages to the global market - primarily Western Europe - and steadily growing private-sector shares of GDP, employment, investment and trade. Despite the many positive elements of progress mentioned above, even these countries have mixed results, for example in privatisation (Borish and Noël 1997).

Some features have been inherited from the 40 years and more of economy:

- Under Communism, the customer was certainly not always right.
- Reliance upon hierarchical management and authoritarian control is a cultural norm that predates communism and is a legacy of centuries-old Habsburg⁷ institutional traditions (DeFillippi 1995).
- The underdeveloped state of the communications infrastructure was, and to some extent still is, a problem.

These problems exist even though economic progress is relatively favourable for the Visegrád countries. Western business actors usually evaluate them as factors underlying country risks.

Before I open up the discussion concerning the theoretical departure (Chapter 3) of this study, I present some contextual and theoretical considerations related to the selection of the case companies.

1.2.3 True pioneer companies from the Finnish SME sector

In this section, I briefly introduce the importance of the SMEs (small and medium-sized enterprise) in an economy and the Finnish medium-sized companies participating in this research.

Small and medium-sized companies are important creators of employment, and they are active participants in the specialisation and division of labour manifested in value-added chains of growing complexity (Porter 1990). Small enterprises are essential to the self-regulation of market-type economies, important for economic mobility, and influential in guaranteeing equal opportunities. Small and medium-sized enterprises - local and foreign⁸ - are also playing a crucial role in the transition economies (Institute for Small Business Development 1996, 11-13, Clark and Soulsby 1995). They may be the main agents of change in an economy, thanks to the dynamism of their simple and flexible structures and the driving force of the entrepreneurs themselves. Their major contributions are in the development of the new organisational structures in a market economy, both through spontaneous development of the private sector and the ongoing disintegration and privatisation of the state sector. Small enterprises have become predominant in many of the industries that used to be dominated by big socialist enterprises (Tiusanen 1997, Tiusanen & Talvitie 1997). Thus the ownership, organisational and site structure of the industries concerned has been transformed. SMEs have a leading role in the moderation of unemployment in the competitive sector (Institute for Small Business Development 1996). Job

⁷ The Austro-Hungarian Monarchy, 1867-1918 (1921)

⁸ For instance the case Finnish companies

creation and preservation by private enterprises compensated for the disintegration of the state sector. SMEs have a supply-increasing role, which eradicates shortage, and thus they have decisive importance in terms of the macro-economic transformation from shortage to a market economy. The presence of SMEs transforms the co-operation culture, since they are major players in the new supplier and sales networks.

The actual Finnish case companies are briefly introduced. I am thinking here of the potential audience of the study - managers who are inevitably dealing with real benchmarking and not with generic examples. The real names of the companies have had to be concealed.

The Finnish companies operate in mature industries, according to Western standards. Company A has its business in equipment manufacturing and construction in the mechanical-engineering industry, while Company B operates in the electrical-engineering industry. Both companies are production-oriented, business-to-business manufacturers. They sell both tangibles and intangibles, indicating that they regard their products as complex offerings, or even as system selling. The number of employees together with the turnover reflects the size of the firms (Table 2). In the five-year period covered in the table, the two companies achieved almost 50% turnover growth, owing to the new operations on the Visegrád markets.

Table 2 Size of the Finnish case companies

Source: Internet pages of Company A and Annual Reports of Company B

	Turnover (MEURO)		Number of employees	
	1993	1998	1993	1998
Company A	8.4	12.5	129	140
Company B	10	18.2	101	157

Both companies can be classified as medium-sized companies⁹. Company A was 100% owned by the founder family until 1998. Company B¹⁰ is part of

⁹ According to the definition of the Finnish Ministry of Trade and Industry in SMEs the number of employees; 50-250, max. turnover EUR 40M, max. balance-sheet total EUR 27M. According to financial criteria, at least one of the two should be satisfied. At the time these companies were taking part in this research, their turnover did not exceed EUR 40M. (Source: Finnish SME-sector in the EU, Ministry of Trade and Industry Finland, Studies and Reports, 17/1999)

¹⁰ In general, a company owned by another company more than 25% cannot be considered as an SME. In this study, throughout the detailed case descriptions and analysis (Chapter 5 and 6) I reveal certain qualitative criteria, which supports the classification of Company B also as medium-sized company.

loosely grouped companies, where the parent company owns the largest share in each of the subsidiaries. It is actually 100% owned by the parent company.

After the strong economic growth in Finland in the 1980s, the companies had to face the overheating of the economy. They faced serious problems in the early 1990s when the demand decreased in the domestic market as well as in the traditionally served western markets (European Commission, 1999, 13-14). The difficulties were reinforced by the collapse of Soviet trade, which caused significant losses for a number of Finnish companies. With full membership of the European Union (EU), at the turn of 1994/95, the Finnish market - all of a sudden - had to be even more open to the inflow of many European products. The competition in the domestic market became stronger (Ministry of Trade and Industry (MTI), 1999). In this situation, the producers chose one of several feasible strategies: turn towards other markets, for instance the Baltic States and the Visegrád countries.

However, in comparison¹¹ to the German, British or Swedish presence, particularly in the Visegrád area, Finnish companies still have a minimal position. Both case companies started operations in all the Visegrád countries during the first half of the 1990s. They had previous experience of foreign operations but these experiences were mostly from the neighbouring markets of Finland in the pursuit of exports. Although other Finnish companies tried to enter the Visegrád countries, less than a dozen invested enough to realise significant profit in these newly-emerging markets. Companies A and B *penetrated the Visegrád countries before their competitors*, and were among the few who took the risk and the challenge early enough to conquer the unknown. In view of their ten years of operation, they succeeded in establishing themselves over a longer time-period on these markets, and have been able to realise significant profit from their operations there.

According to the Ansoffian growth-vector matrix (Ansoff 1957), pioneering means market development in the context of new geographic markets. This involves the introduction of existing products, which are already established in one or more other markets. True pioneers conquer new territory, which has not been served previously by the product or service of the company, or by any of its direct competitors. Innovators, on the other hand, are those who move first to a market with an entirely new product. Most of the literature focusing on pioneering advantages covers the advantages of introducing new products into existing markets (Baker and Becker 1997) in which the firm was already

¹¹ For contrast, see, for example, Kaufman & Menke (1997) on German FDI towards the Visegrád markets, Shaukat & Hafiz (1998), for example, on British investments and Seyed-Mohamed et al (1996), Vahlne & Nordström & Torbacke (1996) on the business development of Swedish firms in the Visegrád markets. Empirical evidence of entry, market and marketing strategies of Finnish and Austrian firms in various Central and Eastern European markets can be found from Nieminen, Larimo and Springer (2001).

competing. Pioneering in a new geographic area is quite a different issue. It involves different advantages and disadvantages because it means competing on a market on which the company did not compete before. The importance of being a pioneer - in the purest sense - such as in the newly opening Central Eastern European markets,¹² lies in the *opportunity to become established as the reference point in its own category*. This position is difficult for a follower to achieve. Firms that have experienced limits to growth of their market share on domestic markets have the possibility to find new growth by entering new foreign markets. In this sense, the opening of the CEE market was an opportunity for Companies A and B. However, there are disadvantages for these true-pioneers such as the free-rider effect, the resolution of technological or market uncertainty, technological discontinuities and incumbent inertia (Baker and Becker 1997). Companies that entered the Visegrád market during the early nineties may not have a monopoly position for long. Thus, developing a strong competitive position in these emerging markets entails more than just transporting a successful domestic strategy. Timing has to be a key factor in combining all the advantages and disadvantages into a profitable strategy.

I will further analyse (Chapters 6 and 7) how did the two medium-sized manufacturing companies in question create profitable strategy in the Visegrád markets.

1.3 The research questions

The focus of this research is on expansion and business operations in newly-emerging markets. It might be assumed that there is a strong need for local involvement in business operations in the particular context. When I set the research questions, I followed the line of argumentation put forward by Meyer and Münschen (1999) and Lorenzoni and Lipparini (1999). Consequently, the aim is to analyse the interface between the foreign operations and the development of key business relationships¹³.

¹² It is not the case that the products the two Finnish companies offered were unknown anywhere in Europe. Nor that others were not producing them, but the circumstances were such that the Finnish companies could, indeed, be classified as true pioneers.

¹³ There is further support for this choice in the summarising work of Möller (1992, 204-209), who states that marketing-relationship development reflects the continuum of exchanges in which the case firms are engaged.

More specifically, the questions guiding this research were:

- How did the Finnish case companies expand their businesses in the Visegrád markets during 1990-2000?
- How did the case companies develop their strategies in the various country markets?
- What was the role of long-term business relationships with local partners in the expansion of business operations?

The questions were supported by the inevitable characteristics of newly-emerging markets in general, and of the Visegrád countries in particular. The second chapter highlights the crucial differences within the Visegrád markets, which entering companies presumably have to learn about and face. The questions are relevant in terms of the companies selected for the study, which are medium-sized and true pioneers on those markets. The literature review conducted in order to gain theoretical pre-understanding revealed the heated debate about the conceptualisation of the internationalisation process. Firstly, process models of internationalisation have been established since the mid-1970s (Johanson & Wiedersheim-Paul 1975, Johanson and Vahlne 1977, Luostarinen 1979, Welch & Luostarinen 1988, Luostarinen & Welch 1990). This frame of reference describes internationalisation as a determined, step-wise growth process by changing operation modes. The criticism against this step-wise framework (Turnbull 1987, Andersen 1993, Leonidou & Katsiekas 1996) could not be overlooked - especially since the stage models were based on cross-sectional data. During the past decades, rival approaches have emerged¹⁴ to challenge the position of stage models in explaining the SME internationalisation process. Internationalisation from a network perspective (Johanson & Mattsson 1988, Axelsson and Johanson 1992) focuses on the firm's position in a foreign market. The network perspective focuses more on the market and the relationships of the firm, rather than concentrating only on internal development. Thus, the network perspective is probably better in helping to relate local involvement to the actual focus of the study, the business-expansion process.

In summary, my assumption is that business relationships with intermediaries will indeed influence operations in the CEE markets. This is why, since the onset of the study, the focus has been on interdependent processes - foreign-market expansion in the Finnish case companies and business relationship-development - and thus the study differs from the earlier ones in the field.

The research questions and the received theoretical pre-understanding points to the general need for new case-study analysis, especially for

¹⁴ E.g. lately Ahokangas (1999) resource perspective, Hurmerinta-Peltomäki (2001) innovation perspective. Cf. Pedersen and Petersen (1998).

longitudinal case studies. The specific context of the research also supported the choices made from among the available methods that of grounded-theory approach. Before presenting all details how this methodology was implemented (Chapter 4), let me define it with the words of one of its creators. According to Glaser (1992, 16), "The grounded theory approach is a general methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductive theory about the substantive area".

1.4 The structure of the thesis

This section outlines the structure of the study in order to clarify the relations between the research problem and the selected research strategy, grounded theory. Figure 2 introduces the research and the thesis writing process.

The introduction (Chapter 1) gives the starting points and theoretical relevance of the study. I briefly discussed the emerging markets, as they are currently an important research context, and then introduced the Finnish medium-sized companies involved in this research. More detailed information about the case companies is given in the chapter covering the detailed case descriptions. I introduced the research questions when I gave the theoretical starting points.

More specific knowledge of the context is needed in order to address the research problem and to establish the limits of the findings. Therefore, the business environment, the Visegrád markets, are described in Chapter 2.

This study is geared to achieve a deeper understanding of smaller sized firms and to capture the complex and dynamic process of FME (foreign-market expansion) in emerging markets in which it is assumed that social and behavioural elements also have relevance. The aims of Chapter 3 are to introduce the main theoretical frameworks developed within the research tradition of international business and give a preliminary indication of the extent and significance of the problems of the IB (international business) tradition in terms of explaining how FME unfolds. Since social and behavioural elements of FME are considered the theoretical pre-understanding focuses on previous literature about internationalisation, this has adopted either a process or a network perspective (i.e. the Nordic School of internationalisation within IB research tradition). Although the last section challenges some of the key elements of the Nordic School that, in my opinion, are either not appropriate or not relevant in the rapidly globalising business environment, and particularly in the Visegrád countries. We still lack a model

that captures the FME process on emerging markets in providing a solution to the empirical problems arose from that context.

My aim was then to find a fresh way to analyse a well-studied research area. Accordingly, the methodological foundation of the chosen grounded-theory approach is clarified in detail in Chapter 4. First, the underlying philosophical assumptions of the approach are introduced. Next, the type of research is explained.

The actual case descriptions follow in Chapter 5. Mainly stories of expansion on each of the Visegrád markets, they are placed before the actual analysis in the interests of readability. In reality, the analyses intervene in the descriptions (Figure 2). It would not have been possible to include such complete descriptions in the research report without incorporating the data analysis.

The results come from the data and cross-cases analyses (Chapter 6). The results of the analysis are considered in terms of the theoretical departure and in the light of previous knowledge in the discussion chapter (Chapter 7). Again, the findings are the results of an iteration rather than a linear process, as illustrated in Figure 2 below. The literature review did not stop at reviewing processual and network studies of internationalisation. On the contrary, I needed constantly to broaden my understanding as causalities that are more complex were revealed in the analysis. The discussion chapter concludes with a critical summary of the methodological choice.

Chapter 8 concludes the research report with a summary of the main findings. I anticipated the research routes in the light of the limitations of the research. The contribution of this study in terms of academic and managerial interest is assessed. Finally, a summary of the thesis is given.

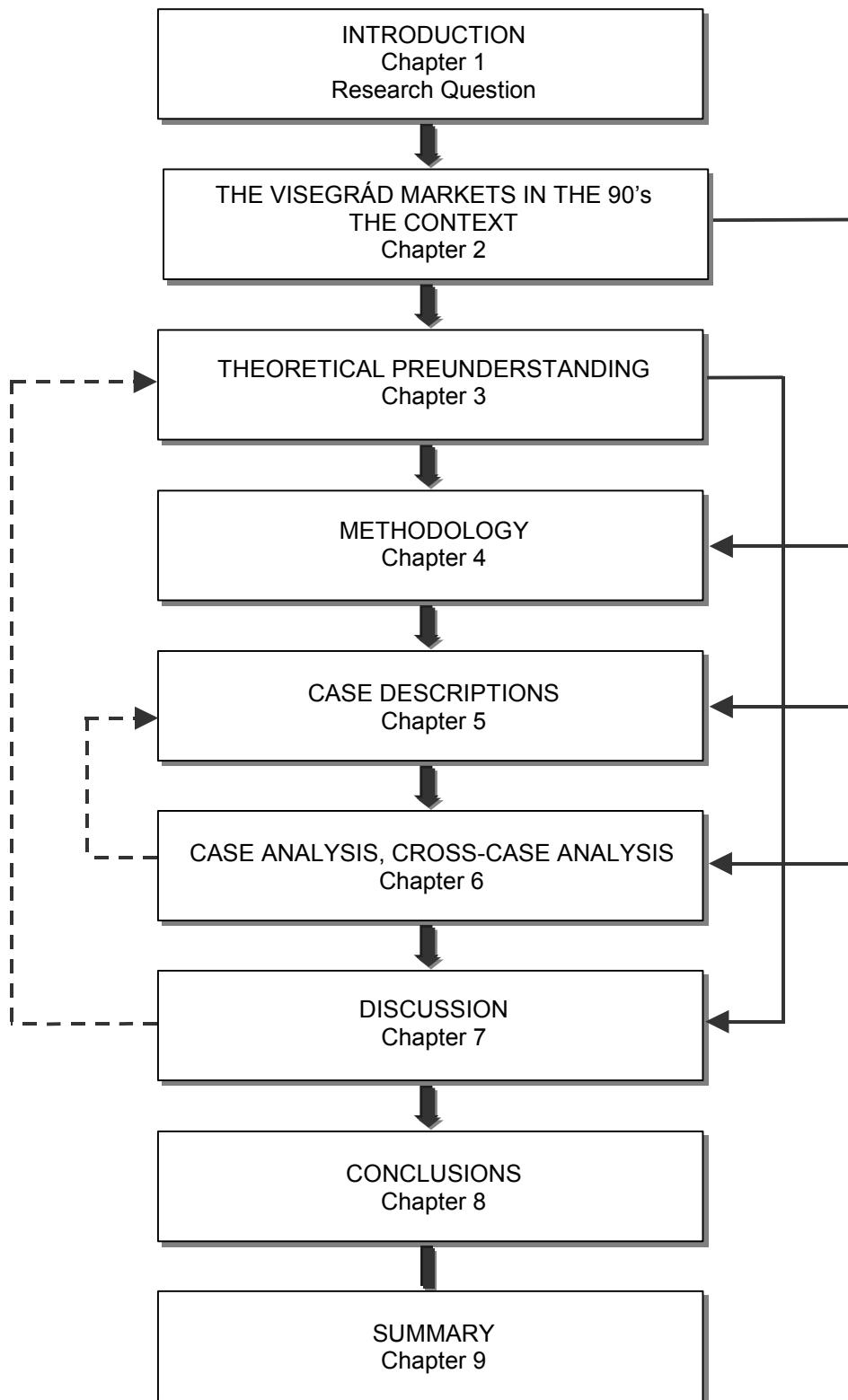


Figure 2 Outline of the research process and the structure of the research report

2 THE VISEGRÁD MARKETS DURING THE 1990S

*I was present at a seminar in Hungary where one participant said, "We must have rapid reform! It must be accomplished in five years." Another said, "We should have gradual reform. It will take us five years." (Joseph Stiglitz, *Globalisation and its discontents*, 2002)*

This chapter describes in more detail the Visegrád countries in the 1990s. The focus here is on the macro- and micro-economic changes taking place in the Czech Republic, Hungary, Poland and the Slovak Republic during the 90s. I aim to show the complexity of the transition, namely that more than just macro-economic stabilisation is needed in order to direct these countries towards a new type of prosperity. Radical changes in all spheres - political, social and economic - are interrelated. The transition process in the CEE countries has been longer and more complex than was estimated in the early nineties. Furthermore, major differences are identified in how the process worked - even among a sub-group of countries such as the "Visegrád four".

2.1 Major changes in the Visegrád countries since 1990

The Visegrád group, or the Visegrád countries, is a commonly used term. The grouping of these countries has its roots in history, and it was meant to be a device for leading them to the EU. A precondition for joining the EU was that they should prove their ability to work together (Lavigne 1995). One of the main triggering factors of political economic developments of these countries were indeed of achieving full membership in the EU during the period covered in this study. Another, transition issue, which in my opinion worth to elaborate on is the privatisation process in the CEE countries. This may help to discuss many of the related issues in terms of what a company that operates on these markets should understand and face.

In the early 1990s (European Commission 1997), the following criteria were set for the future enlargement of the Union with the Visegrád and other Eastern European countries. On the political level, democracy, parliamentarism, respect for human and minority rights, acceptance of the obligations of EU membership, and acceptance of the political, economic and

financial unification of Europe, were the main concerns. The main economic criteria for membership were liberalisation of the price and trade systems, macro-economic stabilisation, and structural changes and reform in the financial sector. The newly-developed legal system had to enforce open competition. State subsidies had to be reduced. Property rights, as well as bankruptcy and contract laws, had to be in place and to function. Consumer protection, workforce politics, and customs and tax systems needed to be functional as well. All in all, the EU required a functional market economy and the ability to compete.

What lay behind the EU directives? Since the end of the 1980s the capitalist world has believed in a clear and robust consensus - neo-liberal in nature - (Brouthers & Lamb Jr. 1995, Naim 2000) about what makes countries prosper. The so-called Washington Consensus gave detailed instructions for transforming countries to follow. This neo-liberal model of economic transformation was the favoured alternative, arguably because of the influence of economists from the EU, international financial institutions and American academics on the political classes that came into power (Adams 1994). This influential role spread among the public, too.

However, during the last ten years, the weaknesses of such recommendations have become obvious. The guidelines of the Washington Consensus are too general and lack consideration of many other issues. In fact, they were originally restricted to economic reforms. Yet, without sustaining political stability and social prosperity, the transforming strategies are not sustainable (Adams 1994, Naim 2000). North (1990, 1997a and b), Salmi (1995) and Lorentzen (1999) have stressed that the process of transition is much more complex and has economic, social and institutional¹⁵ aspects (see also Figure 3).

The complexity is further increased in as far as the starting circumstances were different (Brouthers & Lamb JR. 1995). The initial conditions varied, such as natural-resource endowment, the initial level of per-capita income, the proximity of potential and existing trading partners, the degree of industrialisation, the extent of state ownership and dependence on COMECON (Council of Mutual Economic Assistance). The cultural differences also affected how the recommendations were understood and implemented in each country.

Challenges to do with international economic instability, investment, inequality, institutions and ideology still remain (Cutler 1997, Naim 2000). Without institutions, there is no way to cope with crisis. Without investments,

¹⁵ Institutions in the widest possible sense cover the constraints or framework within which markets operate, be they formal constitutions, laws or regulations - or informal, such as norms of behaviour, conventions and codes of conduct (North 1997/a, 4).

there is no possibility for economic growth. Without economic growth, there is no sustainable economic policy. Economic growth, however, is not equivalent to development, and not always sufficient to alleviate poverty.

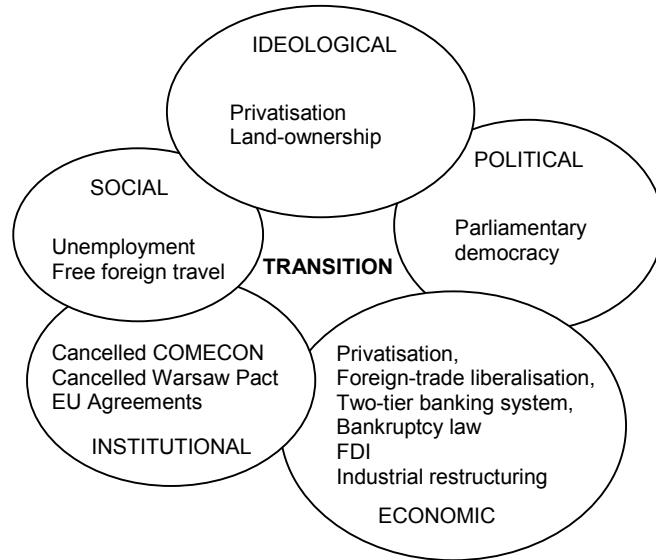


Figure 3 Transition experience during the 1990s, the major changes

Savings and investments are both important. High savings rates are needed to develop a strong fiscal system, which is a crucial policy element in fighting, for example, inflation. The fiscal system is strong when it can buffer external economic crises (see examples from Southeast Asia during the Asian Crises, Singh & Yip 2000). High levels of domestic saving and foreign investments are needed to meet infrastructure and social-service demands. Poverty and income inequality demand improved performance by public institutions (education and health care). However, public institutions are always vulnerable to political discontinuity and economic volatility and are often at the centre of corruption.

Dependence on foreign investments will persist for a long time because of the huge demand in infrastructure investments. The more that foreign investment is attracted the easier it will be to develop social support for policies and fund social programmes. Well-established institutions are needed to attract foreign investment. However, achieving efficient integration of foreign-investment capital in the host country's national interest is not easy. The profit, interest behind the foreign capital is inevitably connected to the parent company rather than to the host country (Paliwoda 1997). Foreign investors joining the privatisation process create positive effects from which the host country benefits, but the strategy of acquiring former state-owned companies is primarily oriented towards the needs of the investor

organisations (Meyer 1998, Marinov and Marinova 1999). Furthermore, greenfield entries are the more favourable forms of operation, and these are somewhat less advantageous in terms of enterprise restructuring¹⁶. This is the most sensitive issue in the transition economies of the CEE (Meyer 1997). In cases of acquisition, the multinational takes responsibility for the acquired firms only to the level at which it is profitable. Yet, there are large state enterprises that government cannot allow to go bankrupt because of the political consequences.

Privatisation is delivering state-controlled assets into the hands of private owners. This is more than just an economic issue, because privatisation represents an ideological and symbolic break with the history of state control over a country's productive assets (Megginson 2000). The transfer of state-owned companies to the private sector reorients their basic purpose from the political goal of providing employment towards the objective of maximising profit and wealth for the shareholders.

The building of private-sector economies in Central-Eastern Europe is receiving a great deal of attention in both the business and academic worlds (Kornai 1990, Ehrlich, 1994, Hunya 1997b). The focus has been on the sale of older, state-owned enterprises to the private sector, and on enterprises newly created by local entrepreneurs (Institute for Small Business Development, Hungary, 1996). Privatisation has not been confined to the CEE. It went global as early as in the mid-1980s. There are varying degrees of enthusiasm about it in the CEE (Marinov and Marinova 1999). Case samples illustrate that systemic transformation can be a long, complicated, high-profile process - a struggling through (Antal-Mokos 1997). All in all, the Visegrád countries have privatised more than 170,000 enterprises, with an estimated book value of EUR 80 billion. Privatisation sales have generated about EUR 15 billion, 8 billion in Hungary, 5 billion in the Czech Republic, 1 billion in Poland and 0.5 billion in the Slovak Republic (Borish and Noël 1997). While many nations have state-owned enterprises (SOEs), the central and eastern European enterprises are unusual in that they have long relied on state-controlled suppliers and state-controlled distribution networks. These often served state-controlled customers and were managed by state-appointed management teams. The objectives of the privatisation that governments pursue include (Cutler 1997, Megginson 2000) raising revenue, promoting efficiency increase, introducing competition, exposing the SOEs to market discipline, attracting foreign investment, and fostering a wider share of ownership. Privatisation is part of a larger set of economic reforms (Schoenberg 1998)¹⁷.

¹⁶ See Hunya (1997a and 1997b), on the spill-over effect

¹⁷ He means that any acquisition is part of the privatisation process with its "social package" obligations.

Last but not least, governments use it to achieve political support for their economic reforms.

The role of the state is inevitably undergoing redefinition. Its new role in balance between the public and private sectors is obvious. In Central and Eastern Europe the transitional governments have emerged as a new, highly visible, external key stakeholder (Brouthers and Bamossy 1997), which is an unusual situation in the eyes of the West. As key stakeholders, they intervene at different stages of the negotiation process and have both direct and indirect influence on it. They may change the balance of power in the negotiations, sometimes to the detriment of their own state-owned enterprise (Brouthers and Bamossy 1997). Through privatisation, the government should gain time and energy to be able to adapt itself to its regulator, supervisor and re-distributor roles. Regulation should be valid in order to attract investors. Supervision should be valid in order to develop the infrastructure. The re-distribution task is to develop the living standards of the whole nation.

Governments do not sell everything. One reason for this is that they must remain influential in some sectors that have economic vitality and are politically sensitive. Furthermore, not all businesses are efficient in private hands (such as British Rail, or the Hungarian Railways for that matter). Short-term-profit orientation may be in conflict with the interests of society as a whole, as with environmental protection. Another reason is that most large state companies have to be sliced up first so that the stock market is able to digest them. This process takes time. Companies for sale tend to be ones that were the largest and most significant in any given country during the nineties.

One of the main subjects of debate regarding privatisation is the relationship between the pace of the process and the potential for increasing unemployment (Ivy 1996). One philosophy is that expedient privatisation of the state sector will bring about a more rapid transition to an efficient, healthy economy and therefore quicker successful placement in the world economy. Speeding up the pace of privatisation, however, might generate high levels of unemployment that can damage a nation's economy and ethnic harmony. The opposing argument is that aggregate employment stays largely untouched (Institute for Small Business Development 1996, Megginson 2000). It is not true that increases in efficiency through privatisation are only feasible with massive layoffs of public employees. Furthermore, workers are customers too; they benefit from lower prices, higher quality, greater competition and increased choice.

2.2 The present state of the Visegrád countries

2.2.1 The overall picture

It seems to be an unquestioned tendency, after the fall of the ‘Soviet bloc’ - and with the expansion of the European Union - that many countries are moving in the direction of more homogeneity in their economic systems (Marshall et al 1998). The Visegrád countries (the Czech Republic, Hungary, Poland and the Slovak Republic) might be seen as examples of this tendency. Nevertheless, the assumption in this study is that developments and changes cannot be considered identical country by country within the area. It may be worthwhile to compare the four countries, since although there are some similarities in terms of geographical location and social/political structure, the extent to which these similarities translate into generalisations is highly speculative. From the companies' point of view, probably the most important is the aim to implement many Western business concepts. However, nobody can yet predict, how successful such an adoption will be in each of the transition countries, and how similar the result will be to the Western system. It should be understood that transition in Eastern Europe is not merely a macroeconomic phenomenon, but rather and largely a behavioural change process among individuals and organisations (Nieminen 1995).

These four countries have different histories, traditions, habits, languages and subordination to foreign powers. As Nasierowsky (1996) stated the transfer of business experiences from one market to another can be successful only under clearly specified conditions. Many others (e.g., Stiglitz 1998) also successfully convey the tension between fragmentation and generalisation by giving specific data on individual countries in order to show how varied they are. There is not necessarily a contradiction between my assumption and the general acceptance of discussing these countries as one group. I would rather like to point out that evaluating them as a homogeneous group of countries might cause problems. The pace of change differs from country to country, while the direction of economic transition continues (Paliwoda 1995), thus allowing companies to be flexible in their first investment-location choice.

Certain similarities do exist between these countries. The Czech Republic, Hungary and Poland are not only the most industrialised among them (Shaukat 1997), but they have reached approximately the same level in their political/legal development towards parliamentary democracy, as well as in their economic transition towards a market economy (Lavigne 1995). These three countries were committed to working towards full membership of the OECD (Organisation for Economic Co-operation and Development), in which they were all accepted in 1995-1996. Therefore, the obligation to harmonise

their economic, financial and legal systems in accordance with the more developed Western systems was obvious. This process established a basis for forging closer economic relationships between the Visegrád countries and the other member countries of the OECD, but more significantly between the Visegrád countries and the EU. These countries have one overriding goal in common, namely to achieve full membership of the European Union soon after the year 2000. Among the Central Eastern European countries, the Visegrád countries are in the group of ten that the EU will eventually accept¹⁸ since they have fulfilled most of the entry criteria. Slovakia is somewhat behind the other three in its development. In the case of this newly-independent state (Slovakia), the political/legal forces were not immediately transparent.

Economic indicators of the Visegrád countries are given in the tables and figures that comprise the *first appendix*. These indicators support the development description of each Visegrád countries in the following sections. Each country description focuses on the most significant issues in a country in question and the differences in significance are one of the bases for comparison. The numbers and figures (Appendix 1) show also the major trends in each country, and highlight the fact that the inevitable differences also translate into these economic indicators.

2.2.2 The Czech Republic

The Czech territory produced 70% of the Austro-Hungarian Empire's industrial output during the late 19th century. Even in 1937, Czechoslovakia achieved a per-capita income on a par with that of France and higher than Italy or Austria. The Czechoslovak economy of the 1930s included more than 330,000 small firms employing between one and five people. However, no European country suffered a more thorough loss of small business enterprises during the post-war years (DeFillippi 1995). While Poland and Hungary had experienced gradual formal and informal experimentation with market-type reforms during the 1980s, the post-1968 "normalisation" period in Czechoslovakia had reasserted a "neo-Stalinist" regime, which more or less froze the economic, central planning institutions in a pure form (Clark and Soulsby 1995).

Despite the heavy burden caused by the "neo-Stalinist" regime in Czechoslovakia, up to the mid-1990s the Czech Republic seemed to be the most successful Eastern-European country in adapting to the Western way

¹⁸ The date of acceptance is 1st of May, 2004

(Shaukat 1997). The macroeconomic environment in the first half of the nineties had been favourably stable. Low inflation and single-digit unemployment were exceptional and public financing seemed sound. The Czech Republic had almost totally free pricing, but the tax administration seemed to be relatively weak. It was the first CEE country to be accepted into the OECD in November 1995. According to the World Bank survey in early 1994, the Czech Republic was the most promising post-communist country for foreign investments (Tiusanen & Talvitie 1997). A number of U.S. business publications had declared it the most favoured post-Communist country for foreign investment (cf. Table 1 and Figure 4 in Appendix 1). The European Bank for Reconstruction and Development (EBRD) concluded that the Czech Republic in 1993 and 1994 satisfied more economic criteria for membership of the European Union than several of its current members (The Economist, 22 October, 1994). The rate of direct foreign investment has increased each year since the Velvet Revolution. At the same time private ownership accounted for about 80 percent of the assets in 1995, a figure which had grown to 90% by 1997. Seventy-five percent of the GDP came from the private sector in 1996. It looked as if privatisation was almost complete in the Czech Republic: only some 60 strategic enterprises and the main banks remained state owned by 1997.

The currency devaluation in June 1997 brought about a political crisis. This was followed by another crisis caused by the notoriously non-transparent financial markets. A clear symptom of this non-transparency is that, in recent years, the Prague Exchange has been far behind the Budapest and Warsaw bourses in its business. International investors are concerned about insider trading and non-transparency.

All in all, Czech economic growth has slowed down since 1997. The indicators are the decline in exports to the EU and the tightening of monetary policy (Tiusanen & Talvitie 1997, 30). Consumer spending had to be reduced in order to limit the size of the trade deficit.

The voucher program¹⁹ has turned out to be an educative example of how government sacrifice of sales revenue for political objectives - to gain popularity - caused damage. Experts (Borish and Noël 1997) warned that higher priority ought to be given to the generation of cash proceeds than shared ownership. The increased involvement of the infrastructure companies

¹⁹ The voucher scheme/programme has been implemented in the Czech and Slovak Republics for privatisation, which means the investors submit their voucher (which are denominated in points) as a bid for the company and shares are distributed proportionally or put them in an investment fund. In contrast, Hungary implemented gradual, while Poland mass privatisation programmes. Gradual privatisation meant largely the sales of SOEs to strategic investors, to foreign and domestic capital in the case of Hungary. The Polish case of mass privatisation meant distribution of shares in investment funds that have shares in companies to be privatised.

in future projects was also necessary. A positive sign is that R&D spending in the Czech Republic has been on the increase since 1993 (1.14% of GDP in 1995). R&D spending goes to the infrastructure and banking, rather than to manufacturing. The Czech economy still has to face corporate restructuring, which was not fully accomplished through the complicated voucher system. The unemployment rate, which was unrealistically low during the early 1990s, is probably an indicator of failing enterprise restructuring (cf. Appendix 1, Table 1). Corporate overstaffing is a signs of hidden unemployment. Slow productivity growth is also a negative aspect (Adams 1994) of the Czech privatisation story. Companies are often controlled through cross ownership of banks and dubious investment funds (Tiusanen & Talvitie 1997). There is a significant amount of cross-ownership in the banks and investment foundations. Ownership of enterprises is not transparent enough; there is no single clear entity to which managers are responsible or accountable in the Czech Republic. Corruption hits most where voucher system has been adopted, and where asset sales are not transparent.

Meanwhile, labour costs are rising (Tiusanen & Talvitie 1997, 22-27). This needs to be addressed through further structural changes, productivity improvements and product-quality improvements. Management capability is weaker than expected. Czech business entrepreneurs interviewed by Clark and Soulsby (1996) complained about high taxes, excessive red tape, and obtrusive local-government inspectors.

2.2.3 Hungary

Hungary started its transition towards a market economy earlier than any other CEE country, during the communist era (Kornai 1990, Shaukat 1997). The economic agents have relatively long experience of operating within the basic institutional framework of a market economy. However, Hungary started the transition with severe economic crises (1989-1992), characterised by negative growth rates, shrinking production and a lack of investment (Shaukat 1997, Lorentzen 1999).

The recovery started in 1993. The economic trends turned upwards and unemployment decreased. Furthermore, domestic demand grew again, the private sector expanded, foreign investments steadily came in and industry managed to export to the West.

The biggest problems in Hungary throughout the transition process have concerned macroeconomic stabilisation (Kornai 1990). Inflation and interest rates have been much higher than desired, although they have started to show

a decreasing tendency, with a relatively stable, predictable downward path. Macroeconomic stability still requires lower inflation and unemployment.

The government has a consensual approach to policy formulation. So far, the market reforms have public and political support - even if some difficult measures have had to be taken, such as the macroeconomic stabilisation package of 1995. Hungary has also been able to service its foreign debt in good time although there are still many years ahead when foreign-debt servicing will constitute a substantial outflow of funds. Hungary's commitment to go further on macroeconomic stabilisation has certainly raised the credibility of the country.

Almost all of Hungary's market mechanisms were quickly in place relatively according to EU evaluation (European Commission 1997). Transactions took place at market prices. Property rights were well defined, and economic actors were able to operate within the framework of the Hungarian legal system.

The price-control situation is similar to that in most of the member states of the EU. Hungary had rather free pricing in 1997 (some prices were controlled in the public services and agriculture). The success in privatising many companies increased the need for an effective competition policy and the regulation of monopoly producers. Business-support services are under development - something that is really needed because so many new SMEs have emerged. This shows that there are low administrative barriers in starting up new businesses. In the industrial sector, the two-digit growth rate of productivity shows improvement in competitiveness. The growing number of small and medium-sized enterprises shows that industrial restructuring is well under way, and a lot has been done to improve competitiveness. More needs to be done to develop social-insurance charges, to control the level of taxation and to reduce public expenditure.

Hungary depends on industry in which over 30% of the workforce is employed. The services are a significant employer only in Budapest where employment in industry is 17%, while in other regions it is over 40%. The regional distribution of income and employment varies widely within the country. Incomes in Budapest are over 200% above the national average, while in some counties they fall to 70% of the average.

An examination of changes in the commodity composition of trade reveals that the comparative advantage of the Hungarian economy appears to continue to lie in processed food and agricultural products, and in miscellaneous manufacturing, mostly characterised by low- and medium-level technological processing (Economic Bulletin for Europe, 1993).

During the first half of the decade, Hungary has attracted the most FDI (foreign direct investment) among all of the transition countries (Shaukat

1997, Borish and Noel 1997, Borsos-Torstila 1999, Appendix 1). Greenfield FDI were flowing into the country even before privatisation started during the first years of the 1990s (Borsos-Torstila 1996, 1999). At the same time, Hungary started its privatisation gradually. It accelerated after mid-1995 with the sale of major infrastructure companies. The government sold monopolies such as electricity and gas utilities, and gave high priority to reforming the public sector. Post-1995 privatisation reflects Hungary's desire to reduce fiscal deficits and public debt, and to boost economic growth and private-sector competitiveness. The strong private sector contributed around seventy-five percent of GDP in 1995, and almost ninety percent of state-owned enterprises had been privatised by the end of 1997.

Foreign investments are effectively transferring technology to enterprises, and have a significant role in restructuring the Hungarian economy. FDIs have been responsible for developing the automobile industry, and the early privatisation of telecommunications services has attracted foreign investment. A restructured, modernised telecommunications system is certainly advantageous for the economy as a whole. Technological capabilities, which are crucial if enterprises are to respond to the competitive measures, are not improved by FDI alone. Despite the decreased spending on R&D at the beginning of the transition, Hungary has a long tradition of good educational standards and R&D commitment.

2.2.4 Poland

Before Poland started its economic transformation in 1990, it was in the middle of huge political and economic upheaval dating back to the 1980s.

The biggest problems were food price increases, which lead to a series of strikes. In addition, the country was unable to service its foreign debt, which was one of the highest in the world at that time. The state-controlled part of the economy was in stagnation and at the end of the eighties Poland was suffering from hyperinflation: the economy was heading for collapse (Paliwoda 1997, Schoenberg 1998).

In 1990, when transition started Poland introduced its "shock therapy". Despite several changes in the government at the beginning of the period (Tiusanen 1997, 7), a drastic and comprehensive plan for developing the economy went through without any steps backwards. Poland was the first among the transition economies in Europe to announce growth in the economy in 1992. The pre-transition output level was reached in 1995, and the country still has a strong growth rate. In fact, the Polish economy has been growing more quickly than the economy of the European Union countries. Annual

GDP growth was consistently above 5% during the period 1994-1997 and around 4% during 1998-2000 (cf. Appendix 1, Table 3). Nevertheless, the business environment and the other remaining challenges are not the same as in the other Visegrád countries.

Accounting is moving towards international standards. There has been substantial legislative reform, but further improvement is still necessary.

Although the inflation rate in Poland is still much higher than in many Western European countries, it decreased from 605% in 1991 to 135% in 1997. The budget deficit is 2.5% of the GDP (1997), and the total government debt is 51% (1997), which is the envy of many current EU member states.

The private sector contributed about sixty percent to the GDP in 1997, and a slightly higher proportion of the total workforce. Poland pursued a relatively slow privatisation policy, especially in banking, insurance, petroleum, chemicals, coal, steel, telecommunications and air transport. All in all, the privatisation of larger industrial enterprises has proceeded slowly, although there is the worldwide tendency to privatise public utilities, including natural monopolies. Privatisation has been viewed as a way to increase state revenue in order to improve national economic performance (Borish & Noël 1997, Cutler 1997, Schoenberg 1998). A better objective would have been to increase private-sector competitiveness.

There are still some restrictions on foreign business participation (Schoenberg 1998). The purchase of real estate requires the permission of the Ministry of the Interior and Administration. Profit and dividends may be repatriated, just like share sales and liquid assets. Inward investment incentives are available for capital inflows exceeding 2 million ECUs, with further investment relief available in six designated special economic zones (Tiusanen 1997).

Prices have been market-driven since 1990, with the exception of energy, public transportation, rents, pharmaceuticals and spirits, which are under state control (European Commission 1997). Some agricultural products are subsidised. This part of the economy contributes significantly to the inflation figures since it represents a major proportion of household consumption.

Polish foreign trade was at least made more transparent in 1990, and gradually changed in compliance with the European Agreement until 1997. However, tariffs were occasionally increased rather than reduced, especially in the agricultural sector.

Direct export support is limited, despite the existence of an institution for supporting export that was established as early as in 1991.

Agriculture still appears to be rooted in its historical traditions (Tiusanen 1997); most notably, thirty-eight percent of the Polish population lives in rural areas, where farming continues to be based around family smallholdings.

There are cultural barriers to introducing and implementing more intensive farming methods. This, in turn, would also cause the necessary migration of youth to urban areas. Nevertheless, the relative importance of agriculture has decreased since the early nineties, and the current share of gross value added is less than 8%. In employment terms, it still ranks highest in the Visegrád countries: about 25% of the workforce obtain their income from farming. The small farms and the fragmented land ownership make it difficult to restructure the agricultural sector. What is more, the economic growth in the transition economies has to come from productivity improvements, and it is difficult for agricultural workers to find jobs in other sectors of the economy. Employment in agriculture has a buffer effect against even higher unemployment. Agriculture is one of the most sensitive issues in negotiations between EU and Poland. On the one hand, European Union countries are afraid of the large size of Polish agriculture, its low level of productivity and that of extending the common agricultural policy to Polish farmers would bankrupt the EU budget. On the other hand, although agriculture is a big part of the Polish economy, there has been a trade deficit in agricultural products with the West since 1993 - mainly because of quality differences.

The pre-transition Polish economy had one advantage over many other transition economies: part of it was already in private hands at that time. In 1989, almost one third of the workforce was working in small private enterprises producing one quarter of the GDP (Shaukat 1997). After the fall of the socialist system, the small-enterprise sector expanded very rapidly. It has more than doubled today, in terms of both employment and GDP. Over ninety percent of the private enterprises are really small ones with less than five employees.

Industry accounts for over 30% of domestic output and 25% of employment today, and is thus a driving force of the recovery. Manufacturing output has increased by 10% annually since 1994. The most rapidly growing industries are food processing and motor-vehicle manufacturing, while the most problematic areas are coal mining, steel and shipbuilding, all of which need restructuring.

The service sector has also grown quite rapidly: foreign retail chains are present in all major cities, as are food, hotel and restaurant chains. However, there is still much more potential for development in tourism, and in business activities such as financial and banking services.

Doubts emerged in late 1997 about the sustainability of Poland's growth (Schoenberg 1998). Businesses are reporting pressure on margins. Behind the quite high inflation rate (13% in 1997), labour costs are rising in real terms driven by the shortage of skilled labour. There is a shortage of motivated and

qualified managerial and professional staff, and signs of infrastructure constraints on rapid growth in commerce.

The state of Polish industry offers considerable scope for earnings enhancement through skill transfer. Absolute wage levels are still so low (Tiusanen 1997) that labour costs in many industries account for a much smaller proportion of total costs than in Western European operations. A major unforeseen difficulty for most foreign and local business actors is the regulatory regime. Changes in tax and other regulations are poorly publicised, and the complex and sometimes uncertain regulatory environment requires local expertise and provision for unexpected changes (Schoenberg 1998).

2.2.5 The Slovak Republic

Slovakia has pursued most of the reforms necessary to establish a market economy. Macroeconomic stability is on a satisfactory level given the low inflation rate, which in turn helps an economy with long-term economic planning.

During its first years of independence, the most remarkable achievement of Slovakia has been macroeconomic stabilisation. Of the Central-European transition economies, it had the highest GDP growth rate in 1995 and 1996, and the lowest inflation. In 1997, however, there were signs of a slight rise in the inflation rate and a high current-account deficit (see the tables in Appendix 1). This is an indicator that the economy is starting to overheat. The macro-economy still has to be sufficiently restrictive, and well co-ordinated. There is no medium-term reform programme for implementing structural changes, which would be followed by the authorities, and would be transparent. Monetary and industrial policy are documented only in short-term plans (EU Commission, 1997).

The Slovak government is still relying on non-market-based mechanisms in price formation and resource allocation. No effective bankruptcy law is yet in place. The economic policy since independence has been characterised by a lack of predictability and transparency (Grayson & Bodily 1998). There is a very low rate of competitive selling of state enterprises, and setting a minimum price on the sale of privatisation bonds is not unusual. The government sometimes even tries to control already privatised enterprises if it is considered strategic. Indeed, the deep, long-standing political crisis was one key characteristic of the Slovak transition. The Prime Minister provoked the crisis, which was even considered a threat to democracy.

Slovak privatisation has gone from the rapid mass privatisation when it formed part of Czechoslovakia to a slower, more deliberate programme since

the split. The second voucher scheme was unexpectedly withdrawn, and the privatisation of banks has been postponed several times. Given the current legislation and young legal system, the procedure is slow and unjust. Despite concern about the state role in the Slovak economy, the private sector accounted for nearly 97% of companies and 71% of GDP in 1996. Probably the main problem in the privatisation process is that it became highly politicised after 1993 (Ivy 1996, Eperjesiova 1999, Orton 2000). Other problems include the huge potential costs of restructuring the biggest industrial loss makers, as well as the low degree of protection for property rights. Protection is needed to encourage investment. Particular concern focuses on the pace of privatisation and on the regional economic disparity (particularly in the form of unemployment). It should be noted, however, that there are other contributors to the unemployment disparity in the regions; the inadequate structure of the existing distribution of industries, market decline due to a lack of competitiveness, and European Union trading barriers in certain industries (Ivy 1996). Thus, the distribution of declining industries such as metallurgy, armaments and textiles, contributes to some of the spatial variation in the unemployment rate in Slovakia (Ivy 1996).

Four districts (Bratislava City, Kosice City, Banska Bystrica and Liptovsky Mikulas) show relatively high (above fifty percent) development of private enterprises and low rates of unemployment. According to Ivy (1996), the success of these regions is due to the combination of a relatively high formation rate for new firms, successful procurement of outside investment, and market growth in the privatised state firms.

There are industry sectors in Slovakia in which one company has a monopoly position, including the steel industry, petrochemicals and banking. This situation does not provide much encouragement for new entrants. Nevertheless, competition is facilitated by a sufficiently open trade regime.

Slovakia has re-oriented its exports (Eperjesiova 1999), following the ending of COMECON trade and the break-up of federation with the Czech Republic. The traditional heavy industries, steel and petrochemicals, are able to produce a range of quality products, but the growth potential of these industries is limited, given the existing excess capacity in Europe. The textile and defence industries need restructuring and modernising. Slovak industry should diversify to lighter sectors.

The country is centrally located: it is, *de facto*, a crossing of east and west, as well as of north and south. There is a need for a competitive service sector, but there is not yet sufficient investment. The microeconomic climate should be improved by restructuring banks and enterprises. Economic growth should accompany the rising competitiveness in order to prevent inflation from rising.

Enterprise restructuring has been generally slow, which is undermining economic growth and external balance.

The regulation of prices in the public services is in line with Western-European practices (European Commission 1997), although the subsidies on household energy have a negative effect on energy efficiency and trade balance. The curbs on rents do not help to increase economic activity in less-developed areas.

A synthesis of the transitional changes in country and company levels follows.

2.3 Synthesis

2.3.1 Country level changes

Radical institutional changes, (North 1997/a, Lorentzen (1999) cause turbulence. The radical institutional changes in this case were the disappearance of COMECON and the other big public customers on the internal market, and an increase in competition from the West. The lack of the institutions and infrastructure that characterise a modern market economy - such as commercial banks and labour-market institutions - fuel turbulence until they are fully established.

However, the first ten years (Comdessus 1999) of transition was a period of stabilisation and consolidation (1990-2000). The changes were truly revolutionary (Csaba 1998, Liuhto 1998) in the sense that the reformers introduced strategies markedly radical in nature. Conditions are specific to each country and that makes each transition experience unique. Moreover, the application of the neo-liberal strategy of transition differs (Paliwoda 1997). It is applied in its purest form in Poland, in a moderate form in the Czech and Slovak Republics, and as a gradual process in Hungary. There are also differences in the privatisation strategies adopted, from the mass privatisation in Poland, to insider/voucher privatisation in the Czech and Slovak Republics, and large-scale sales to foreigners in Hungary (Kornai 1990). These differences are significantly related to the country's performance. The process of reform is largely a product of human endeavour: social, political and managerial undertakings conceived, designed and carried out by individuals, rather than autonomous processes in which the individual plays only a peripheral role.

The next decade will probably see more integration, growth and social progress, and the guiding principles should continue to be strong macroeconomic management, high-quality growth, poverty reduction and a

high standard of governance. A framework has been put in place within which government, enterprises, financial institutions and individuals should be able to work with each other. Today's policies rather than yesterday's obstacles are what determine whether countries succeed (Comdessus 1999). Those that were seen to be acting resolutely to stabilise and reform their economies not only attracted the largest flow of direct investment from abroad, but also reaped the earliest harvest of the positive fruits of transformation.

The world at large has also changed enormously during the ten years of transition. There are numerous ways in which the transition economies could develop within this fast-changing world, and it is impossible to make predictions. It is clear that foreign companies face new challenges in these turbulent environments. While emerging-market-risk discounts on asset prices have largely disappeared, significant value-creation opportunities still remain. Linkages to other markets, privatisation and private-sector development, governments remaining key stakeholders and the development of financial markets are among the determinants of value creation faced by domestic and foreign business actors in the Visegrád markets of today.

2.3.2 Company level changes

The main issues concerning the microeconomics of transition include corporate governance, production efficiency and the functioning of the industrial restructuring (Table 3). The complexity surrounding the microeconomic choices of domestic and foreign companies is worth analysing. This type of analysis could also facilitate additional cross-country comparison among the CEE countries.

Changes are desired on the micro-level, too. Such changes are strongly influenced by the macro-economic, political and social changes the transition economies are undergoing. Changes in products and production techniques are related to the innovation and, ultimately, to the modernisation.

The qualification profile is a relevant indicator of micro-level changes. The trend in the West is to raise the level of general education of the manual labour force and to transfer the planning, controlling and co-ordination of tasks downwards. The indicator is the decreasing proportion of white-collar workers and managers. More flexible organisational forms are developed in the West because of the rapidly changing technology and shifting customer demands. Flexible structures also promote the better use of human abilities on the shop floor. On the one hand, the education level is high in the Visegrád countries, especially in technical fields, but on the other hand, the high proportion of white-collar workers indicates that planning, controlling and co-ordinating

tasks are not distributed according to Western standards (Grayson & Bodily 1998, Lorentzen 1999).

Table 3 Strategic, organisational and cultural transformation

Adopted from Meyer, 1998

From state-owned enterprise	To capitalist enterprise
Production unit	Economic agent
State owned	Privately owned
Low productivity	Competitive productivity
Changes in supply and demand on the factor and product markets	Adjustment of production volumes and inputs to costs and demand
Bargain-driven planning	Strategic management
Products at the end of their life cycle	Products at the early stage of their life cycle
Passive financial transaction	Accounting and financial management
Plan fulfilment	Marketing
Vertical and horizontal integration	New boundaries of the firm
Mechanistic organisation	Business enterprise
Process-oriented management	Visionary management
Large power distance	Reduced power distance
Paternalistic relations, dependence	Co-operative relations, creative conflict
Promotion criteria - political	Promotion criteria - merit
Information - source of power of individual	Shared information - source of competitive advantage of the firm
Sponsored social activity	Business and social life separated
Individual - part of the family	Individual - agent related to the firm by contract

The necessary change of organisation is emphasised by the entirely new challenges of market orientation (Grayson & Bodily 1998, Savitt 1998). Organisations were characterised (Table 3) by a hierarchical structure, centralised decision making, top-down lines of decision and communication, and extended division of labour and specialisation of different tasks (Child & Markoczy 1993, Lorentzen 1999). Horizontal co-ordination was rare, and a

high number of specialised departments and the integration of lots of different activities within the organisation characterised socialist companies (Khanna & Palepu 1997, Grayson & Bodily 1998). The organisations were vertically integrated, and according to Meyer 1998 and Lorentzen 1999, marketing design and construction were not well represented.

Today, cost efficiency is a key concern. Managers are survival oriented and focus on sustaining cash flow. The defensive reaction to deeper restructuring suggests a need for new and innovative business strategies and investment (Meyer 1998, Grayson & Bodily 1998) in order to improve efficiency and reduce production and transaction costs (Grancelli 1995). Theoretically, new management forms are emerging as Western competitors and investors arrive. In practice, most MNCs have established subsidiary companies (Meyer 1998) in the CEE with rather similar hierarchical structures, centralised decision making and top-down lines of connection between the host-country operation and the HQ.

The regulation system of planned and indirect supply-and-demand relations (Grayson & Bodily 1998) is changing radically towards market-based direct relations. Trade relations today are privatised, decentralised and diversified, and operating companies should be able to cope with more unstable relations. The ability to handle direct relations is a required capability of any company on the market (Swaan & Lissowska 1996).

The export markets shifted from East to West. In practice, the increase in the number of customers is another challenge. Companies communicate directly with their customers, and receive specific customer demands and feedback. They should be able to co-operate with them about product development. The role of the customer is no longer secondary.

There are changes on the supply side too, with many new, smaller suppliers. Privatisation split the supplier companies and, at the same time, suppliers started to come from abroad as imports increased. It is still common for domestic companies in the transition economies to buy raw materials and to undertake all phases of production themselves. They are less likely to sub-contract and purchase components. Because competition is increasing drastically, component purchasing, and sub-contracting will increase in the future, too (Lorentzen 1999)²⁰.

Table 3 illustrates the theoretical scope of transformation at the company level. However, it is unrealistic to expect all of the characteristics to be displayed by any single company - even in the West. All in all, changes on the domestic market have been more drastic than on export markets. In any case, the Fordist-inspired, planned-economy tradition did not vanish entirely

²⁰ For evidence of a similar tendency world-wide, see Rifkin 1997, Julien 1996

(Grayson & Bodily 1998). The turn to the West has been realised by exporting at low prices rather than by fundamentally changing the organisations, which remains complex, hierarchical and low-cost conscious. The development of inter-firm relations is required in order to foster innovation and competitiveness. Enterprise transformation takes more than reacting to economic incentives (Meyer 1998), and changes in the institutional environment could induce only part of the necessary transformation. Companies need to have access to capital markets in order to finance investment in highly imperfect conditions. They have to acquire/build up new capabilities and corporate governance in order to compete in a capitalist economy.

In this chapter, I aimed to put the research report in context i.e., the Visegrád markets. In agreement with Johns (2001), the context provides constraints on or opportunities for behaviour and attitudes in organisational settings. Therefore, it was crucial to provide information relevant to the theoretical and methodological approach being used.

3 THE THEORETICAL DEPARTURE

Many companies have been operating internationally for a long time, and many others are currently making important foreign-market-entry decisions. Undoubtedly, there will be always companies entering markets, and even entire industries moving from one market to another (cf. the "Flying geese pattern" of Kojima 2000, Ozawa 2002, and the product life-cycle theory of Vernon 1966, 1979). Entering a new market is one of the firm's most important strategic decisions, and requires a major commitment of financial and managerial resources (Hansén 1981, Mitra and Golder 2002). Similarly, when it comes to further growth and expansion on a foreign market, equally important decisions are made.

This study started with empirical data collection. *My opinion was, at that time, that processes of foreign-market expansion and business-relationship development were interdependent in such a way that business relationships may have been an efficient tool in pursuing foreign-market expansion. I therefore, investigated the two processes simultaneously in the selected case operations.* At the start, I tentatively used loosely coupled assumptions, which guided the research process. These assumptions and their premises are explained in the following section.

3.1 The starting points

Internationalisation is defined as "the increasing involvement in international operations" (cf. Welch and Luostarinen 1988). In other words, internationalisation²¹ is characterised by the company's efforts to expand its activities outside the home market (Hansén 1981). Calof and Beamish (1995) saw it as a process of adapting the firm's operations (i.e., structure, strategy²² and resources) to an international environment. According to Beamish (1990),

²¹ Obviously, there is an inward-outward inter-link (Luostarinen and Welch 1988, Korhonen 1999, Fletcher 2001). Outward activities are partly dependent on inward performance, supportive government actions and international subcontracting. The internationalisation concept includes both inward and outward operations of companies (Korhonen 1999). Outward internationalisation refers to the same phenomenon as foreign-market expansion, FME. FME is the focus of this study.

²² According to Chandler (1962, 13) strategy is "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

internationalisation is the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries. This definition is used in this study, because it recognises that internationalisation has *both economic and behavioural components*. The definition is processual and it implies that internationalisation is a *dynamic and evolutionary process* (Coviello and McAuley 1999).

The concept of foreign-market expansion refers to international market development from the point at which the company made the decision to operate outside the domestic market. It refers to the *growth of business*, in terms of growing sales volume, growing turnover and growing profit in the foreign markets entered. This growth leads to increased complexity. Complexity may be related to the adaptation process. Foreign-market expansion (Figure 4) falls within the larger process of internationalisation and should be seen as a complex, evolutionary growth process. *Both economic and behavioural elements should be considered in attempts to explain the FME process*. This is the process that is primarily under investigation in this study (Figure 4, left-hand side). The figure introduces all the concepts that I deal with in this section, and gives a preliminary understanding as to how they are related to each other.

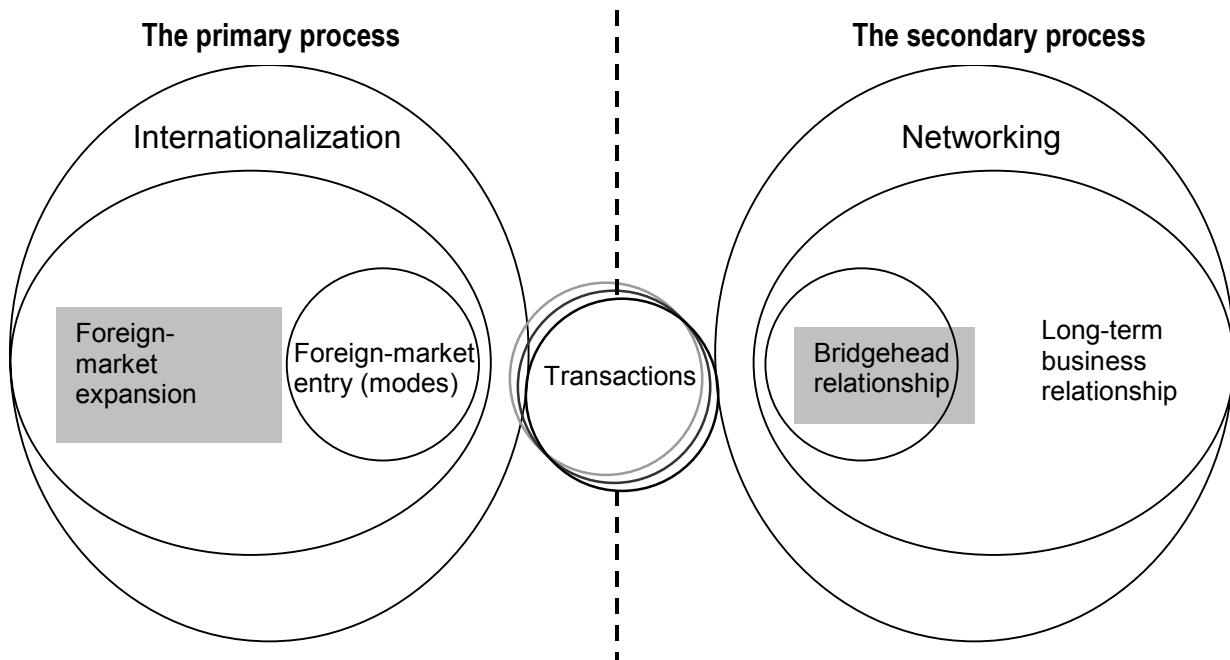


Figure 4 The processes under investigation

Given the focus on the FME process, important issues relate to the external environment (i.e., the context). Organisations have to face two different types

of changes, a series of small incremental changes and sudden dramatic changes in environmental conditions (Haveman, 1992). As far as the Visegrád countries are concerned, the development of the transition process represented major political, institutional and economic changes during the 1990s. In contrast, organisational and environmental changes in developed markets have been described as more or less evolutionary and adaptive processes (Liuhto 1998). There are calls from both academics and practitioners, to re-evaluate the suitability of views on evolutionary adaptation (e.g., Meyer and Münschen 1999). Moreover, even if two geographically close countries (e.g., the Czech Republic and Hungary) have similar operating conditions and government policies at one point in time, they do not necessarily change in tandem over time (Mascarenhas 1992, Nasierowsky 1996). Furthermore, customers' responses or behaviour during the transitional changes may vary substantially within the region. The entry and exit of firms, related to a Visegrád country's infrastructure²³, is often controlled at the national government level. *I assumed that, in such situations, there might be a need to involve local partners in the expansion strategy.*

Companies, as the Finnish case companies did, may conquer new territory that has not been served previously by their product or service, or by any of their direct competitors. When the company is the first on a market, it does not meet direct competition, and it has the *opportunity to become established as the new standard in the product category concerned*. At best, pioneers achieve long-lasting perceptual prominence that may lead to inter-market spill-over effects. However, this advantageous position might change over time. The number of entrants and their market performance may vary in terms of the temporal measurement point. Later entrants may still have opportunities when the market matures. New entrants erode the pioneers' initial monopoly while at the same time, demand and operating uncertainties may decline, and customers may require better terms. New entrants might appear more willing/able to meet such requirements. My assumption was that the companies that entered the Visegrád market during the early nineties may not have been in a monopoly position for long.

Entry mode (Figure 4, right-hand side) is widely seen as the means of entering foreign markets. Welch and Luostarinen (1988) suggested that changes in entry mode reflect the overall internationalisation process. In other words, internationalisation was seen as growth process by changing operation modes. Entry modes are the institutional arrangements that allow firms to market their products or services in a country (Calof and Beamish 1995). According to Dunning (1980), the possession of ownership advantages

²³ I mention this issue early because it is assumed to be relevant to the cases in this study.

determines which firms supply particular markets, but location endowments may explain whether a firm will supply a particular market through exports or through local production. He suggested that the entry mode should be chosen specifically according to the characteristics of the host country, industry and firm²⁴. Changes in entry and operation modes could be considered as a part of the adaptation process, which the expanding companies might consider in the foreign environment (Petersen and Pedersen 1997, Pedersen and Petersen 1998). Change in operation mode is apparently the most visible element of the internationalisation process. Nevertheless, the entry/operation mode is a structural rather narrow concept *within* the FME process.

The classification of entry modes developed by Young et al (1989) was chosen for the data collection in this study. They categorised entry modes according to the degree of risk taking and the degree of investment. The classification is based on an evaluation of the forecasted economic and mutual gains in terms of perceived uncertainty. The simple categorisation (see Appendix 2) did not indicate the flow of changes in operational mode (i.e., it revealed little about processes). Luostarinen (1979) developed a different characterisation of entry modes²⁵.

It is very probable that companies do make changes in their operation modes over ten years. New modes might be applied in parallel in order to increase sales, services and production. All in all, the role of entry-mode change could not be determined beforehand in this study. Although it is relatively easy to identify and define it was not certain whether it would be the element about which the managers were most concerned during the process of foreign-market expansion. Indeed, one aim of this study was to determine what the case relationships did and/or do in terms of entry-mode choices, rather than to discuss what companies in general do or should do. I will discuss the pros and cons of this concept in sections 3.2 and 3.3, mainly by elaborating on the problems that may arise if we do not see beyond this visible element of FME.

Further, both entry-mode changes and the development of relationships on a foreign market reflect the continuum of exchanges in which firms are engaged (Möller 1994). *This relationship development is a parallel, supporting process to international involvement. It is a necessary component of it, but as can be seen, as a means of achieving the objectives of the primary process, it is*

²⁴ In fact, the selected Finnish case companies pursued expansion on emerging markets. They were in B-to-B operations, selling systems to buyers. These buyers were in network business. Both case companies were medium-sized and production-oriented. Following Dunning's line, these would be the main characteristics to which the companies needed to match their expansion strategies. The question in this study is how they did that.

²⁵ My feeling was that the Young et al (1989) terminology might have been the more familiar to the respondents. I will return to this issue in Chapter 4.

considered secondary here (Figure 4, right-hand side). In today's business world, understanding the interface between the two gives a more thorough picture of the international expansion of a company.

This idea gained support from the arguments of Webster (1992), Möller and Wilson (1995), Gummesson (1996, 1997), Anderson-Narus (1998) and the IMP Group (1982), according to which long-term customer relationships, partnerships and strategic alliances should be considered one of the key strategic resources a company possesses. Eriksson and Chetty (1998) expressed the opinion that what is most important in a long-term relationship may be the jointly acquired knowledge²⁶. In accordance, Johanson and Mattsson's (1988) opinion was that a firm's success in entering new international markets was more dependent on its relationships within current markets than on the host market and its cultural characteristics. They saw relationships as being crucial in terms of current and future growth.

The key concepts related to the secondary process (Figure 4) are transactions, long-term business relationships and networking. I consider bridgehead relationships (BR) to be a specific type of long-term relationship. Clearly, without transactions of goods, services, money and ideas (Figure 4) there are limits to the meaningfulness of speaking about business.

Transactions are discrete economic connections that are pursued mainly in the actors' self-interest (cf. Mittilä 2000). Relations based on discrete transactions may be dissolved without major transaction costs mainly because the actors do not have common goals. One-off sales in response to an unsolicited inquiry from an unknown customer on a foreign market could be considered a discrete transaction.

Relationships refer to deeper connections that encompass mutual economic interest and orientation (i.e., a common goal) interactions and commitment. Transactions, as defined above, can no longer be seen as discrete economic connections, but rather they form series of interconnected connections over time. Within interacting organisations there are usually multiple human (individual and collective) and technical actors affecting the holistic relationships between them. Frequent orders from a foreign customer may mean a long-term relationship, and it may be assumed that regular transactions are facilitated by and concern more people in the buyer and seller companies.

Transactions and relationships constitute networks that may or may not be identified by an observer. Networks could be understood as collective relationships or systems in which actors, resources and 'activities' interact

²⁶ Knowledge in companies is nevertheless created in several ways, not only through relationships. Here, knowledge creation refers to my presumption that it is a key element of the secondary process, and it is mentioned as a preliminary assumption in relation to it. For a more detailed discussion, see sections 3.2 and 3.3.

(e.g., Håkansson and Snehota 1995). For example, a customer company may have other relations as well as those with its suppliers. They are both selling and buying goods, and acquiring and borrowing resources from each other. This might very well be the situation among actor companies of different countries.

Relationships may become bridges to foreign markets and provide firms with the opportunity and motivation to internationalise (cf. Eisenhardt and Sull 2001). These bridgehead relationships (Figure 4) were selected as the unit of analysis in this study. Bridgehead relationships are the kinds of relationships that are sought when *the company prepares for further expansion and connect itself to the local business environment* (Eriksson and Chetty 1998, Blankenburg-Holm and Eriksson 2000). They may be the very first or one of the firsts in the newly-entered market, and may be used for accelerating expansion on the new market and enhancing the company's competitive position. Their relevance could be considered in terms of assessing local-market knowledge and obtaining initial credibility. A bridgehead relationship might be an effective means in the beginning of harnessing a marketing infrastructure and levering marketing capabilities. It may also be important in accessing established distribution channels. These issues point to the possibility that bridgehead relationships may be of the utmost importance *reducing market-entry costs, risks and time*.

So far, *how* managers create and work with relationships in order to improve the companies' performance on a foreign market has not been fully explored. Earlier studies have rarely focused on both processes at the initiation of the investigation. This perspective created challenges for this research, too. Some earlier studies seemed interesting however, particularly from the field of B-to-B (business to business) suppliers selling technically oriented products, as the case companies of this study operate on the Visegrád markets. According to Eisenhardt and Sull (2001), it is probably less than reasonable to maintain a wide array of relationship options in turbulent environments. They argue that the stronger the bonds that are developed between partners, the more risk might be created in the light of potential trouble-of-exit and resource constraints. In addition, Coviello and Munro (1995), in their study on software companies, observed a pattern of protecting technical-oriented activities, and outsourcing activities related to the market and the customer. This may shed light on how companies deal with both avoiding undue risk and positioning themselves quickly on a market during relationship formation. Their study indicated that companies entering a foreign market maintained control over their new product-development decisions and other technology-related activities, such as technical services. Activities that were often shared with a local partner included competitor analysis, customer education and training,

promotion, market research and, above all, the sales process. In other words, the companies *often relied on host-country relationships in their marketing-related activities*. Thus, they sacrificed some control over their operations in order to complement their weaknesses in marketing and to access the market. Nevertheless, the original desire might have been to gain back some of the lost market control and to preserve their independence by developing internal marketing capabilities later. Nevertheless, as discussed further in section 3.2.2, the network studies of the Nordic School have argued that some loss of independence and revenue sharing characterises inter-firm co-operation, but such co-operation enables firms to position themselves in a foreign market more quickly.

Altogether the above findings were interesting and suggested that the number and characteristics of relationships formed in a foreign market, *the role and the importance* of the local intermediaries should be evaluated. More clarification of the bridgehead-relation concept was needed. *It is suggested here that any actor in the host market may fulfil the bridgehead function* (even a local employee). The partners involved in bridgehead relationships based on joint expectations about economic gains develop mutual commitment, trust and expectations, and jointly acquire adequate new knowledge, as with any type of long-term relationship (e.g., Ford, ed. 1990, Eriksson and Chetty 1998, Blankenburg-Holm and Eriksson 2000). As mentioned above the bridgehead relationship is considered one special type of long-term business relationship in FME, although it may be difficult to evaluate its impact on performance. The bonds between the partners involved could be considered relatively strong, given the assumed joint expectations about economic gains and mutual trust, if they exist. On the other hand, the entering firm usually keeps some part of the marketing control, and develops appropriate marketing/sales activities in-house (Coviello and Munro 1995), because the chance of choosing the wrong bridgehead partner might not be minuscule. The negative effects could be estimated in situations in which a relationship had been planned as a bridgehead relationship, but did not meet the requirements. This could happen when the entering company attempts to build a bridge via a non-committed or non-qualified relationship in the new foreign market. The effect on international development (i.e., FME) may be such that the process may become a non-gradual one. All in all, it is necessary to keep an eye on how a discrete business contact may be used as a bridgehead relationship. In terms of FME, it should also be remembered that the marketing activities are not a fixed part of the total cost of foreign operations. This is one reason why changes of power in bridgehead relationships (i.e., how important the partners are in terms of expanding in the market over time) need to be studied as well. It was with these pre-assumptions in mind that the buyer-seller relationship

development model²⁷ created by Dwyer - Schurr - Oh (1987) was selected as the other theoretical tool for collecting the data.

Dwyer et al (1987) conceptualised five tentative phases of buyer-seller relationship development (see Appendix 2). These phases represent the major transitions in terms of how the parties regard one another as the relationships develop. First, the awareness phase is that of the unilateral consideration of potential exchange partners. The exploration and expansion phases, with five sub-processes in each, enable the partners to develop deepening mutual dependence. It is through the sub-processes - attraction, communication and bargaining, the exercise of power and justice, and the development of norms and expectations that the partners create shared values and governance structures and they may support further joint investments in the relationship. The fourth phase is the commitment phase during which contractual mechanisms and/or shared value systems support sustainable interdependence. It is in this phase that mutual inputs are significant and consistent, when partners resolve conflicts and adapt to each other. Finally, the authors focused on failing relationships. They considered dissolution an alternative developmental route, and discussed how it might evolve from any of the other four phases. Thus, the DOSch model offered a broad and detailed view on relationship development, and the phases seemed to be applicable in bridgehead relationships.

I collected data on the two processes described in Figure 4, because I assumed that *the relationships with local partners would be a key factor in the whole FME process*. In other words, the bridgehead-relationship cases in question followed the primary process (FME) on the emerging market. Entry mode was expected to be the most visible element. *It should be kept in mind that this study investigated first-movers' entry* as the Finnish companies in question entered the Visegrád market as true pioneers. The study specifically focuses on the entrants' survival simultaneously on all country markets of the Visegrád region, including the later developments: in other words, it consists of a series of longitudinal case studies.

3.2 An overview of the research traditions of international business (IB)

The influence of multinationals has been on the increase ever since the second half of the 20th century. Countries were the main catalysts of the globalisation process before World War II, but multinationals have taken over in recent

²⁷ The model is referred to as the DOSch model throughout the report.

decades (Hill 2002). Their importance is reflected in the theories of international business that have emerged. The aim in this section is to introduce the main theoretical frameworks developed within the research tradition of international business. The key contributors of each theoretical framework, as well as the work of Weisfelder (2001) as a summariser of the IB research tradition, are assessed. Like her, I argue that the tradition comprises six not fully reconciled and/or integrated research streams.

The schools of thought that are presented are the industrial-organisation theory, the internalisation theory, the eclectic paradigm of international production, the transaction-cost theory of internationalisation, and the frameworks created by the so-called Nordic School of International Business Research.

3.2.1 IB research traditions with roots in economics

A common foundation of the industrial-organisation, the internalisation, the eclectic and the transaction-cost theories has been the work of Coase (1937). He concluded that firms exist because there are costs involved in using the price mechanism for allocating resources, and argued that the transaction is organised within the firm when the costs of discovering the price and negotiating the contract are high.

Industrial organisational theory (Hymer 1960) falls within the domain of decision making by firms about their initial act of investment. The focus of the theory is on understanding the trend in one form of FME, foreign direct investment from the U.S. to Canada and Europe. It explains why some key factors of production are transferred overseas as an alternative to trade, and emphasises the critical role of control through the ownership of assets in foreign markets. One significant insight was that part of the host country's GDP falls under the ownership and control of foreigners in the case of production investment. The main question was why investors wanted to control foreign affiliates. The theory did not accept the assumption of perfect markets and the free flow of information. The common thread in the work of Hymer (1960) and his followers (e.g., Kindleberger 1969, Caves 1971) is the search for a means by which an international firm could create and exploit barriers to entry, and thus compensate for the higher costs of operating in a foreign environment. Indeed, it is assumed that operating overseas is more costly than doing business at home. This assumption was considered pivotal within industrial-organisation theory, and might not apply in the global

business environment of today. The explanation offered is partial²⁸, because it shows why success is possible in foreign markets. According to Weisfelder (2001), the other question concerning why success should be attained through FDI remains unanswered. Given the inadequacy of the industrial-organisation theory in explaining the existence and growth of multinational companies, it was in response to this empirical problem that the internalisation, the eclectic and the transaction-cost (TC) theories of internationalisation developed. The focus of research shifted from the investment to the firm making the decision. The TC theory of internationalisation developed independently of the other two, which evolved in quite close proximity and interaction.

Internalisation theory (Buckley and Casson 1976) has its roots primarily in the general equilibrium theory of classical economics. The original objective behind the approach was to use the concept of market internalisation in the firm in order to develop a model of the growth of the firm (Buckley 1988). The emphasis is on the need to replace an inefficient external market with an internal market - the firm. The theory holds that a private enterprise²⁹, rather than the state, should decide where the boundaries between firms and markets should be drawn. Moreover, competition through entry and exit will select the most efficient scale and scope of firm within a given environment. This theory was claimed to be the general theory of FDI. It concerned why multinational firms grow, and under what conditions their inter-dependent activities should be co-ordinated by the focal firm. Two general axioms were accepted (Buckley 1988); "(1) Firms choose the least cost location for each activity they perform, and (2) firms grow by internalising markets up to the point where the benefits of further internalisation are outweighed by the costs." The assumption was that multinational firms exist because they internalise across national boundaries. It was claimed earlier that it was not the possession of unique advantage, but how the company was able to internalise its competitive assets rather than to buy them (i.e., internalisation interpreted dynamically Buckley 1988) that mattered. In their recent work, Buckley and Casson (1998) emphasised that the strength of competition from host-country rivals³⁰ is a determinant of an entry strategy.

²⁸ The question raised by Coase (1937) has still not been fully answered. Why do the boundaries between the administrative allocation of resources within firms and the market allocation of resources between them fall where they do? More recently, researchers (e.g., Hagedoorn and Narula 1996, Osborn and Hagedoorn 1997) have tried to answer this question by suggesting that failures in the markets for intermediate goods usually bring about vertical integration. Failures in the market for know-how lead to horizontal integration or co-operation. Different capital markets may lead to either type of integration.

²⁹ Whether economic activity should be organised in the public or private sector (central planning versus markets) was the key question addressed by the leading Austrian economists (Hayek 1937).

³⁰ Cf. Porter (1990, 35), for whom host-country rivals (both among existing competitors and involving the threat of new entrants) are key determinants of industry competition.

The complexity of international operations from the company's viewpoint has come into focus during the past two decades. This was reflected in the ownership-location-internalisation (OLI) paradigm of *eclectic theory* created by Dunning (1980, 1988, 1995 and 2000). In terms of complexity, the starting point was that firms transform inputs into more valuable outputs. Dunning's research question concerned why firms produce overseas. Behind the name *eclectic theory* is the careful selection of other economic theories³¹. The capability³² of foreign production (i.e., ownership advantages) determines which firm has advantages over other firms in producing in the same location. One type of input is location-specific, e.g., natural resources, labour and government legislation. Another type is firm-specific, which the firm has developed itself or acquired from elsewhere, i.e., technology or organisational skills (Dunning 1980, 1988, 1995 and 2000). By distinguishing between input types, Dunning explicitly considered trade and investment as alternative ways of approaching and expanding on foreign markets. FDI occurs when firms gain advantage by internalising their foreign activities. Additional ownership advantages may arise from the different location-specific advantages in different countries. Internalisation advantage explains the desire and ability of firms to allocate resources through their own control procedures rather than through market mechanisms.

The *eclectic paradigm* assumes that the advantages of ownership are already there when foreign production starts. The creation of ownership advantage is not discussed in the paradigm (cf. *Internalisation theory*, Buckley 1988). Patterns are predicted by observing location factors (external), and the firms are viewed as merely production units that transform input to output. The internalisation advantage came into the OLI paradigm later under the influence of Buckley and Casson. The relationship between location and ownership advantages is assumed to make the model dynamic. The criticism against this FDI theory (*eclectic/OLI paradigm*) is that it explains the pattern of investment in terms of its extent, form and location of international production, but not as a long-term process of international expansion (Johanson and Mattsson 1987). It is an analytical framework for accommodating various determinants of the existence of large multinational companies and FDI.

The emphasis shifted away from why firms grow by exploiting a monopolistic advantage in foreign markets and bringing in an imperfect market, to the use of market contracts or hierarchies to organise economic activity in foreign markets. The *transaction cost theory* (Williamson 1991)

³¹ E.g., Modern trade and location theory (cf. Dunning 2000) and industrial-organisation theory (Hymer 1960) are incorporated into the *eclectic paradigm*.

³² Capability refers to the size of the enterprise, its monopoly power and its ability to obtain and use resources.

aimed at predicting the institutional choices made by firms, and viewed firms and markets as alternative means of organising economic activities. The assumption was that social organisation is needed because the interests of individuals and society may diverge. The need for communication³³ and methods to reward individuals was evident to the transaction-cost theorists. They argued that the relative costs of these activities in different environments determined the institutional (governance) choice. Hennart (1991) concluded that firms were more efficient than markets under conditions of large volumes of information, small numbers of engaged parties, recurrent long-term exchanges and high levels of uncertainty. Integration may be preferred when the firm possesses specialised knowledge, and when agents are difficult to find. Such cases usually involve products that require high-level service, are differentiated and less mature. Other requirements include a relatively high level of transaction-cost-specific assets in the sales force and low psychic distance. Hennart's theory (1991) explained the vertical and horizontal expansion of multinational firms, and the decision of firms to acquire their own production facilities overseas rather than to appoint licensees or allow foreign imitators to produce. More recently, Hennart (1994) applied his TC theory for internationalisation in his analysis of institutional choices in terms of governance that minimises organising costs.

Probably the main criticism of the transaction-cost theory was that it viewed alliance formation³⁴ as a temporary mechanism for multinational enterprises in the pursuit of expansion (Collin and Larsson 1993). Relationships were seen as instruments that reflect choices among market, hierarchies and hybrid forms (Williamson 1991, Grandori 1997). According to the critics (e.g., Johanson and Mattsson 1988, Anderson and Narus 1998, Eriksson and Chetty 1998), co-operation might have a variety of functions (cf. Gummesson 1996, 1997), and an importance that is more fundamental. Given these pros and cons, my assumption was that relationships could become bridges to foreign markets, and provide the entering firm with the opportunity and the motivation to internationalise. This type of relationship may accelerate (or hinder) expansion and enhance the competitive position (see section 3.1).

These four theoretical frameworks focus on larger multinationals, on the conditions under which the production activities are established, and on the choices made between greenfield ventures and acquisitions abroad. They are all rooted in economics, and consequently some of the findings must have relevance for smaller-sized companies. However, the frameworks are rather static and are mainly useful for analysing one-off decisions of large

³³ A means of curbing bargaining

³⁴ The terms alliance formation and long-term-business-relationship development are used interchangeably in this study.

enterprises. They assume that the larger the investment, the more likely it is to provoke rational decision making.

Today, the empirical problem in international business has shifted towards understanding non-equity forms of operations. Multinational enterprises have recently been seen as linked entities, linked by ownership or otherwise. Nevertheless, it is assumed that one or more of the co-operating enterprises may be able to exercise significant influence over the activities of others (cf. Dwyer et al 1987). This study is geared to achieve a deeper understanding of smaller sized firms and to capture the complex and dynamic process of FME in emerging markets in which it is assumed that social and behavioural elements also have relevance. In this context, research traditions with roots in behavioural theories may be of interest. This is a good point at which to turn to the Nordic School of international business.

3.2.2 IB research traditions based on the behavioural and social sciences

The Nordic School seeks answers to questions concerning why firms pursue international involvement, and also addresses issues to do with how international involvement takes place in terms of the underlying forces of the process (Björkman and Forsgren 1997, Weisfelder 2001). The emphasis is said to be on sequential growth (cf. Penrose 1959, Forsgren 2002), behaviour (cf. Cyert and March 1963, Forsgren 2002) and context (cf. Julien et al 1997). Both branches of the Nordic School, *the Uppsala stages models* of Johanson and Vahlne (1977, 1990), and the related work of Welch and Luostarinen (1988) and *the network approach* to internationalisation (Johanson and Mattsson 1988) share the same roots.

The Uppsala models describe the process of increased dependence on internationalisation. The greater the dependence, the more the commitment to operate internationally was assumed. The supporters of the Uppsala model seem to agree that a company starts by being unwilling to export, goes through various stages and finally becomes an experienced and highly-committed multinational (e.g., Luostarinen and Welch 1990, cf. Turnbull 1987, Bell 1995). According to this establishment-chain model of internationalisation, a company first chooses the market that is closest in psychic distance, and after acquiring experiential knowledge it will increase its involvement in more risky and higher-investment modes of operation (Johanson and Vahlne 1990, Coviello and McAuley 1999). By that time, it may also be entering markets at a greater distance. The underlying idea of uncertainty avoidance has permeated this school of thought from the start (cf. Carlson 1966).

Involvement in foreign-market operations is a step into the unknown. According to this understanding, supporters of the stages-models see firms as usually being reluctant to initiate export. Nevertheless, acquiring experiential knowledge is assumed to be the core process³⁵ (e.g., Eriksson and Chetty 1998) after export operation has been initiated. The concept of psychic distance (Vahlne and Wiedersheim-Paul 1973)³⁶ was developed to explain the sequence of market entry. Psychic distance is a multivariate concept, denoting factors that inhibit trade and information flow between countries in a wide sense. Several indicators are used (Vahlne and Wiedersheim-Paul 1973, cf. business distance in Luostarinen and Welch 1990). These are the level of economic development and the difference between countries, the level of education and the difference between countries, and differences in the languages used in business as well as in everyday life. It has been argued that psychic distance disturbs the flow of information and knowledge between a firm and its market, and thereby invokes risk and higher costs of doing business abroad (cf. O'Grady and Lane 1996).

The network approach to internationalisation proposes that interconnected exchange relationships evolve in a dynamic, less structured manner, and that they are the key drivers of international involvement (Turnbull 1987). The increased mutual knowledge and trust lead to greater commitment between the actors on the international market. This process is not solely dependent on the behaviour of the focal firm (cf. the ARA model, see e.g., Håkansson and Johanson 1992, Håkansson and Snehota 1995).

The network theory does not reject the psychic-distance concept, and does not challenge the incremental nature of internationalisation (Table 4). However, it does suggest that the whole process is much more complex and less structured than the simplified view in the stages model suggests.

³⁵ My definition of a core process would be that it has the capacity to explain variations in all lower-level concepts and processes relevant to the complex processual phenomenon of FME. In contrast, Glaser (1992) offered the definition to the concept of basic social process that is such which has the capacity to explain variations in all lower-level concepts and processes relevant to complex phenomenon under investigation and that to be identified by grounded-theory analysis in a phenomenon. In this study 'core process' and 'basic social process' used interchangeably since the definition is the same for the two concepts. (For a more detailed discussion, see sections 3.3.4 and 4.2 as well as the interpretation of the results in Chapter 7)

³⁶ According to Bell (1995), Burenstam-Linder (1961) first came up with this concept.

Table 4 Stages of Internationalisation According to the Network Perspective
 Adopted from Johanson and Mattsson, 1988

Internationalisation according to the network perspective	
<i>Stages</i>	<i>Critical activity</i>
1. International extension	Establishment of a position through relationships with counterparts in national nets, which is novel to the firm.
2. Penetration	Developing a position by increasing resource commitment in the networks abroad in which the firm already has a position.
3. International integration	Increasing co-ordination between positions in different national nets.

Researchers putting forward a network view on internationalisation and international growth explicitly discuss the advantages of relationships with other firms. Changes within the process are determined by the market positions that the firms create, possess and try to defend (Johanson & Mattsson 1988). Economic, technological and institutional factors all influence these changes.

The market position is defined by the role of the firm in the network, by its importance in it and by the strength of its relationships with other firms (Johanson and Mattsson 1988, Ford ed. 1990, Möller 1994). More precisely, market position could also be seen as being determined by the place of the firm within the international value chain (Holmlund and Kock 1998). Consequently, a firm may become an exporter in order to defend its position in the chain, on the basis of which its network contacts might even push it to operate on a foreign market (Holmlund and Kock 1998, Majkgård and Sharma 1998). These authors stress the importance of the network context in terms of factors also considered influential in the social network in which the companies are embedded. These factors may influence the perception of barriers to foreign-market involvement, business goals, and the attitude/or commitment³⁷ towards FME as a business strategy for creating competitive advantage.

The argument put forward in the network theory (Johanson and Mattsson 1988) is that companies mutually increase knowledge through networking (cf. the earlier discussion on networks as systems of transactions and relationships, section 3.1). Trust develops between network participants over time, and a trustful partnership increases competitive advantage, which in turn may help

³⁷ Håkanson and Snehota (1995) discuss two types of commitment. Tangible commitment is expressed by investments in the economic context. Intangible commitment is investment in the social context e.g., time spent in establishing good social relationship.

the company to extend its external environment towards foreign markets. Some loss of independence and revenue sharing is inherent in inter-firm co-operation, but it also enables firms to position themselves in a foreign market more quickly (cf. section 3.1).

In the development of the Nordic School there can be seen the direction towards integration of the two streams of researches. In this respect, Covello and Munro (1997) suggested *integrating incremental internationalisation and network models*, especially for cases in high-tech industries. They found evidence of externalisation of market-development activities through investment in network relationships. In high-tech cases, the establishment chain of foreign-market involvement appeared to be more rapid than the original stages-models suggest, and in this case was compressed into only three stages. The argument for integrating the two perspectives of the Nordic School may not be the best option while investigating foreign-market expansion. Conceptually, the argument for integration is based on the cumulative nature of both, the network development and the learning process inherent in internationalisation (Axelsson and Johanson 1992, Eriksson et al 1997). It is admitted however, the difficulty to incorporate timing into the explanations (Johanson and Mattsson 1988), although empirically, the importance of timing cannot be denied or ignored (e.g., Halinen and Törnroos 1995).

3.2.3 Summary

These 'traditional' theories have been under development for three decades, beginning during the period when international business was conducted almost only within the 'Triad powers'. Since the eighties, given the ever-increasing pressure of globalisation³⁸, emerging markets have also had a share of international business.

The above-discussed research traditions have not been fully reconciled, or integrated. Rather, these theories could be considered small schools of thought (Weisfelder 2001) within the international-business-research tradition. This is because in order to solve different empirical problems, researchers strive to apply and test elements of these schools of thought. Each of them explains the existence of smaller and larger companies and export/foreign production somewhat differently (see above). For instance, TC theory focused only on the

³⁸ However, globalisation should not be confused with covering geographical markets on a global scale. For companies, globalisation means serving important markets that are defined in terms of business customers and business opportunities, regardless of their geographical location (Zettning and Jokela 2002).

cost side, rather than on revenues (Meyer and Münschen 1999). My opinion is that, on this point, the TC theory has such an influence on the Nordic School that here, too, the revenue side of FME is often overlooked. I agree with Meyer and Münschen (1999) that both efficiency and efficacy have to be considered in the context of specific situations on a market. In any case, the focus of TC theory is on organising economic activity in foreign markets, whereas the Nordic School aims to explain how international involvement takes place in terms of a few underlying forces.

Weisfelder (2001) argues that IB theories lack conceptual clarity because of generality and imprecisely defined terms. The internalisation theory and the eclectic paradigm seem to be too general. The former does not have enough restriction (Buckley 1988), while the latter lacks a consistent level of analysis (cf. Wilska 2002), and may be only a shopping list of variables (cf. Weisfelder 2001). Some of the terms, such as transaction costs, are defined inconsistently. The use of tautological definitions seems to be another problem, as Buckley (1988) noted with regard to internalisation theory. He suggested that the wide applicability of internalisation as an explicator of growth that gives the theory its generality is also detrimental. Similarly, tautology could be claimed in the case of the eclectic paradigm, which incorporates both the internalisation advantage and internalising concepts.

I agree with Johanson and Mattsson 1988, Anderson 1993, and Bell 1995, who pointed to a potential problem in both the internationalisation-stages models and the network theory. Both of these describe the internationalisation process in a linear fashion, and this description incorporates circular developments (i.e., knowledge and commitment growth). The models of the Nordic School propose an incremental-stages approach - although the precise number of stages is contested³⁹. They generally work under the assumption that psychic distance is a relevant determinant (e.g., Johanson and Wiedersheim-Paul 1975, cf. Turnbull 1987, Bell 1995). Little emphasis is placed on the development of alternative market-entry modes (Anderson 1993, Leonidou and Katsiekas 1996). *In the spirit of these frameworks, one might see foreign-market expansion as a goal-maximising and uncertainty minimising process pursued by managers making rational decisions.* Although theories in the Nordic School claim to be behaviourally oriented, they are strongly linked to economic theories and still hold that decisions are made by the rational rather than the behavioural man.

Evidence produced by others (McDougall et al 1994, Bell 1995, Covello and Munro 1997, Madsen and Servais 1997, Pedersen and Shaver 2000),

³⁹ Others (cf. Covello and McAuley 1999) have presented similar models, including consequent stages. I do not see the relevance in describing them all because the idea of simplifying the complex process of FME are the same.

however, clearly points to weaknesses in the explanatory and predictive capacity of these theories. In general, there are clear disagreements over determinants of the FME process among its proponents. The six frameworks each focus on single entry (Hill et al 1990), and thus each entry decision is seen in isolation. However, global competition and the companies' overall growth strategy should play a role in determining the appropriate entry mode (Hill et al 1990). New research routes should be followed in order to solve at least some of the above-mentioned serious problems and to achieve more integration of the established theoretical contributions. Coviello and McAuley (1999) suggested that studying SME internationalisation require the conceptualisation and combination of earlier theories. This kind of new framework needs to be tested, which has been attempted by Korhonen, Luostarinen and Welch (1996), Coviello and Munro (1997) and Zafarrullah et al (1998), to name a few. The reasoning behind this route is that if a single theoretical framework dominates the empirical research, the literature on SME internationalisation may suffer by offering a myopic view on what may be a more complex process (Coviello and McAuley 1999).

The questions however, is whether convergence of the diverse IB theories is really the best way to understand internationalisation (cf. Julien et al 1997) or whether we should look beyond them and consider traditions outside of IB research. The international business tradition is driven more by economics, while international strategic management really relies on behavioural theories. Although, there is divergence between the two based on their ontological and epistemological backgrounds, the international business tradition may benefit from seeing strategies of organising for the lowest level of costs as integration of strategy formulation and implementation (Hennart 1994). Internationalisation theories should include elements that are more dynamic. Another option perhaps, as Buckley (1988) suggested too, that could be found in a theory of generation and direction of entrepreneurship.

The arguments I offer in section 3.3 could be considered partial results. It may seem odd to put forward these arguments early, in advance of the results of the formal data analysis, but they do give a preliminary indication of the extent and significance of the problems of the IB tradition in terms of explaining how FME unfolds. In this study, indeed, the empirical data analysis initiated the process of crystallising the arguments that follows. These arguments concern the problems in the immediate field and, to a certain extent, in the related research streams within but not beyond⁴⁰ the IB research tradition. Another reason for introducing the arguments here is that they help

⁴⁰ However, the possibility that the GT analysis might lead the researcher to consider the relevance of research findings in other disciplines is not excluded.

to give a clearer picture of the actual ontological and epistemological position in light of the research problem.

3.3 Challenging existing traditions: the main arguments in this study

3.3.1 A brief introduction of the arguments

The research problem of this study focuses on how companies expand their foreign operations in emerging markets i.e., in the Visegrád countries. The epistemological assumption is that it is not enough to study the FME phenomenon on the level of the individual company, and that the relationship level should also be included in the investigation. On both levels, behavioural and economic elements should be considered equally important.

As mentioned earlier, researchers in the Nordic School have attempted to explain the process of internationalisation even for smaller-sized companies. Other theoretical contributions within the tradition focus on why companies, especially large ones, operate internationally, and why they apply a certain form of governance in those operations. Given the dual focus of this study on the economic and social-behavioural processes involved, the theoretical departure is strongly based on the Nordic School. Other theoretical approaches provide background information and help the reader to understand the underlying assumptions of the Nordic School although as such it does not stand as the theoretical departure here because of its major shortcomings. My aim in this section is thus to challenge some of the key elements of the Nordic School that, in my opinion, are either not appropriate or not relevant in the rapidly globalising business environment, and particularly in the Visegrád countries.

In terms of the Nordic School, the following questions arise. How in its attempts to conceptualise the process of internationalisation, does it deal with complexity and variation? Has it identified the core process of international expansion appropriately, i.e., is experiential knowledge creation acceptable as the core process in foreign-market expansion? Is the life-cycle perspective the only one that is appropriate to our investigations? My propositions in terms of providing answers to these questions are put forward in the following.

The unique elements and continuing influences make the FME process complex. In order to understand this complexity, we need a better understanding of the variation in how companies pursue it. The process cannot be explained by elaborating on a limited number of factors.

For companies that embark on international operations, the primary drivers have to be opportunity seeking and risk taking. Concurrently, uncertainty avoidance should be considered a secondary driver.

Foreign-market expansion is a strategic growth process with economic objectives. It should be seen within the more complex and continuous process of growth through developing competitive capabilities. It is a strategic process, through which companies try to win over their rivals.

Experiential knowledge creation cannot be considered a core process of internationalisation because it undervalues the economic side, and furthermore, it does not distinguish between internationalisation and other social processes.

Companies' foreign-market expansion can be better understood from the teleological rather than from the life-cycle perspective.

I consider the FME process to be unique for each company, to vary among companies, to be complex and embedded in the companies' overall growth strategies (sections 3.3.2 and 3.3.4). From this, it follows that the teleological-process perspective should underwrite the investigation (section 3.3.6). This alternative view of FME challenges at least two of the core, conceptual elements used by the Nordic School (sections 3.3.3 and 3.3.5). However weak the argument might sound at this point, to draw heavily on these established frameworks was not attractive in this research project. My general belief was that they might hold the danger of withholding relevant evidence or understanding, and describing the relationships between concepts inadequately.

The following sections describe the background and content of these arguments.

3.3.2 The foreign-market expansion process is complex and unique to every company

Foreign-market expansion should be evaluated as a strategic growth process. A process could be better understood if the context (internal and external) and the content were appropriately considered (Pettigrew 1990). In my opinion, in order to tackle the large variation in the FME process, one needs to consider a wider range of context and content-related issues in which it unfolds.

The extent and significance of this variation is evident from the vast numbers of factors or forces that international-business researchers and practitioners have described during the last four decades. These forces inevitably refer to the context, both internal and external, and the content. The

factors are introduced here through a simple framework (see Figure 5)⁴¹. The aim is to highlight how many alternative factors exist, and to show that previous research has not adequately integrated them. A critical elaboration of the few factors proposed by the Nordic School is included in places in which it fits into the simple framework.

The Nordic School seems to be satisfied with the concepts of experiential knowledge⁴², psychic distance⁴³, organisational capacity⁴⁴ and business relationships⁴⁵ as key factors in explaining the foreign-market-expansion process. These variables are connected to entry mode, market position, the target market and the sales object. According to the network approach, market position influences foreign-market entry, and depends on the business relationships. Altogether, entry modes were considered to be of the utmost importance in describing the process, and induced the determination of stages with those few factors considered.

The combination of many determinants has to be considered unique for each company, and changes over time. Following the analyses, I am to show what factors, and in what combination over time, was relevant in the cases under study.

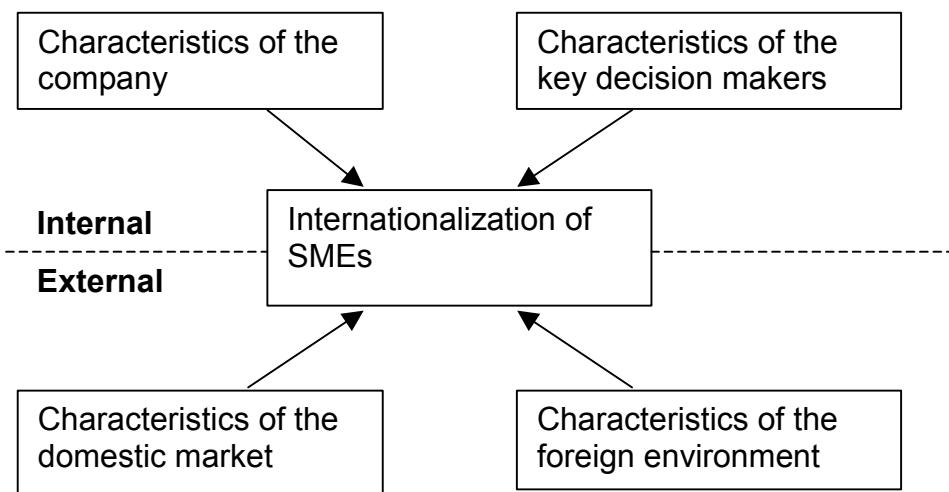


Figure 5 Determinants of SME internationalisation

Adopted from Mäkinen, 1987

⁴¹ Others have also tried to arrange the determinants in groups (e.g., Hansen 1981, Calof and Beamish 1995), but the one used here was introduced specifically for SME foreign-market operation.

⁴² See e.g., Johansson and Vahlne (1977, 1990), Eriksson et al (1997), Eriksson and Chetty (1998), cf. Forsgren (2002).

⁴³ See e.g., Johanson and Vahlne (1977, 1990).

⁴⁴ See e.g., Johansson and Väistö, Welch and Luostarinen (1988).

⁴⁵ See e.g., Johanson and Mattsson (1988), Coviello and Munro (1995), Holmlund and Koch (1998).

As Figure 5 indicates, the external determinants, e.g., environmental factors, are largely outside of the direct control of the company, and are related to *government policies, the competitive environment* (Porter 1990, Buckley and Casson 1998) and *acquisition opportunities* (Calof and Beamish 1995). The often-used term push factors refers to the nature of the effect of these factors. They create barriers to the growth of a company in both domestic and foreign markets. According to Solocha et al (1990) and Hennart and Larimo (1998), growth in the *target industry*, the extent of *natural resources*, the *industry structure* on the domestic market and the *possibilities for transaction-cost minimisation* appear to be key factors.

There are also factors that originate from the host market, described as *access to production input, capital markets, distribution channels, managerial linkages and the exploitation of firm-specific advantages* in foreign locations (Dunning 1980, 1995, Solocha et al 1990). Market accessibility (Solosha et al 1990) includes factors such as increased communication with the foreign market, the proximity of suppliers, efficient transportation, avoidance of tariff and non-tariff barriers, and access to government contracts. Other important market characteristics include labour costs, material inputs, management-labour relations and the availability of non-unionised labour, i.e., less probability of strikes, publicly provided financial incentives above direct government contracts and the similarity of customer preferences. *Barriers*, mentioned in-groups⁴⁶, include political⁴⁷, competition (e.g., host-country and other foreign rivals Porter 1985, 1990, Yang et al 1992, Buckley and Casson 1998), and those related to the customer (e.g., cultural differences). In the specific case of the CEE markets, Meyer and Münschen (1999) mentioned risks over and above traditional country risks including the availability of a skilled, productive and motivated labour force, logistical performance that meets quality standards, and intercultural aspects. They concluded that the progress of transformation⁴⁸ probably has the strongest influence on market-entry intensity. The results of Nieminen, Larimo and Springer (2001) on the

⁴⁶ For instance, the pharmaceutical industry: Hansén 1981; 203 and Porter's diamond 1985

⁴⁷ Fahy et al (1998) found political imperatives an important driving factor, as the government has a central role in creating the conditions for foreign entry by legislation, state priorities and performance of the economy. *Political imperatives may drive decisions to rapidly establish a market presence* (Denekamp 1995) and pre-empt the competition.

⁴⁸ There is a steadily growing body of literature considering different aspects of transition, and giving comparisons among CEE countries. Literature about the progress of transformation in the Visegrád countries includes Kornai (1990), Antal-Mokos (1997), Clark and Soulsby (1995), Clark (1998), Cutler (1997), Nasierowsky (1996), Savitt (1998), Swaan & Lissowska (1996), Borish & Noel (1997). Statistical data from different national and international sources is also more and more reliable. Chapter 2 of this study was devoted to the description of the transition process in the Visegrád countries.

other hand, gave mixed support for the assumption that countries with fast progress in transition would have accelerated the growth of entries more compared to countries with slow transition progress. All in all, the barriers of foreign-market expansion are incorporated into the cost of the foreignness concept (Young et al 1989, Buckley and Ghauri 1993).

According to stages models of internationalisation, barriers to information flow between the domestic and host markets constitute the main external determinant, and some of them have been conceptualised according to the psychic-distance factor (Vahlne and Wiedersheim-Paul 1973, Johanson and Vahlne 1977). Psychic distance is an aggregated concept, as the definition in section 3.2.2 indicates, and as such, it aims to measure the cultural-economic distance between the domestic and the foreign markets in question. However, the importance of cultural distance between the domestic and the foreign market in question may be overstated, while this concept does not offer control of economic attractiveness (Mitra and Golder 2002).

Particularly today, criticism has arisen against placing too much emphasis on psychic distance. Its relevance is decreasing, in line with the fast and continuous improvements in global communication and transportation infrastructures, because of which markets are becoming increasingly homogeneous (Julien et.al, 1997, Hill 2002).

Further against the psychic distance concept, empirical evidence shows that more and more companies - including smaller ones - go to more distant markets, even before entering neighbouring markets. They may begin exporting before obtaining any domestic sales, e.g., they may be born global (McDougall et al 1994, Bell 1995, Madsen and Servais 1997, Oviatt & McDougall 1997). Companies from emerging markets may not start their international operations in close either. They try to export, they try to sell where the purchasing power is. Thus, the most important current export markets are the developed countries, which are not necessarily psychically close (Zafarullah et al⁴⁹ 1998).

Firms make entry-timing decisions on the basis of their expectations about the future economic attractiveness of the foreign markets. Comprehensive discussion of this factor should include customer-prosperity measures, the size of the economies, the development level of the infrastructure and the concentration of the population⁵⁰. Beyond economic attractiveness, there is

⁴⁹ Zafarullah et al (1998) combined FDI, internationalisation and network theories for internationalising small firms from emerging markets. Their results show little support for existing models, although the revealed importance of contacts and connections in all aspects of internationalisation is supportive of network theory.

⁵⁰ Of these, the size of the economy has been measured only in terms of the psychic-distance concept. Concentration of population, for example, is certainly important in estimating how efficient the distribution channels could be i.e., how to reach more customers with lower distribution costs.

still the possibility that entry into a particular country may be consolidated into a short period on the basis of a political decision to open up the country to foreign investment.

Bell (1995) found that psychic distance as an influencing factor could not be supported in cases in which client following, sector targeting and collaborating trends in certain industries influenced market selection. In the cases of Bell, established bridgehead relationships, product characteristics⁵¹ and the nature of industry competition (globally) influenced the foreign-market expansions. Producers of customised products enter markets not because the markets have suddenly become psychically⁵² close, but because the client might determine the choice of market and the entry mode (cf. Bell 1995, Zettinig and Jokela 2002). It often happens that the customer chooses a traditional supplier because it knows its offer (product + services). Thus, it expects a similar offer in the new market from that traditional supplier, otherwise, it would search for a new one. It may very well be that the psychic distance assumes explanatory status given a customer-following strategy (i.e., it reflects a pattern that is not actually the pattern of unique case companies). However, the real explanation might be the influence of the industry's competition structure and of the customers themselves.

According to Holzmüller and Kasper (1990), the psychic distance is a soft indicator, and as such, it cannot overrule hard facts such as product superiority and prices. It is only in cases in which a company does not offer these clear advantages that psychic distance might qualify as a decisive criterion (e.g., selling out-dated products or production technology in the closest, less developed foreign market).

Too much focus on psychic distance may lead to misinterpretation of what really happens in cases of FME. Rightfully, the critics of the psychic-distance variable argue that it does not include other important business factors - such as industry structure and competitive elements, and the function of the nature of the product. These factors may well override the importance of the aggregated elements of psychic distance. The impact of the moves made by consumers and competitors, often unpredictably, has not been fully explored in terms of psychic distance. One could easily argue that customers and competitors are the decisive factor in the process of foreign-market expansion⁵³.

⁵¹ E.g., compatibility and package selling

⁵² Given the happenings of the early nineties in the Visegrád countries, the idea that they suddenly became psychically close to Western markets would seem to me too rough a simplification.

⁵³ Psychic distance, internal driving forces, internal and external resources and even the position concept gave rather indirect indications of the significance of customers and competitors in driving the process.

In my opinion, the psychic-distance concept may contradict with the real meaning of emergent markets. Psychic distance between foreign markets does not necessarily lead to more costly operations (i.e., the psychic distance has a paradox: see O'Grady and Lane 1996, and Petersen and Pedersen 2002). Also, the two concepts, psychic distance and global benchmarking may actually contradict each other.

Internal determinants are within the control of the company, and consideration of them needs to take into account the characteristics of the company and the key decision-makers. I have listed the ones that might be relevant. The elements of the list are written with italic script and the linkage between them is that they are all considered as internal determinants.

Early studies evaluated the *size and age of the firm* (e.g., Horst 1972) as being the key determinant of internationalisation. Resources are assumed to grow in both quality and quantity over time⁵⁴. However, nowadays it is assumed that these two determinants probably do not offer satisfactory explanation as to why firms engage in international operations (Holzmuller and Kasper 1991).

The resources of a company in terms of both domestic and foreign-market expansion should be valuable, inimitable, rare and non-substitutable, so that the company has competitive advantage over its rivals. It is quite understandable that a company with *unique resources* may be more inclined to engage in foreign operations. Firm-specific resources should thus be considered rather broadly in any case of expansion and include, firm-specific knowledge (Rugman 1980) and human-resource management (Lado and Wilson 1994) as creators of competitive advantage. *Experiential knowledge* is seen not just as one of the internal determinants, but is rather assumed to be the key to FME according to the Nordic School. Since I cannot agree with this assumption, I offer further discussion in section 3.3.5.

Aiming at minimising transaction costs has also been seen as an internal driver of internationalisation. Hennart (1991), Collin and Larsson (1993) and Ahokangas (1998) argued for the relevance of Williamson's findings specifically to companies-international operations.

Several researchers (Buckley and Casson 1976, Hill et al 1990, Webster 1992, Dunning 1988, 1995, Dunning & Rojec 1993, Cavusgil and Zou 1994, Kwon and Hu 1996, Meyer and Münschen 1999) argued that a particular entry decision cannot be viewed in isolation. Rather it must be considered in relation to the overall strategic posture of the firm. In this sense, the *overall performance of a company* can be seen as the driver of its internationalisation

⁵⁴ Cf. when do companies internationalise their pharmaceuticals business (Hansén 1981)?

process. Although these two elements are considered very important, let me discuss these further according to the cases analysed in this study.

A discussion about another determinant proposed by the Nordic School follows. *The firm's relation to other firms is argued to be a key determinant of internationalisation*, specifically according to the network approach (see section 3.2.2). Stages models were not sufficient in explaining the resources needed for internationalisation, or the network context - from which a company acquired them. Companies obtain resources from the environment and they do not exclusively use internal resources (Bell 1995, Coviello and Munro 1995 and 1997, Ibeh et al 2002). In as far as, the network approach incorporates customers, competitors and other market relationships, it could give more attention to the interdependence between companies' business operations and their business environment (Holmlund and Kock 1998, Bridgewater 1999, Mainela 2002). *Indeed, one of the starting assumptions in this study is that relationship matter however, these represent contingencies that conditions company behaviour.*

As far as *organisational culture* is concerned, the argument is that different stimuli from the external or internal environment are effective only if key managers perceive them as such (Cf. Bashkar 1975, Partington 2000, and Aastrup 2000). Organisational culture⁵⁵ evolves in parallel with companies' historical development, and may affect how FME unfolds (Holzmuller and Kasper 1991).

Among researchers in the Nordic School, Welch and Luostarinen (1988) introduced the concept of *organisational capacity* as a firm-related determinant. The concept incorporates the personnel and financial resources as well as the organisational structure. International personnel development is considered a key indicator. The range of financial resources and the sophistication of financial techniques develop with international growth. Administrative and organisational demands inevitably increase with diversification, which means that a company needs to prepare for and/or respond to such increased demand and diversity. Welch and Luostarinen (1988) argue that there are internal company changes that are consequent upon the degree of internationalisation. At the same time, such changes provide the basis for taking additional steps forward (Turnbull 1987). Welch and Luostarinen (1988), Luostarinen and Welch (1990) appear to consider organisational capacity (an internal determinant) more decisive than psychic

⁵⁵ Organisational culture is the kind of shared interpretation of reality that invisibly acts on non-reflecting matters of fact. Cultural codes develop gradually in organisations, and structure and shape the members' perceptions of the organisational reality. Organisational culture determines what is important for the company, what is valued as positive or negative, how the company's own past and environment are judged, and what people think about each other.

distance (an external determinant). However, this is also an aggregate dimension.

After the company's characteristics as determinants, let me turn to those, which arise from the characteristics of the key decision-makers. Specifically, small-business researchers remind us that the internationalisation behaviour of small firms tends to be determined by individual decision-makers (Reid 1981 Dichtl et al 1990, Figure 5). First, the question may not be of committing more resources to ensure the continuation of the internationalisation process, but the *aspiration of the entrepreneurs*⁵⁶ themselves (see also 3.3.3) may be an equally relevant determinant (Christensen 1991). Secondly, managers who are not *foreign-market oriented* perceive the barriers to be higher (Hansen 1981, Shoham and Albaum 1995, Calof and Beamish 1995, Hadjikhani 1997). The management must commit to international business (Johanson and Vahlne 1977, Hansen 1981, Reid 1981, Holzmuller and Kasper 1990, 1991, Dichtl et al 1984, 1990, Nummela 2000) if the company is to have any chance to success.

Third factor, which I also consider important as Slater and Narver (1995) and Lumpkin and Dess (1996) defined the *entrepreneurial orientation*. That is the management's propensity to engage in innovative, proactive, risk-seeking, autonomous and competitively aggressive behaviour in order to achieve its strategic objectives. Also, Calof and Beamish (1995) remarked on the intuition of managers, often meaning knowing when the time is right for change (cf. Kirzner 1997: entrepreneurs discover and they are alert).

In my opinion, focusing on a limited number of factors and then determining changes in operational mode⁵⁷ cannot explain the complex process of FME. The variation in how companies expand in foreign markets is not just an anomaly in the established theoretical models. This section gave an extensive list of the determinants in comparison to that the Nordic School researchers incorporate into their explanation. Here might be seen the relevance of the argument that the Nordic School ignores factors that should be included in explanation of the FME process. Notwithstanding, its linear approach risks losing sight of the fact that any two companies do not implement exactly the same expansion strategies. If they did, it would defeat the object of competing for more revenues by better servicing the customer.

⁵⁶ See also the later concept of promoters or 'intrapreneurs'.

⁵⁷ As suggested in section 3.2, entry or operation modes are the main focus of the whole IB tradition. First, economics-based theories (1-4 in accordance with the grouping I have presented) attempt to determine why certain modes are applied (with no full success). Then the stages models showed how process of FME unfolded by giving an order of possible entry modes chosen by companies.

3.3.3 The primary drivers of foreign-market expansion are opportunity seeking and risk taking

My next argument is that, for companies that embark on international operations, the primary drivers have to be opportunity seeking and risk taking because business is driven on opportunities. In contrast to, uncertainty avoidance should be considered as a secondary driver. This section discusses how this second argument has been crystallised.

Researchers in the Nordic School consider perceived barriers to stand in the way of getting involved in systematically increased and developed foreign-market activities. Ever since the work of Carlson (1966), authors have assumed that foreign-market entry is a walk into the unknown, and that psychic distance and experiential-learning are connected to the assumption that companies primarily try to avoid uncertainty. According to the Nordic School, managers are risk-avoiders rather than risk takers. During the 70s and 80s, when these theories were conceived, they might have had explanatory power within the Nordic context.

FME is never just a question of charting unknown waters. Companies pursuing internationalisation have knowledge and access to knowledge of many kinds, and that, which is specific to the new market, may be acquired from locals. Knowledge is imperfect, but it must be used⁵⁸ and used better than the rivals do. Indeed, the Nordic School seems to ignore the risk-taking part of doing any business. In my opinion, this leads to the unrealistic assessment of relationships, and consequently to the danger of decreasing the explanatory power of the concepts concerned.

I will deal with the concept of uncertainty avoidance and risk first. Milliken (1987), for instance, defined environmental uncertainty as the perceived inability of an organisation's key manager(s) to accurately assess its external environment, and the future changes that might occur within it. Uncertainty relates to unpredictability and inadequate information also in terms of the organisational variables that affect corporate performance. Uncertainty about environmental and organisational variables reduces the predictability of corporate performance/outcome, so it increases risk. Not all managers in a particular country have homogeneous perceptions of general environmental or industry uncertainties (Yang et al 1992). Moreover, people are different in every company. It could be said that uncertainty varies in accordance with individual and firm characteristics (see 3.3.2). Implications also differ across individual firms, depending on their exposure as determined by corporate strategies and financial decisions. Firms do not conduct complex analyses of

⁵⁸ The real question may be not who has the better knowledge but rather who is better able to use it.

geographical, cultural and political factors when initiating foreign-market activities (Hansén 1996). The real concern of managers is rather with the initial possession of superior-firm specific advantages and the timely fashion of successfully exploiting those advantages (Hansén 1981, Etemad & Wright 1999, cf. the eclectic paradigm). Managers are always exposed to uncertainty, and business decisions are speculative in character. They comprise human choices in which boldness and imagination are an integral part. *It may very well be, like Kirzner (1997) argued that entrepreneurs (entrepreneurial oriented managers included) are energised rather than threatened by uncertainty.* Uncertainty probably has less effect on them than it does on managers who are more conservative.

Barriers and uncertainties are inter-related, and a complex trade-off⁵⁹ might be present among them (Miller 1992). Uncertainty exposure refers to the sensitivity of cash flow in any of the interrelated uncertainty variables. However, not all uncertainties should be reduced. The cost of reducing uncertainty exposure on a particular dimension cannot exceed the benefits and no effort leading in that direction would be warranted (Miller 1992). There is no denying that companies may well pursue uncertainty-avoidance strategies (Miller 1992). In this sense, they may also embark on a control strategy for the reason that the managers may have a predisposition to control uncertain variables rather than to passively treat them as constraints⁶⁰. In the same vein, applying imitation strategies⁶¹ may also be relevant. Co-operation strategies⁶² could be seen as the means of uncertainty reduction, too. Although alliance use may be motivated by perceptions of environmental uncertainty⁶³, for key managers to choose to employ alliance relationships, there must be at least some minimum level of perceived predictability relating to customer demands

⁵⁹ According to Miller (1992), co-operation may effectively alleviate industry-level uncertainties, while it may involve increased exposure to opportunistic behaviour of the co-operation parties or their often divergent interests within a joint venture.

⁶⁰ Lobbying (cf. Hadjikhani and Ghauri 1999), creating and using market power in order to put competitors into more predictable behavioural patterns, vertical integration, and horizontal integration could be mentioned here.

⁶¹ See e.g., Meyer and Rowan's (1977) detailed elaboration on what imitation means for an organisation in an institutionalised environment.

⁶² Co-operation strategies include long-term contractual agreements, alliances, joint ventures, overlapping board membership and personnel flow for inter-firm co-ordination (Miller 1992).

⁶³ The greater the incongruity between the product domain of the firm and its knowledge domain, the greater is the potential for inter-firm collaboration to increase the efficiency of knowledge utilisation. The greater the breadth of knowledge that a product requires, and the less the product specificity of such knowledge, the greater this incongruity is likely to be. The greater the uncertainty that firms perceive concerning the future knowledge requirements of their present product range, the greater the benefits of inter-firm collaboration compared with internalisation as a means of accessing and integrating additional knowledge. The greater the benefits of early-mover advantage in technologically dynamic environments, the greater the attractions of inter-firm collaboration (Grant and Baden-Fuller 1995).

and competitor actions. In general, perceptions of the potential for future growth and profit in a firm's principal industry decreases the key manager's perceived uncertainty.

Opportunities might exist for only a brief period. That is to say, they should be considered in a timely fashion. The temporal constraints on pursuing new ideas are prominent in the mind of the entrepreneurs (Zander 2002). For example, in distant locations, the recognised opportunity may be associated with the feeling of being late. The suspicion may be that locally active entrepreneurs have already pre-empted some of the economic value of the idea. The managers with an entrepreneurial orientation in the typical case hopes for straightforward implementation of his or her subjectively perceived idea. The need to respond to unforeseen events and moves by others pursuing similar ideas is typically considered a very likely possibility. The early start and relentless pursuit of the entrepreneurial idea is perceived as important if most of its economic value to be retained. Whenever the manager is able, to a more or less satisfactory extent, to draw upon existing markets for resources, he or she will do so in order to speed up the implementation of the entrepreneurial idea (Kirzner 1997, Zander 2002). For explanations, information on entry timing is important in terms of understanding what connects more to the FME process, uncertainty avoidance or risk taking. In terms of the timing properties of opportunities, it is a question of how much time managers should or can reserve for creating knowledge in the interests of avoiding uncertainty (e.g., Johanson and Vahlne 1977, 1990). It may constitute a major disadvantage and ultimately risk the ability to sustain the business opportunity to wait with market entry until all the right knowledge has been acquired. Launching the product even before the market is well known is not necessarily doomed to failure. On the contrary, it might be the only way to win in the longer term. The need for fast action often seems evident, since changes in business environments happen more quickly and more companies are acting internationally. The consequence is that new opportunities and threats come more quickly although they do not come in a continuous, controlled manner. By way of response, companies no longer follow the pattern of gradual, life-cycle-related internationalisation (Millington and Bayliss 1990, Cristensen 1991, Coviello & Martin 1999, Pauwels & Matthyssens 1999, Pedersen & Shaver 2000).

Companies need to adopt and understand the rapid changes in the markets in which they live⁶⁴. Each market is characterised by opportunities for pure entrepreneurial profit. Opportunities exist because earlier entrepreneurial error created a surplus or a shortage, and mistakenly allocated resources. An

⁶⁴ Chapters 1 and 2 specified issues, that companies might need to consider in specific host markets.

entrepreneur or an entrepreneurial oriented manager are alert to these earlier errors: he or she buys where prices are low and sells where prices are high (Kirzner 1997). They discover earlier errors, and they can correct earlier decisions. Alertness refers to being receptive to available, but so far overlooked, opportunities. Entrepreneurial behaviour requires acting upon recognition of an opportunity. The decision to act exposes the managers to the uncertainty that necessarily surrounds the means-ends framework. What is important is that he or she perceives the opportunity to act as temporally constrained.

I have focused on the dichotomy between uncertainty avoidance and opportunity seeking in order to promote the idea that entrepreneurs and entrepreneurial oriented managers should be seen more as opportunity seekers and risk takers than as wanting to avoid uncertainty. Opportunity seeking may be something that managers are concerned about. Companies cannot miss the opportunities and cannot avoid defending themselves from attack of the competitors. Opportunity could reside in the speed of deciding and implementing foreign-market-expansion strategies in markets in which the greatest potential for revenue creation exists. I believe that we should see FME as a managerial process in which opportunity seeking is primarily relative to uncertainty avoidance.

My next proposition concerns what kind of process the foreign-market expansion really is?

3.3.4 Foreign-market expansion is a strategic-growth process with economic-growth objectives

Unique elements and continuing influences make the process complex (see section 3.3.2). Accordingly, FME should be seen as embedded in the overall growth or survival strategy of the company. It is not a separate function, a process in isolation. Its relation to the overall strategic posture of the firm (cf. Hill et al 1990) is pivotal, since resources are shared between domestic and foreign operations in most companies. *The company must recognise whether or not foreign-market expansion is critical for its long-term survival and growth* (Hansén 1996). The internationalising firm must possess advantages⁶⁵ over local firms, and has to exploit them in a timely fashion (Dunning 1993,

⁶⁵ However complex the international operation is - Dunning (1993) stressed competitive advantage as the starting condition for succeeding in a foreign market. The problem was that the creation of competitive advantage was not incorporated into the eclectic paradigm.

Etemad and Wright 1999). Findings from research on strategic management⁶⁶ (e.g., Hansén⁶⁷ 1981, Mintzberg⁶⁸ and Walters 1982, Mintzberg and Lampel 1999) have also shown that a strategy does not change on schedule. It may remain stable for years (cf. Greiner 1972 reprinted 1998), but when it changes, the process may be complex. Strategies are not only intentions, they are also pursued objects. The study of strategy making (i.e., patterns in a stream of decisions) becomes a search for consistencies in decision-making behaviour. Expansion and contraction are highly situation-specific, and it is not necessary to move from one stage to another. A firm's initial reaction to foreign opportunities and subsequent strategies reflects the prevailing circumstances and existing resource capabilities (Yang et al 1992). Decisions are made in the context of acquiring and managing organisational resources (Mintzberg and Raisinghani and Theoret 1976, Barney 1995), but are not necessarily made by perfectly informed, value-maximising managers (teams) who can speak for the corporate mind. An entrepreneurs and managers are defined as behavioural man who must decide with restricted information and limited individual talent, in an environment in which alternatives are not neatly laid out (Kirzner 1997). He or she has to deal with multidimensional goals (Weick 1983) and sell the decision to the organisation (Kirzner 1997).

In respect of all these, they may take two routes in combination. As Casson (1994) pointed out, these are sequential entry, which means exploiting economies of scope in knowledge, and simultaneous entry that exploits profitable market opportunities as they emerge. In addition, the practice of managers is that they make decisions to change operational mode based on individual circumstances and on their intuition or views that the time is right for change (Calof and Beamish 1995). The ability to satisfy or settle for an acceptable alternative (optimise) might be of primary concern. In contrast, the internationalisation-stages models focus on rational choices made by managers. Thus, the description of the internationalisation process becomes deterministic and the explanatory power is therefore weak.

While several researchers have focused on determinants at the beginning of international operations, studies that specifically examine factors that promote or impede the propensity to continue foreign-market operations, is rare (Patterson et al 1998). Combinations of operational mode have been reported in international business literature (Petersen and Welch 2002) but this

⁶⁶ This could also be seen to reflect the IB tradition. Hennart (1991) also turned towards the strategic-management research tradition (section 3.2). If one accepts the claim that the Nordic School loses a lot by putting the human actor in the shadow, the idea behind strategic-management research is reasonable.

⁶⁷ The pharmaceutical industry (Hansen 1981), the entrepreneurial retailer firm (Mintzberg and Waters 1982)

⁶⁸ See also the article by Mintzberg (1994) on "The fall and rise of strategic planning"

phenomenon has not yet been made the subject of direct analysis. Customers may be a key determinant of speed in the change and combination of operational mode. Still, once a company has embarked on internationalisation, there is no guarantee that the process will continue. In support of this, Reid (1981) proposed the contingency approach, while stressing that processes in individual firms are quite unique. Altogether, there is no commonly accepted view of the process (Andersen 1993). It is difficult to establish how and why an internationalisation process takes place. How can we predict the move from one stage to another? Generally, empirical research has thrown little light on the dynamics of internationalisation. According to Andersen (1993), Calof and Beamish (1995) and Leonidou and Katsikeas (1996), the pattern of internationalisation is still missing.

Non-linear behaviour in a firm might well be better explained by the network approach. Switching the entry mode is caused by having a market position to gain or defend. However, a company may be satisfied with its position without changing its entry mode if it can sustain its growth. It may also be that a growing company reaches the limits of its (organisational) growth and is taken over. Another possibility is that the company restructures itself⁶⁹. Sales-based structures often have the capacity for direct, flexible and interactive contacts with customers, and arguably represent an effective, efficient way of providing cross-border logistical support to key customers. Efficient targeting of customers with a product package or system does not require a step-wise expansion process. Firms that are bounced into international operations (i.e., those that follow their key customers into foreign markets) are less likely to reflect psychic distance in their market-selection pattern. They are also less likely to evolve within particular markets, in the manner suggested by the conventional-wisdom and incremental models (Sullivan and Bauerschmidt 1990, Bell 1995, Coviello and Munro 1995, Zettinig and Jokela 2002, Ibeh et al 2002).

Foreign-market expansion (FME) should be explained in terms of embeddedness⁷⁰ in the company's overall growth strategy. It is acknowledged in this study that a company's foreign-market-expansion process is unique, and its strategies have to be unique in order to beat the competition. Investigations should be geared towards the appearance and disappearance of decisions and an analysis of the relationships between intended and realised strategies (Mintzberg and Walters 1982). In terms of strategies, an important piece of information may be the relative timing. In addition, the product type and the factors limiting growth on the domestic market may offer further explanations.

⁶⁹ Compare the case descriptions of Companies A and B (sections 5.2 and 5.3)

⁷⁰ In other words, FME is supportive to and interdependent on the company's survival and/or growth.

As far as the host markets are concerned imposing a structure where perhaps none exists (i.e., there is chaos) may be a mistake. The dynamic opportunities arising on the newly-emerging markets (CEE) and the need to gain a position on them quickly may require deviation from the route suggested in the stages models of internationalisation.

My next proposition concerns the concept of experiential knowledge creation, which appears to be the core of FME process according to the Nordic School.

3.3.5 Neither knowledge creation nor networking are the core process of foreign-market expansion

I attempt in this section to clarify why creating experiential knowledge should not be considered the core process underlying international expansion. Knowledge is a resource and companies create other resources, too. Further, knowledge creation is not a distinct business process. Economic-growth objectives drive foreign operations, but how these growth objectives drive FME cannot be explained in terms of the knowledge creation underlying the FME process. My argument here is that experiential knowledge creation cannot be considered a core process of internationalisation because in that case, the economic side would be undervalued. In my opinion, the core process would be, which has the capacity to explain variations in all lower-level concepts and processes relevant to the complex processual phenomenon of FME (cf. footnote in section 3.2.2).

The proposed establishment chain of foreign-market involvement is based on the concept of the incremental increase of experiential knowledge. Increased experiential knowledge results in two things, reduced uncertainty and the increased commitment of the company to international operations. Internationalisation has been described as a learning process, based on internal and external information collection and on the application of this information in practice (for a summary, see e.g., Björkman and Forsgren 1997).

Johanson and Vahlne (1990) admitted that the firm ultimately expects to internalise its activities *based on a process of managerial learning*. Forsgren (2002), referring to the Uppsala model, claimed that no other model could explain so much in terms of so few and such simple concepts (i.e., the circuit of experiential knowledge creation and market commitment as the basic mechanism) as the one created in Uppsala.

The idea of experiential knowledge creation was given such prominence in the stages models because the proponents believed that entering a new market was about going into the unknown. High levels of uncertainty were

acknowledged, and thus the requirement to reduce uncertainty by acquiring experiential knowledge (incorporating Penrose's (1959)⁷¹ conceptualisation) seemed justifiable. Dodgson's (1993) work supports the whole idea of the Uppsala researchers; the primary reason why managers learn has to do with uncertainty in their companies' markets and technologies.

Managers make decisions on the basis of incomplete knowledge, which in turn embodies the potential for profitable exchange (Kirzner 1997). They may have different skills and competencies, and more information about customers and market opportunities, than others. Accordingly, he or she makes judgements concerning co-ordinating scarce resources, and makes strategic decisions that involve the reallocation of business resources. He or she takes calculated risks to exploit profitable opportunities, and uses the resources of the business to back up the decisions.

Managers' learning takes place through attempts to solve a problem (Arrow 1962, 155, cf. Weick 1983), but not all of their knowledge is created through experimentation, i.e., acting on the market. They also develop knowledge on the basis of their other experiences. Knowledge certainly increases over time, but the growth may not be linear. Insight also has a role in problem solving, in assigning significance to previous experiences, and in modifying an individual's perception. It is ill advised to expect direct and immediate changes in behaviour on the basis of new knowledge. Years often elapse between the time management first begins to talk about internationalisation and the time when its effects (positive or negative) are visible in the company's books (Hansen 1996).

Knowledge, among other things, is an important resource and a source of competitive advantage (Zaheer & Venkatraman, 1995 Dickson-Weaver 1997, Mitra and Golder 2002). Other resources, e.g., financial and human, are created, acquired or recruited by companies. At any point in time, any of these resources, including knowledge, might be a decisive factor in steering the FME process. Not one of these resource-creation processes has enough capacity in itself to explain the variations in FME processes of which we have evidence.

Nevertheless, it is another important question, indeed, from where and how companies create the relevant experiential knowledge. This question is explicit in studies focusing on the Network Approach. According to Eriksson and Chetty (1998), experiential knowledge is created within mutual relationship commitment rather than within the company. Eriksson et al (1997), among

⁷¹ On this point, clearly Penrose's seminal work was the key source of understanding in the Nordic School. One might add, however, that the process and product nature of research creativity in Penrose (1959) was well-grounded in empiria at the time, although she did not pursue formal grounded-theory research (Kor and Mahoney 2000).

others, draw attention to the effect of earlier foreign-market entries as well as to their effects on the current enterprise. Probably because they are so closely associated with stages-model researchers, they easily accept the centrality of experiential knowledge creation in terms of internationalisation. They stress the fact that knowledge is resources that companies have to possess, create or acquire. They see the relevance of creating and acquiring knowledge by maintaining business relationships as well as by networking. These are nevertheless, not the only source of adequate knowledge.

However experiential knowledge is created, that may not have enough capacity to explain variations in the FME processes of different companies. Exactly as Andersen (1993) claimed it is not clear, how the process starts or how movement from one stage to another can be predicted. It seems that it is impossible to offer such explanations and predictions on the basis of growing experiential knowledge. Experimental knowledge creation may be seen a lower-level process, included in the overall growth process of the company.

I would warn against accepting relationship maintenance or networking as the core process, too. These are also lower-level processes since they are among the contingencies. Therefore, they too, might only partially explain the variations in the FME process.

I remain convinced of the need to identify such a process, which is apparently lacking in the literature of the IB tradition. Longitudinal studies - that apply other than the life-cycle process perspective - of FME are probably needed in order to find the core process that would explain a lot of the variations we already have evidence for (see the next section). I will offer some suggestions for such a core process on the basis of my case analysis (Chapter 7).

Indeed, the above arguments point to the needs to search for solutions that further our understanding of the complex process of FME.

3.3.6 Identifying the core process of foreign-market expansion requires a teleological-process perspective

The major limitation in all stages models is in the construction of linear models (Bell 1995) in trying to explain complex, dynamic, interactive and frequently non-linear behaviour⁷². The fact is that explanations are given in terms of a linear sequence of stages or phases of development. However, no one company has been observed to go through all of the stages, whatever they

⁷² In this respect, network approaches to internationalisation have some merit (Bell 1995).

may be (Van de Ven 1992). Varied expansion routes are necessary when all companies pursue competitive advantage.

Firms do not necessarily adopt consistent organisational approaches to internationalisation. Many passive exporters are sometimes active. Firms might omit stages in order to accelerate the expansion process, and there is evidence of an accelerated pace of internationalisation. This applies especially in situations in which products are developed at relatively high R&D costs, the life-cycles are relatively short, and the markets are concentrated⁷³. The initial decision may be unplanned, reactive and opportunistic. Some companies may proactively and systematically plan to export, while others may start with distant markets or continue indefinitely in one mode.

All in all, the Nordic School in its explanations offers a simplification of the otherwise complex process of foreign-market expansion in that it deals indirectly with - or even ignores - decisive factors such as economic attractiveness of a market, customers' requirements and the field of competition (see section 3.3.2). The usefulness of aggregate concepts such as psychic distance and organisational capacity is thus questionable.

Measuring foreign sales relative to total sales offers little information about the nature of and the capacity to conduct international operations (Reid 1981, Welch and Luostarinen 1988). Thus, the focus turned to the operational mode, which is assumed to explain how companies internationalise. However, focusing on the different entry modes does not really help in understanding the internationalisation process. In themselves, they are often merely over-generalised guidelines to the strategic principle "think global, act local" in different markets (Meyer and Münschen 1999). In specific market situations, revenues could be considered just as important as costs as companies have generally entered high-potential markets earlier (Mitra and Golder 2002).

Whether we know enough about the FME processes open to question as long as research concentrates on the structural elements of entry modes, market positions, target markets and sales objects, and give very little attention to timing⁷⁴. In other words, little has been said about the practical decision-making situations of companies. Arguably, timing should be considered as one element of decisions because lack of time is often a decisive factor (Hansén 1981). That is to say, timing is a crucial element of any decision related to the maintenance of competitive advantage.

⁷³ These reasons for the acceleration of internationalisation are considered in the case descriptions.

⁷⁴ An exception worth mentioning is the research conducted by Hurmerinta-Peltomäki (2001). However, she discussed the time dimension in relation to the innovation perspective on export operations. At the point of theoretical departure from the immediate field (i.e., the Nordic School) of this study, the innovation perspective was excluded.

This also means that analysis of the decision-making cannot be separated from the history⁷⁵ of the organisation in terms of the personalities and roles of the participants in the system (cf. Baumard 1994). Neither can it be separated from the stream of activities that provide feedback to the decision-makers, who are continuously making new decisions.

The Uppsala studies discussed the internationalisation process as an *evolutionary* sequential build-up of foreign commitment over time. They refer to evolutionary patterns although the term evolutionary may be inappropriate. They were empirical studies involving individual companies. Population selection that reflects the population in similar entities has been given very little consideration. The two process perspectives, evolutionary and dialectic, need to have more than one variety for selection occur and for thesis-antithesis-synthesis to be observable.

Van de Ven (1992) discussed two other process perspectives, the life-cycle and the teleological approaches. These two are appropriate for studying developments in single entities, be it a company or a relationship. The unit of analysis in this study is the bridgehead relationship, each one being seen as a single entity⁷⁶. There is no attempt to deny the possible dialectic development within the relationships, or the population dynamics around them but these issues are not considered when the unit of analysis is defined.

According to the life-cycle theory of development and change processes, occurrences of certain events are determined. It assumes a prefigured programme. Nature, logic or institutions prescribe programmes, routines and rules. Continuity is assumed as unitary sequences of stages. Natural or institutional laws regulate the progressive differentiation of the entity.

However, the linear sequential model of development is typically inadequate to deal with the complexities (Van de Ven 1992, Ring and Van de Ven 1994, Van de Ven and Poole 1995). It assumes invariance between and within all organisational units in following a prescribed order of developmental phases, one locked after another. The problems relate to the fact that, explicitly, process studies of internationalisation, and implicitly, network studies too, attempt to explain stages based on life-cycle-process theories. These, step-wise models are planning-driven and therefore allow fewer opportunities for spontaneity.

⁷⁵ Previous research has tended to consider only the initial foreign market entered from one country to another. Recent discussion concerns the necessity for changes in operational mode (Petersen and Welch 2002, Pedersen and Petersen and Benito 2002) while empirical research has focused more on the early phases of internationalisation process. The data used is mainly cross-sectional, and only a few longitudinal studies revealing these frequent changes have been conducted. On the other hand, one could generate more longitudinal data in various environments of SME internationalisation. This type of data has been generated in this study. The research project reported in this monograph was a longitudinal study of many cases in different markets.

⁷⁶ The Finnish company and its counterpart in each Visegrád market are seen as one entity.

Teleology also focuses on the development of single entities. Unlike the life-cycle perspective, it stresses multiple cumulative sequences of the planning, implementation and adaptation of alternative means of reaching the desired end-state (i.e., socially-constructed equi-finality). The end-state is some final goal or state of rest. Teleology does not presume a necessary sequence of events yet, it implies standards by which change can be judged. There is no prefigured rule or logically necessary direction in a teleological process (Van de Ven and Poole 1995). The development of an entity is assessed when it is becoming more complex⁷⁷ or more integrated. When the entity thus fulfils a necessary set of functions, its development can be assessed. The teleological-process perspective sets a standard of what an envisioned end-state for an entity is. It is possible to observe movement towards it. There is no assumption of historical necessity in these process theories, which rather rely on voluntarism as the explanatory principle. They posit a set of functions or goals desired by the organisational unit. Influences on the external environment, or within the entity itself, may create instabilities that push it onto a new developmental path or trajectory⁷⁸. Theories that rely on teleological processes cannot specify what trajectory development will follow. At best, one could list a set of possible paths and rely on norms of rationality to prescribe certain ones.

In terms of the teleological-process perspective, the desired end of foreign-market expansion is growth or survival while creating profit in the international business context. What requires clearer understanding is the choice of path from several possible routes to achieve the desired end. Therefore, we need to discover more about the mechanisms of foreign-market expansion.

My conclusion is that companies' foreign-market expansion could be better understood from the teleological rather than from the life-cycle perspective.

First, teleological interpretations can be considered as an alternative because companies take multiple routes in order to achieve their desired goals. Second, as Yang et al (1992) and Buckley & Casson (1998) suggest, there is an ultimate need for a model that could be rendered more *dynamic by allowing the entrants to determine the timing of entry* (cf. 3.3.3) and the changes made in operational mode. It is certainly an important consideration in the case of growing markets (e.g., CEE). Third, given the shortfalls of life-cycle-process theories in explaining such a complex process as foreign-market expansion (3.3.2 - 3.3.5), the teleology alternative appears attractive. I assumed that by applying a teleological-process perspective, the number of dependent variables

⁷⁷ Extension, penetration and integration as defined by Johanson and Mattsson (1988) come close to this argument.

⁷⁸ See also Kirzner 1997.

under investigation might increase. Timing could be included as the key to all managerial decisions, made and implemented. Ultimately, our understanding of the complexity of the FME process in relation to overall growth might improve.

This chapter ends with a synthesis of the theoretical considerations discussed in the foregoing sections.

3.4 Synthesis

One apparent problem (in the light of my research questions, too) with the IB/FDI theories is that they are static. We need a deeper understanding of the FME process than just why certain operation modes are pursued by large corporations. Internationalisation is a growth strategy and companies do not grow spontaneously. However, spontaneity is probably also a feature. One should always keep in mind the fact that growth in a company is the result of decisions (Mintzberg 1994, Mintzberg and Lampel 1999), although these decisions cannot always be based on formal analysis and planning. Managers do not plan continuously and consistently, and sound intuition has a role (Calof and Beamish 1995) in making them alert to opportunities and threats. Patterns of foreign-market expansion and answers to the questions why and how it takes place could be seen as consequences of managers' abilities and/or inabilities to exploit the changes in the external environment (Julien et al 1997). The vital of managers is to gather and evaluate information quickly from both inside the company and outside the market.

Johanson and Vahlne (1990) suggested that internationalisation is the result of a mixture of strategic thinking, strategic action, emergent development opportunity and necessity, which they said should be investigated creatively. Welch and Luostarinen (1988) proposed that company goals should be to maintain the forward momentum in building the company to the point at which it is more receptive to the possibilities of increased involvement and better prepared to respond to them. The question remains what sort of base is established for subsequent forward moves in foreign-market expansion.

In terms of the FME process, the researchers of the Nordic School relied on the original explanatory concepts (psychic distance, experiential knowledge and network position) and the life-cycle-process perspective. They usually relied on cross-sectional data (surveys and case studies) once the outcome was evident. This research design enabled them to take a snapshot of internationalisation. However, the stages described do not fully capture the process realised by an operating company. This data (i.e., cross-sectional with known outcomes) ultimately limited our understanding of the process. Case

studies using stages models have not been able to achieve congruence between the conceptual and operational levels (cf. Danis and Parkhe 2002, Coviello and Munro 1995 and Bell 1995). We still lack a model that captures the FME process on emerging markets in providing a solution to the empirical problems⁷⁹ arose from that context.

The research problem addressed in this study would have required theories based on data collected longitudinally and covering more about the FME process than just the initiation phase. This kind of theory does not, in fact, exist. Moreover, although the Nordic School claims to apply a holistic view, several concepts are not well incorporated in their models.

Theories of foreign production and the multinational enterprise must address problems of strategic behaviour if they are to be dynamic. This notion of Weisfelder (2001), in line with Buckley (1988) and Hennart (1994), is a route to the extension of the research tradition into the domain of competing theories, and one that I also find reasonable. However, this study does not propose the simple and direct combination of IB and strategic-management theories, but rather suggests that careful consideration of possibilities based on empirical evidence is needed because of the divergent philosophical backgrounds.

In conducting the empirical study I applied the classification of operation modes put forward by Young et al (1989), together with the DOSch model (Dwyer, Schurr and Oh 1987) for the data collection. I was confident that understanding the interface between internationalisation and business-relationship-development processes would give a fuller picture of the international expansion of a company.

The temporal perspective (Halinen and Törmroos, 1995, 1998) should be inevitable. A longitudinal study design, with a teleological process perspective, could be considered the most appropriate for studying changes or dynamic processes (Van de Ven 1992, Van de Ven and Poole 1995, Ring and Van de Ven 1992, 1994).

The task of taking a longer and deeper view of FME in multiple markets was taken up in this research. This created the potential for enriching theory building. Danis and Parkhe (2002) argue that a theoretically relevant sample is one that generates a diverse range of categories and their properties⁸⁰. The rich histories of experiences, both successful and unsuccessful, of international market development are necessary for the theory building. Indeed, my aim was to find a fresh way to analyse a well-studied research area. The study

⁷⁹ See e.g. the research question of this study (Section 1.3).

⁸⁰ Properties of categories mean patterns of integration and outcomes in Danis and Parkhe 's study. Thus, they selected diverse cases in terms of size, industry, organisational structure and the partner's nationality.

proceeded with grounded-theory development from case studies. In cases such as this, in which new knowledge is created with the help of the GT (grounded theory) approach, the literature review guides the researcher in establishing a potentially new contribution (Glaser and Strauss 1967, Eisenhardt 1989, Strauss and Corbin 1990, Edwards 1998). The new theory can, and should, be compared with the old ones, although the research results may be very time-specific. Understandings from *related fields*, beyond the immediate field⁸¹ under scrutiny in this chapter, are discussed in connection with the data analysis, mainly in the discussion chapter (Chapter 7).

I believe that the potential contribution of this study can be established with the help of the theoretical departure presented here. In terms of the methodological discussion, presented in the following chapter, the arguments may give further justification why and how one should - at least once - take a longer step away from that immediate field. Chapter 4 introduces the key concerns in terms of the philosophical background of GT methodology, and discusses how grounded-theory research can be done. The focus remains on how the GT research was conducted in this study.

⁸¹ The immediate field was international business, with special focus on the Nordic School of research in this tradition.

4 RESEARCH METHODOLOGY

4.1 Starting points to the methodological choices

It is the aim of this study, in accordance with others who take a holistic approach, to develop a theoretical framework which is capable of explaining the holistic quality of observed social systems and the practice of human actors. Qualitative data is ideal for studying a complex phenomenon which involves multiple levels, possesses a dynamic character and has an interpretive dimension (e.g. Gersick 1994, Conger 1998). In addition, taking a qualitative process approach allows for the context to be taken into account (Pettigrew 1990). All in all, the aim of this study was to pursue a multiple level of analysis representing a continuum of events and happenings rather than a hierarchy or clear classification.

My ideas were clarified during the course of the research, and it was my intention to seek evidence to formulate new ideas. My justification for this type of research conduct is as follows. Some phenomena are significant because they are general and others because they are rare, unusual, or extreme in some way. The latter are relevant because they challenge what social researchers think about what is common (Ragin 1994). Within this framework, the phenomenon under scrutiny in this study - foreign-market expansion in newly-emerging markets (i.e. the business expansion of the selected medium-sized Finnish companies in the Visegrád countries) - falls more into the second category. It is significant historically,⁸² too. Undoubtedly, understanding society is difficult without exploring the impact of history. The main reason for choosing the case-based grounded-theory approach was that market economy-types of international business relationship have been initiated only in the last ten years in the Eastern European markets, especially involving smaller-sized foreign companies. There was, and still is, a strong feeling among researchers and practitioners that the way foreign-market expansion and operation are practised in Western markets does not necessarily follow the same course in the newly-opened Eastern European markets (Nazirowsky 1996, Liuhto 1999). Furthermore, foreign-market expansion involves leadership, which is a social-influence process. Mainstream

⁸² See Chapter 2 on this fairly new context

internationalisation-research methodologies have been unsuccessful in theorising about the nature of that kind of process (Parry 1998).

Methodologically, it is a question of how to go about getting to know business operations in these markets better. One way is to follow the grounded-theory approach. Go there without a theory and let it emerge. What is relevant to the new area? The same approach could be taken to studying the phenomenon of the foreign-business operations of a true pioneer, not to mention what emerges for those operating as pioneers. At any rate, strategic behaviour, i.e. the actions and experiences of managers in newly-emerging markets, is investigated. I needed to incorporate the variety of variables that affect foreign-market expansion. I needed methodology that utilises the breadth and depth of the data in order to incorporate the variety and range of variables. These also necessitate theory generation rather than theory testing. This study - like many other qualitative studies in the field of international business - relies on the recollection of events, recorded in interview data. The aim was to develop explanations of management actions in the context of the Visegrád countries as newly-emerging markets. Presumably, there should be an emphasis on tacit knowledge and the explanations should be characterised by transdisciplinarity.

The foreign-market-expansion process is complex, and grounded-theory methodology allows for the handling of complexity. It has been developed for meaningfully rendering complex data. It includes strategies for constantly seeking variations in interactions, which in turn are based on structural conditions, consequences, deviancies, norms, processes, patterns and systems (cf. conditional matrix in two pages later). Grounded theory begins with an area of study, which is relevant to the area that is allowed to emerge. The approach in its true sense emphasises context and the social construction of realities. It supports the discovery of phenomenon-specific theories and subsequent comparison with other theories. The grounded-theory approach suited this study.

In the following sections I discuss about grounded theory as a research approach and the case study as a tool for grounded-theory development, and elaborate on the peculiarities of processual study. All in all, scientific representation should be based on - and incorporate - large amounts of appropriate, purposefully collected evidence (Ragin 1994). It should thus be the result of systematic analysis of that evidence. The primary concern is therefore, to present a synthesis of the facts that both makes sense and is true to the evidence (Ragin 1994, Williams & May 1996). If these requirements are fulfilled, we might expect social research better established in ideas and evidence than other types of representation of social life. The purposefulness

is outlined in the section on research design⁸³. The plan for the required systematic analyses⁸⁴ is then discussed in connection with the research design. The criteria for evaluating the research process and the findings of the study are given at the end of the discussion (Chapter 7).

4.2 Grounded Theory as a Research Approach

4.2.1 Underlying assumptions

The choice of research approach depends on the nature of the phenomena under scrutiny and on the resources available (Ragin 1994, Denzin and Lincoln 1994). Conceivably, the process of conducting research and the completed research interact with the world in which it takes place (Alexander 1987, Denzin and Lincoln 1994). Thus, it is important to understand how the assumptions that underlie the actual research purpose match the research approach. All philosophical positions and their attendant methodologies, explicitly or implicitly, hold a view about social reality⁸⁵. The method chosen will contain epistemological assumptions about the operationalisation of the research question, and about the best means for obtaining the knowledge required. It follows that to understand the grounded-theory approach⁸⁶ also supposes on an awareness of its philosophical assumptions. Glaser and Strauss (1967) believed that adequate theory could emerge from intensive involvement with the phenomenon under study. In other words, grounded theory was considered a protest (Goulding 1998) against the passive acceptance that all of the great theories have been discovered. If that were the case, the role of research would only be in testing the theories through scientific procedures applied in the hard sciences.

Later, Strauss and Corbin (1990) identified the researcher as actively involved in the method and not separate from it. The grounded theory was verified during the research process. Moreover, the authors urged researchers

⁸³ The research design is outlined in Chapter 4.3.

⁸⁴ The guidelines for the systematic analysis conducted for this study is given in Chapter 4.4.

⁸⁵ A connecting line can be drawn between philosophy and social research, since philosophy is concerned with knowing what kind of things exist in the world and what is our reason for knowing them, whereas social research is concerned with their knowable properties.

⁸⁶ The GT approach is rooted in symbolic interactionism (cf. Blumer 1969). Symbolic interactionism is both a theory about human behaviour and an approach to inquiry about human conduct and group behaviour. Classic symbolic interactionism is a micro-sociological theory. It tackles issues related to the individual in society, but does not deal with the shape of society. Ultimately, symbolic interactionism related to philosophical hermeneutics, as hermeneutics is instrumental in the general critique of positivism. The new argument of Glaser and Strauss about the nature, the purpose and the possible development of a theory arose from these philosophies (Annells 1996).

to draw on their background knowledge when collecting the data. Analysis is interwoven with interpretations, and these interpretations should be based on multiple perspectives. Multiple perspectives, in turn, are embedded in the historical moment and thus are provisional. The theory product is local and specific to the constructed realities (i.e., substantive) in the relativistic ontological sense. This also means that generalising the result in the positivist or post-positivist ontological sense is not sufficient. According to Glaser (1992, 105), theory should explain only the phenomenon under study. In his opinion, the systematic generation of theory should be seen as sequential to verification research (meaning that verification study applies experiment or survey data to verify the true significance). However, Strauss and Corbin (1990) claimed that with the conditional matrix⁸⁷ they developed one could conceptualise and explain beyond the immediate field of study.

In general, researchers do not agree even on how to define the implementation and evaluation of qualitative methods, because such methods cut across social-scientific paradigms, academic disciplines and fields of study and their associated questions (Denzin and Lincoln 1994). Qualitative process data in organisations certainly involves difficulties in isolating units of analysis in an unambiguous way. Process phenomena are fluid in character and spread out over time and space. It is my belief that the grounded-theory approach has the best scope and potential to overcome these difficulties. It represents a methodology developed for generating theory where little is already known, or *for providing fresh insight into existing knowledge*. Inherent in it is a strong intellectual rationale for using qualitative research⁸⁸ to develop theoretical analysis. The basis of grounded theory is the careful and systematic study of the relationships between individual experience and society and history. The grounded-theory methodology (Glaser and Strauss 1967) was indeed revolutionary at the time of its inception. Nevertheless, it is necessary to understand its development through its application in other disciplines. It helps us to identify the strengths and weaknesses of the method. Thus, I will continue by considering the pros and cons in the light of the purposes and phenomena involved in this study. First, I will discuss the strengths and weaknesses of GT methodology, with special focus on its applicability to organisational and management research. I will then outline the relevance and

⁸⁷ The original conditional matrix (Strauss and Corbin 1990, 163) can be seen as a diagram, useful for considering the wide range of conditions and consequences related to the phenomenon under study. It helps of tracking an event, incident or happening from action/interaction through various conditional levels (e.g., interaction, collective, sub-organisational ... international), and vice versa, in order to directly link them to a phenomenon.

⁸⁸ This does not mean that GT methodology only makes use of qualitative evidence. See, for instance, the study by Kyrö (2001), in which quantitative data was used with GT methods.

suitability of the grounded-theory (GT) approach to the subject matter of this study.

According to Strauss and Corbin (1990), grounded theory is a set of relationships that offers a plausible explanation of the phenomenon under study (cf. explanatory study in section 4.2.2). It links diverse facts in a coherent, useful and pragmatic way. A useful theory also has the capacity to reveal the unrecognised or unknown. Theorising is the process of constructing alternative explanations until the best fit is achieved between data and explanation. In this it involves questioning the data in order to create links with established theory. The attributes of the researcher and his/her effect on the phenomenon under study and on the presentation of the findings are also relevant. The grounded-theory approach, which is rooted in symbolic interactionism, recognises that inquiry is always context bound, and that the facts should be viewed as both theory- and value-laden (Goulding 1998). It is based on the acceptance of the complexity of social life. It provides methods for rendering that complexity meaningfully.

Interpretivist⁸⁹ and post-modern scholars use methodologies that provide insight and reveal meaning, and in doing so they acknowledge the possibility of multiple answers to problems. Among the interpretivist methodologies, the grounded-theory approach differs more significantly in the sources of data used and in the use of literature to inform and locate the developed theory. It allows for multiple sources of data. *The principle is that the developing theory should direct the researcher to the literature that best informs, explains and contextualises the findings* (Goulding 1998). Knowledge and theory are used in grounded theory as informants in the investigation. It therefore requires an understanding of a broad range of established theories and empirical works (Eisenhardt 1989) in order to enhance theoretical sensitivity.

There is a misunderstanding about grounded theory, related to the debate about inductive and deductive thinking. The grounded-theory method calls for early data collection, but that does not mean that it is a-theoretical (Goulding 1998). GT is a bottom-up approach, which does not mean pure induction. As far as GT approach is developed (Glaser and Strauss 1967) - and applied in this study - for searching explanations, inductive thinking underpins the initial research propositions (cf. the preliminary categories in section 4.4.3). Then deductive process is used to draw implications from propositions or larger systems of them for purpose of verification⁹⁰.

⁸⁹ GT is an interpretivist methodology. However, as Goulding (1998) pointed out, grounded theory is somewhat excluded from the discourse on interpretive and post-modern methodologies because its language has connotations of positivist practices.

⁹⁰ This means the building of alternative explanation, which is open for testing it against established theories (Machlup 1955, Arthur 1994, and cf. section 7.4)

Yet, the researcher who applies the grounded-theory approach has to take care to avoid *internalising the perspectives and hypotheses of scholars in the immediate field of study*. After developing the theory and consulting related works in order to draw comparisons, he or she needs to build on and offer the alternative perspective. Over-emphasis on induction would downplay the role of theoretical sensitivity. Grounded theory is more of a retrodiction (cf. Ragin 1994), which is a double fitting or alternative shaping of both observation and explanation. It is not ex post facto discovery of explanatory ideas. Still, it is derived directly from empirical data. The criteria put forward by Glaser and Strauss (1967) to evaluate the theory are that it: fits with the real world, would work across a range of contexts, is relevant to the people concerned, and is readily modifiable. The theory depends on the constant comparative method it involves. This, in turn, has the power to explain variability in interaction, and to show the social structural conditions that support the interaction, the consequences of the interactions and the conditions that support changes in interaction over time. Elaboration of the identified core idea means making an effort to confirm or disconfirm the elaborated concepts and the relationships among them. Grounded-theory methodology urges sustained attention to a problem, rigorous conceptualisation of its dimensions, and humility with respect to the solution (Wells 1995).

Glaser (1992) himself suggested that the grounded-theory method he and Strauss developed in 1967 is particularly useful for researchers concerned with issues related to human behaviour in organisations, groups or any other social configuration. The method involves examining the phenomenon on a variety of levels and in different contexts. It is implicitly longitudinal, and the focus on process makes it especially relevant in contexts of rapid change in the environment or in organisations. It is true that it does not allow for as broad generalisation as mainstream methodologies do, and the findings are rather applicable to the substantive setting from which they are derived. Grounded-theory methodology is particularly applicable in processual case studies (Glaser and Strauss 1967, Strauss and Corbin 1990, Pettigrew 1990, Ropo & Hunt 1995, Glaser 1999, Langley 1999), and in moving from analytical chronology and the diagnosis of cases towards interpretive/theoretical output. It explicitly involves identification of the process and forces that give rise to activity, and this concentration on the mechanism thus gives scientific explanation its dynamism. Indeed, the emphasis shifts towards dynamism, whereas mainstream approaches have a bias towards static, cross-sectional analysis.

However, the relevance of grounded theory in a well-worked research field (such as the internationalisation of the firm) is not in the generation of new concepts, which are usually saturated (cf. Glaser 1992, Glaser 1999, Goulding

1998). Glaser (1992) defined the *basic social process*, as the core process that has the capacity to explain variations in all lower-level concepts and processes relevant to the complex processual phenomenon. Grounded-theory analysis of a complex phenomenon can be also used in facilitating a better grasp of the basic social process⁹¹. Parry (1998), for instance, voiced his concern about management research when he stated that it usually does not deal with the level of basic social process. "*Grounded theory analysis progressively integrates the various processes that emerge to a higher level of abstraction, in such a way that one overarching social process emerges that can explain variation in all lower level concepts and processes*" (Parry 1998, 91). This explains why the researcher needs to keep a balanced distance from the immediate field.

Glaser and Strauss (1967) first developed grounded-theory methodology specifically for sociology. It is used to develop largely sociological explanations of the variability in social interactions. However, over the decades it has diffused to other disciplines. It has raised relatively little productive discussion in management literature, even though aspects of the methodology match well with the applicability requirement. There is room for grounded theory in organisational research, as we need to be more open to a variety of forms of coupling between theory and data (Langely 1999). Grounded theories are not necessarily reliant on established theoretical perspectives and transdisciplinarity is explicit. Only recently has management science started to adopt the GT approach, too. However, adoption by other disciplines, including management sciences, is not completely congruent with all the original principles. Thus, it is worth discussing how grounded theory has been adapted, particularly to management studies, and how unsuccessful application of the methodology has led to some ambiguity. Clear understanding of the differences in application and of the causes of failure should help to make this research more fruitful.

It is claimed that researchers tend to move too soon towards testing the statistical significance of relationships between conceptual variables in theoretically-based arguments. This is a fundamental methodological issue, raised by (among others) Pinder and Moore (1979), Eisenhardt (1989) and Parkhe (1991) to question the dominance of the quantitative, deductive-theory-testing research paradigm in management research. There is a shift towards management theories that place the active role of the managers at the centre. Today, a more cognitive perspective is emphasised on the realisation that how people understand the environment leads to action. Symbolic interactionism (the roots of grounded theory) concern understanding social processes and

⁹¹ As mentioned in an earlier footnote 'core process' and 'basic social process' used interchangeably.

interactions from the social actors' point of view. Indeed, management studies should be built around stimulus-organism-response models where cognitive management is at the centre. Moreover, as Partington (2000) urged, building trans-disciplinary S-O-R (stimulus-organism-response) theories of cause and effect should be a central concern of management-research methodologists (see section 4.4.3).

In fact, the grounded-theory approach is the one suited to codifying and transforming tacit knowledge into codified (explicit) knowledge. As noted above, grounded theory has been supported as a valid qualitative form of research into organisations, leadership and other processes (Pettigrew 1990, Van de Ven and Poole 1990, Parry 1998, Ropo & Hunt 1995, Langley 1999, Glaser 1999).

However, there have been problems in applying it in management research. This shows the bewildering complexity of the process. The newer, Strauss Corbin (1990) approach may be more attractive⁹², in that it limits some of the danger of trusting in a highly uncertain creative process. It offers a normalisation, legitimising device for qualitative research, which is in generally criticised if not formalised. Glaser and Strauss concentrated on particulars rather than abstractions and on open systems of thoughts rather than closed absolutes⁹³. The paradigm model, links causal conditions to actions, not through cognition but more indirectly via phenomena. The context and the intervening conditions may both include elements of cognition. The question arose, whether the mere generation of categories within a complexity according to the paradigm model is really a theory (see Strauss and Corbin, 1990). Nevertheless, the managers' demand is for theories in the form of assimilable causal models and classifications in a narrowed version of the conditional matrix, to convey truths. Theories of strategic processes are needed for purposes of understanding and/or intervention, and if that is achieved, there is the managerial implication. Management research would benefit from as rethinking about the basic issues of the grounded-theory approach because the aim is to develop explanations for management actions.

Partington (2000) suggests a modified analytic framework within the critical-realist perspective. He argues that the multilevel ontological perspective⁹⁴ suits the study of management actions. Context/stimuli,

⁹² Nevertheless, Glaser (1992) strongly opposed the proceduralised form of GT development.

⁹³ See the underlying constructivist philosophical assumptions of symbolic interactionism (Blumer 1969)

⁹⁴ Partington directly referred to the critical-realist ontology of Bashkar (1975), who explained three overlapping domains of reality:

- Empirical domain - experienced
- Actual domain - whether observed or not
- Real domain - an event may occur in a given situation or stay dormant, and can be cancelled by other forces.

meanings/cognitive processes and responses/behaviours are real. However, some of the elements are revealed as observable, and some are accessible through the subjective accounts of managers and other organisational actors. Some are uncovered through speculation by the researcher on apparent causal tendencies, which then may need further inquiry and verification.

My conclusion was that GT methodology has relevance for this study. I will now explain in more detail why I adopted a case-study research strategy in combination with the grounded-theory approach.

4.2.2 The Case Study as a Tool in Applying Grounded Theory

The case-study method may be useful for theory building with largely qualitative data when the established perspective is justifiably questioned (e.g., Eisenhardt 1989). Secondly, as Van de Ven and Poole (1995) and Pettigrew (1990) noted, such case studies are especially useful in studying longitudinal change processes. There are several underlying issues. For example, it is clear that theoretical constructs such as commitment, trust, communication, power and conflict resolution (Fontenot and Wilson 1997) are difficult to observe directly. It is possible to evaluate them indirectly within the actual settings through different actions of the business partners. There is a lack of research on the specific activities that reflect and foster so-called latent constructs.

The case study is a research strategy that has various uses according to the underlying theoretical and methodological perspectives. It can be used in conjunction with different methodologies, but is more suited to some than to others. In this study, the methodological perspective⁹⁵ is derived from the GT approach. Thus, the main concern in this sub-chapter is to assess the fit between these two, the grounded-theory approach and the case-study research strategy. The suitability of the case-study method is directly connected to the issue of the generalisability of the findings (Ryan, Scapens, Theobald 1992, Tsoukas 1989).

The case study may be used with a bottom-up approach - from data to theory. It is an advantageous strategy when "how" and "why" questions are posed in the research; when the researcher has little control over events and when the focus is on real-time phenomena within a real-life context. In Yin's own words: "The case study can be used when the boundaries between phenomenon and context are not clearly evident and in situations where multiple sources of evidence are used" (Yin 1989, 23). It is a research strategy that focuses on understanding the dynamics within embedded settings

⁹⁵ I.e., theory building and search for the basic social process in order to create a fresh insight into the phenomenon.

(Edwards 1998). Its aims may be description, theory testing and theory generation. Combined data-collection methods are typically used: archives, interviews, questionnaires and observations. Evidence may be qualitative, e.g., words, or quantitative, e.g., numbers, or both. It is a mistake to claim that case-study research strategy uses purely qualitative evidence (Smith 1991). Moreover, there are different types of case studies to meet the various aims. Earlier it was pointed out that there is not necessarily a clear-cut distinction among the different types. For example, descriptive and explanatory case studies may be essentially interwoven, as will be seen in this particular study. The underlying argument is that the emphases naturally shift within the research (see Eisenhardt 1989, Smith 1991, Edwards 1998). The descriptive case study is relevant, because the social system first needs to be described. As many researchers acknowledge (Dyer and Wilkins 1991, Guba and Lincoln 1994, Langley 1999), it is through a "thick description" of the contextual details that a better understanding of the phenomenon is arrived at. The narrative ("thick description") is not necessarily the final product of a research project (Langley 1999). The challenge may be to generate a theory based on the data with reference to related studies (Lukka and Kasanen 1995, Alasuutari 1996). The contextual detail of the data makes it possible to further evaluate these theories. This is why my data analysis started with a thorough description of the selected cases.

Beyond the need for description, the objective here was to derive explanations from the data, this is why I considered it important to clarify the crucial difference between so-called exploratory and explanatory case studies. Admittedly, there is some contradiction in the literature concerning what type of case study is called exploratory and what is explanatory. Exploratory case studies - according to Ryan, Scapens and Theobald (1992) and Tsoukas (1989) - are intended to generate ideas and hypotheses for rigorous empirical testing at a later stage. In other words, they are ultimately concerned with statements about statistical occurrences in a particular population.

Explanatory case studies on the other hand, differ quite fundamentally in their objectives (Ryan, Scapens, Theobald 1992). The focus is on specific cases; the aim is to understand and explain the specific (explain the reasons), rather than to generalise (Tsoukas 1989, Smith 1991). The objective is to generate theories, which provide good explanations. Generalizability refers here to theoretical generalisation, finding out if a particular theory has explanatory power over the phenomenon in question. The issue in these cases is whether the theory explains the observation or not.

In order to gain deeper understanding in this research process, it was logical for me to go further and develop a theory that closely fitted the case data. This case-based theory (i.e., substantive) is to be compared with existing theories

and models. Apparently, comparison between theories and models aims to evaluate both the newly-developed and earlier theories. According to Eisenhardt (1989) and Ryan & Scapens & Theobald (1992) this is where the real potential of a case-study research strategy can be utilised. This is in accordance with the aim of this particular study.

All in all, the most important commonalties between an *explanatory* case-study research strategy and grounded theory can be understood in as far as both are confined to substantive settings (i.e. the bottom-up approach), and aim at theory generation. Conversely, Pettigrew (1990) categorised processual case studies according to the achievable level of complexity in interpretation and output⁹⁶. He argued that grounded theory is useful specifically in moving towards interpretive theoretical output when a processual case study is conducted.

In this I emphasised the fit between the grounded-theory method and the explanatory-case-study research strategy. I have deliberately applied both in studying the processual phenomenon in question; foreign-market expansion in newly-emerging markets. I will now discuss time and other process-related concepts. Such concepts have a crucial theoretical and methodological bearing on a processual case study such as mine.

4.2.3 Studying the longitudinal change process

The focus in this sub-chapter is on the methodological relevance of process-related concepts in the light of the grounded-theory procedures applied. This is in accordance with the processual data collected and analysed, as well as, with the teleological process theory that lay behind the investigation.

Foreign-market expansion is inherently a dynamic change process, and change incidents are inherently longitudinal. Internationalisation needs to be researched as a process and with an appreciation of the broader social context. There are more suitable and less suitable modes of analysis for processual data in terms of generating accurate, parsimonious, general and useful theory (Weick 1979, Langley 1999). Van de Ven (1992) also argued that surface description of process theorising is not enough. There is a need to penetrate the logic behind observed temporal progression. Established theories see actions as orderly and sequential, carried out to achieve rationally declared ends. Actors are seen to behave mechanistically. Attempts are made to explain the change process in terms of rational, linear theories of planning, decision

⁹⁶ According to Pettigrew (1990), these levels are: Level 1. Analytical chronology of the case, Level 2. Diagnosis of the case, Level 3. Interpretative/theoretical output, Level 4. Meta-level analysis across cases. The abstraction levels achieved in this study are discussed in section 4.4.3.

making and change. The change emerges and proceeds in much more complex, haphazard and contradictory ways (Pettigrew 1990). As mentioned in Chapter 3, this is why I chose the teleological process theory to underwrite the investigation in this study.

It is not only in internationalisation studies, but also in other related fields of organisational research that more and more researchers are questioning the simple process models that usually assume a linear progression of defined phases leading to definite outcomes (e.g. Mintzberg and Waters 1982, Gersick 1994). The steady progression is undermined by the multi-layered and changing contexts, in which causalities and feedback loops are multi-directional.

Most existing theories on the process of internationalisation derive from the longitudinal-development approach, whereas I have chosen the grounded-theory approach⁹⁷. Longitudinal-developmental approaches are useful when simplicity is required in order to help our understanding, since they feature developed stages and phases. It is not my intention in this study to develop any new stage models. I believe that the world is much more complex, and I am interested in fostering a better understanding of variations. The idea behind grounded theory is to seek to explain variability with the help of identifying the basic social processes. In this study, I accordingly seek to identify the basic social process involved. This, in turn, should help to explain variability.

The aim of this kind of process analysis is to capture the conceptualisation of events and happenings in order to explain why certain action/interaction routines break down and why problems occur during the course of life events. When we look back, why can we see growth, development and movement? How do we see the other extreme failure of growth, as sliding backwards or as stagnation? It is important to understand the response to changes in conditions as well as to understand the failure of response and consequences. The process is seen as inter-linked sequences of the actions/interactions⁹⁸. I have understood the action/interactions in both ways: as strategic and/or operational. Furthermore, they pertain to the management of, control over and response to particular conditions. In fact, it is the changes that we seek - changes in conditions that bring about corresponding change in action/interaction strategies. There are two types of change. One occurs through planned action/interaction, while the other occurs as a result of

⁹⁷ See also the other underlying difference, namely between the life-cycle process theories and the teleology process theory that lies behind the investigation mentioned earlier.

⁹⁸ Action and interaction are not synonyms, however they are used together in this research, as in reality the action of one party leads to joint or counter-actions by the other party.

contingencies⁹⁹. Contingencies are also part of the process-analysis approach, the goal being to understand the underlying logic in the process of change.

When analysis concerns changing conditions, time and movement are brought into focus. It is not only the duration or amount of time¹⁰⁰ between sequences, but also their passage in parts that are important in this research. Time itself sets a frame of reference, which directly affects our perception of change. Admittedly, longitudinal data allows exploring of the present in relation to the past and the emerging future. Time should be recognised in its own right meaning that it is not just something out there that is socially constructed. Nevertheless, the closer to the present we are, the better we are at identifying change, and the further away from the present we are, the better we identify continuity (Pettigrew 1985, Pettigrew 1990, Van de Ven 1992). We need to differentiate two types of time, the chronologically and the socially constructed. Both retrospective and real-time data are needed in order to capture both types (Van de Ven 1992).

It is true that most problems that management faces are rooted in time. The same organisational practices are not maintained over a long period. For instance, the concepts decentralisation and deregulation may describe corporate practice at one point in time (Greiner 1972 reprinted 1998), but they lose their descriptive power at another. Nevertheless, the passage of time contributes to the institutionalisation of managerial attitudes.

Indeed, the design of a study to observe strategies needs to be consistent with the definition of those strategies, and with the theory of process that underlies the investigation (Van de Ven 1992)¹⁰¹. Designing and realising a longitudinal study using both retrospective and real-time data is often difficult for practical reasons. Special attention was given to these issues in this case, and project seemed well suited to the longitudinal design (see the next section on research design, and the results and discussion Chapters 6 and 7).

A few related problems should still be mentioned, however.

First, retrospective case studies/histories are too often written after the outcomes are known. Prior knowledge of success or failure of a strategic-change effort invariably biases the findings of a study (Van de Ven 1992). As far as this research project is concerned, it was a deliberate choice to initiate the case studies before all the outcomes of the strategic-change process were known. Thus, I could also focus on real-time events and activities in strategy development as they occurred, without knowing *a priori* all of the outcomes. Still, the researcher needs to be placed in the manager's temporal and

⁹⁹ Contingencies are unanticipated, unplanned happenings that bring about a change in conditions.

¹⁰⁰ See Monge (1990) and my analysis in Chapter 6.

¹⁰¹ E.g., teleology in this research project.

contextual frames of reference. This was achievable only through retrospective case history. Historical analysis was necessary in several respects, for while retrospective interviews may miss certain useful nuances and details (Langley 1999), data collected in real time may need a certain distancing before it is possible to distinguish what is really significant. Thus, a concerted effort (planning, pre-designing) was made¹⁰² to minimise bias.

Secondly, most researchers use an open-ended inductive approach when studying process phenomena. However, this leads to the postponement of the moment of decision between what is relevant and what is not (Langley 1999). Awareness of iteration within the GT method may overcome this problem.

Thirdly, there is inherent transformation in the motivations, values and beliefs, as well as in the structure, of organisations. There is interaction between two or more members of the group in relation to the structuring and restructuring of the situation and the perceptions and expectations of the members. There are persons who influence the attitudes and the behaviour of a whole group of people in a given direction. Thus, when attitudes and behaviour are changed, this induces others to take action. The social-influence process structures the activities and relationships in a group or organisation. There was a need to include or deal with evolutionary relationship development between people and with other evolutionary processes, such as cognition and emotion among individuals as they interpret and react to events.

Fourthly, most approaches attempt to overcome the overwhelming nature of boundary-free, dynamic and multi-level process data by fixing attention on some starting point. The use of this strategy has an effect on the nature of any emerging theory (Langley 1999). In this study, the starting point was the opening of the CEE markets, and the selected case companies were true pioneers on those markets. Thus, this anchor point should not have a detrimental effect on the outcome.

Fifth, some strategies are best for detecting patterns in processes, others for penetrating the driving mechanisms; some are focused more on the significance of the process for the people involved, while others are more concerned with predictions (Langley 1999). As far as GT methodology is applied in this study, the form of sense making is oriented toward meanings and patterns in processes and penetrating the driving mechanisms. As Glaser (1999) and Strauss and Corbin (1990) reported, the most useful core categories often arise from process data.

I will conclude this section by quoting Pettigrew (1990, 268): *"Theoretically sound and practically useful research on change should explore the context and process of change together with their interconnection"*

¹⁰² The following sections give all possible details about the "concerted effort" made to handle the two types of longitudinal data within one project.

through time." For me too, embeddedness is a methodological principal¹⁰³. I hope to be able to link the content, context and process of change over time, and thus to challenge the established theories. My next step on this road is to introduce the empirical design of this research in detail.

4.3 The Empirical Research Design

The research design is the blueprint of any research. In general, the components are the question(s), the propositions, the unit of analysis, the logic linking of the data to the propositions, and the criteria for interpreting the findings (Perry 1998, Uncles 1998). It is the logical sequence that connects the empirical data to the initial research question(s), and ultimately to the conclusions (Yin 1989). In other words, the design of the scientific investigation touches almost all aspects of the research (Ragin 1994).

The research problem area and the context were outlined and the specific research questions given in the introductory chapter. The empirical design chosen to answer the research questions is the longitudinal multiple-case study. The units of analysis are the bridgehead relationship dyads (see Figure 6) between the two Finnish companies and their counterparts in the Czech Republic, Hungary and Poland.

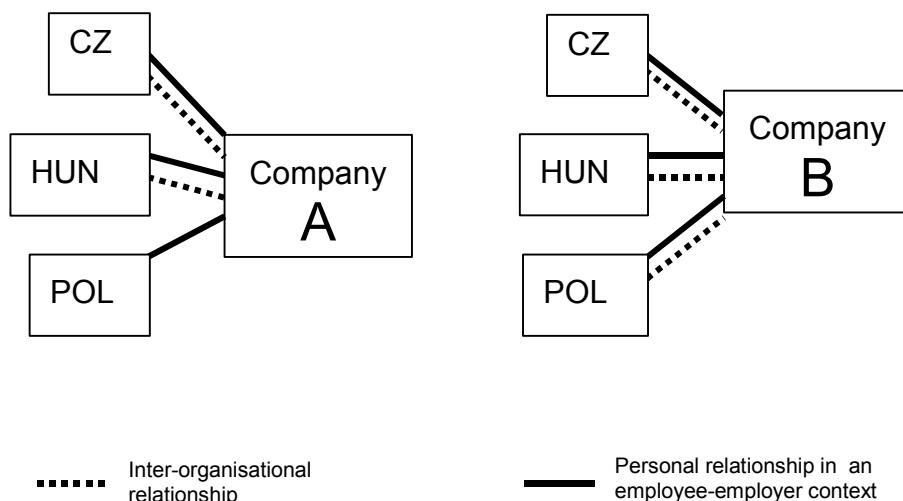


Figure 6 The two groups of cases

¹⁰³ Cf. Marinova (2001)

The perspectives of both parties were taken into consideration (Bonomo 1985). FME is a social process, and thus the different versions of reality had to be taken into account. The process of change can be more realistically captured when all sides (Pettigrew 1990) listen to the drama. Significant views should be presented, in the light of which the researcher should present his or her own view (i.e., research is a social process, too). On the other hand, this study does not focus directly on how these Finnish companies built their business networks in the host countries during the ten-year period, and the perspective that of others participating in a larger network. Instead, I classified the relationships concerned as bridgehead relationships¹⁰⁴.

The study took a teleological¹⁰⁵ process perspective. It covered approximately a ten-year period, from the first contact between the partners to the situation in 2000. The data was collected mainly through personal interviews with company managers, both retrospective and on a real-time basis¹⁰⁶. The interview questions focused on the sequence of events and interactions between parties that unfold to shape and modify inter-organisational and personal relationships over time (cf. Chapter 3.1). This design should be regarded as appropriate for studying changes and dynamic processes according to the grounded-theory methodology and the teleological-process perspective that was applied (Glaser and Strauss 1967, Eisenhardt 1989, Van de Ven and Poole 1995, Edwards 1998, Glaser 1999, Langley 1999).

The phases as described in the DOSch model (1987)¹⁰⁷ helped to organise the thoughts of the researcher in much the same way as Woodside and Kandiko (1991) have supported the idea of using an old model at the beginning of an empirical study. These models could be said to have been the tentative theoretical starting point of the study. Later, against expectations but in accordance with the teleological process theory, the centrality of the DOSch model, and the characterisation of entry modes within the entire research process, diminished. Nevertheless, the point made by Dwyer, Schurr and Oh (1987) was taken into account in the research design. It is quite true that the initiation phase of business-relationship development has been studied more,

¹⁰⁴ See also the discussion in Chapter 3.1.

¹⁰⁵ The teleological process perspective suggests that the purpose or goal is the ultimate force guiding the movement of an entity. Thus, development is seen as a repetitive sequence of formulation, implementation, evaluation and modification of goals based on what was intended and learned by the entity. Teleology implies a standard for judging change, but does not prescribe a necessary sequence of events (Van de Ven 1992, Van de Ven and Poole 1995).

¹⁰⁶ See Appendix 5 for the schedule of interviews conducted for this study.

¹⁰⁷ At the beginning of the data-collection process, business relationships were considered vital for pursuing expansion in the Visegrád markets. This is why the phases created by Dwyer, Schurr and Oh (1987) and the characterisation of entry modes created by Young et. al. (1989) were used in the formulation of the semi-structured interview guides. (The models are included in Appendix 2.)

and the same applies to studies of the process of internationalisation (see Chapter 3). Determinants at the beginning of operations in new foreign markets were extensively researched in the eighties, and in the nineties in the Eastern European (e.g., Djarova 1991, Borsos-Torstila 1999, Marinov and Marinova 1999) context. Yet, again, I was determined in this research to extend the focus to later "phases" of the foreign-market expansion processes in question.

The research design embraces a systematic plan for the collection and analysis of the data (details in the following section). Systematic collection of evidence at an early stage of the investigation is important even in less structured research that is more open-ended. In grounded-theory research (Glaser & Strauss 1967, Ragin 1994, 28), issues of sampling and selection bias are addressed during the course of the process, as the project takes shape. The researcher who discovers a new aspect may develop his or her own data-collection strategy during the course of the research (Eisenhardt 1989), in order to assess the generality of the phenomenon.

Table 5 Key Features of the Research Design

Key features of the research design	
Research Problem Area	Business expansion in emerging markets
Context	Finnish companies in the Czech and Slovak Republics, Hungary and Poland
Number of Cases	2 x 3
Levels of Analysis	Company level of relationships Personal level of relationships
Time Frame	1990-2000, "about" ¹⁰⁸ 10 years (longitudinal)
Data Sources	Introductory questionnaire Interviews ¹⁰⁹ (retrospective and real-time) Archives Observations
Number of Investigators	one
Research Output	A substantive theory of foreign-market-expansion processes Core/basic social process through which variations in lower-level processes can be explained .

¹⁰⁸ I analyse "about" ten years, because ten years period could be seen only in the entries made first.

¹⁰⁹ The interviews were conducted in English with Finnish, Polish and Czech managers whereas with Hungarians in Hungarian.

The key features of the research are summarised in Table 5 above. The bold text indicates the primary source of data, and the expected outcomes.

The following section (4.4) covers the procedures used in the systematic collection of evidence and results analysis, by introducing the actual phases of the empirical research.

4.4 The Research Process according to the Grounded Theory Approach

4.4.1 The Tentative Conceptualisation

The construction of a "roadmap", for building theories from the particular cases in this study was helped by several authors' work (see the Table in Appendix 3). However, in the interest of simplicity, I will start by introducing the main phases, as Edwards (1998) suggested. According to him, the research process could be conceptualised as having three major phases, a descriptive phase, a theoretical-heuristic or theory-development phase, and a theory-testing phase¹¹⁰. Each phase represents a different aspect of the process. They all have specific aims, and suggest specific strategies, and although they are useful for structuring case-study research, particularly with GT methodology¹¹¹, the process is not linear. There is always a need for iteration between the so-called steps. This section gives the details of the research process, and thus sheds light on the inherent iteration.

The first step in the study was *the tentative conceptualisation*. In many ways, this follows the thinking of Bonoma (1985), Eisenhardt (1989) and Wilson & Woodside (1999), who suggested specifying prior constructs to shape the initial design of research for theory formulation. Investigators should formulate a research problem, and possibly specify some potentially important variables¹¹², with some reference to existing literature. Chapters 1, 2 and 3 explored and clarified the nature and scope of the project, and identified issues and "hypotheses" in the field. Later, as Eisenhardt (1989) and Creswell (1998)

¹¹⁰ These phases are in accordance with the described dual nature of scientific knowledge creation, namely the use of both inductive and deductive thinking, within the same study (Chapter 4.1.) Chapters 5., 6., and 7., correspond to these broadly introduced phases.

¹¹¹ I.e. the process with GT methodology is explicitly iterative, and the grounded-theory approach is more "retroduction" (Ragin 1994) than pure induction.

¹¹² As mentioned already, the Dwyer Oh and Schurr model (1987), and the entry-mode categorisation of Young et al (1989), could be considered a tentative start. These two models were tools for collecting data. This does not mean that these very models were accepted as the final conceptual framework of this study.

put it, the research question(s) shifted¹¹³ during the research process, and the real focus emerged after the data collection had begun. Thus, the original research question and the potential constructs were seen as tentative during the initiation phase.

4.4.2 Case selection and data collection

The next step was the *case selection and the technical design of the data collection*. When the aim is to generate theory from cases, the cases have to be chosen for theoretical rather than statistical reasons (Glaser and Strauss 1967, Eisenhardt 1989, Strauss and Corbin 1990). Case selection is guided by the potential for replication and theory extension. Consequently, random selection is neither necessary nor preferable (Glaser and Strauss 1967, Eisenhardt 1989). Nevertheless, I agree with Eisenhardt (1989) who stated that the concept of "population" is important because appropriate selection controls extraneous variation and helps in the definition of the boundaries of the findings. In accordance with the originators of the grounded-theory method, Pettigrew (1990) urged the researcher to be alert to extreme situations and critical incidents. He or she needs to select cases in which the relevant processes are transparently observable, i.e. highly visible. Another strategy is to select polar types of cases that show high and low levels of performance, for example. All in all, the main feature of data collection in the GT approach is in how the theory develops and directs the researcher to new informants and appropriate locations. The iterative process between data analysis and data collection guides the latter. However, in this research, part of the setting was decided on the basis of the theoretical suggestions (e.g., Bonoma 1985), namely that relationships should be studied from both sides.

I started contacting Finnish companies registered as having operations¹¹⁴ in Hungary in the early nineties, and asked if they had operations in other Visegrád countries too. I wanted to include companies with experience in more than one of the Visegrád countries. I then became conscious of the need to collect somewhat less complicated data, given that process data is always complicated (Langley 1999). Thus, the two Finnish case companies concerned (A and B) are medium-sized, family-owned manufacturing companies. A key factor is that they started operations in the Visegrád countries at around the

¹¹³ E.g., during the initiation phase of the project, the development of the business relationships seemed to be the most important, whereas the final questions clearly show a shift towards the issue of strategy making (see the most elaborated research questions in Chapter 1.3 whereas the role of business relationships were the main question during earlier phase of the project).

¹¹⁴ I.e. revenue is earned in Hungary, and the existence of the operation is not just on paper.

same time, in the early nineties. They operate in two, rather similar industry clusters, and sell their products to other business buyers (B-to-B). Introductory information was collected from both of them, and the responses to the short questionnaires (Appendix 4) helped to determine whether they really were willing to participate in and suitable for this type of research. It should be borne in mind that the criterion of having "real" operations in more than one of the Visegrád countries as early as in the first half of the nineties was a tough one for a medium-sized Finnish manufacturing company. No more than a dozen companies were eligible, including those in service businesses. I did find two other manufacturing companies. One of which was discounted because it operates in a different industry and the potential respondent was not interested in participating in the interviews¹¹⁵. Co-operation with the other company has been satisfactory, but the case is not included¹¹⁶ in this research report. The Finnish case companies have instituted direct operations in three of the Visegrád countries, and while the respondents could give relevant information about the potential Slovak market, there were no direct operations there at the time.

The case studies in this research are longitudinal, and interviews were conducted at different points of time. Admittedly, the ongoing development of the theory affected both the interviews and the collection of other kinds of data. Practical considerations also influenced the sequence and length of the interviews. The possibility of cross-analysis of the responses was built into the research design, in as far as the relationship dyads reflect each other. The idea was to deepen understanding of how business relationships supported and/or hindered the actual FME process.

The two Finnish companies selected were considered critical¹¹⁷ cases in the sense that they were pioneers on a newly-emerging market. The extent to which the six cases are "polars" on the above-mentioned dimension of performance, for instance, was revealed only during the course of the data collection and analysis (cf. section 5.4). All in all, what is of utmost importance in building grounded theory is to have a sufficiently large number of comparable "incidents" with rich descriptions in order to compare them in-depth. I truly believe that the two Finnish companies in question, with the total

¹¹⁵ The reason was to do with recent personnel changes.

¹¹⁶ The reasons are very practical. First, the length of this research report is limited. Secondly, the findings relating to this company (Company C) are being considered for further testing and extension of the theory. There is great potential for theory extension in that the company meets all the above criteria, with only one major exception: it produces and sells not just for business buyers, but also directly to households.

¹¹⁷ Further discussion on the use of critical rather than extreme cases is to be found in relation to the evaluation criteria in Chapter 7.3.

of six case dyads, supplied enough comparable incidents for further in-depth analysis.

Five interviews running over eleven hours altogether with group A, and four interviews running over eight hours with group B, comprised the raw data¹¹⁸, which was audio-taped and transcribed. I began the interview sessions by introducing the interview guidelines carefully¹¹⁹ to the respondents. The interviewees were familiarised with the two frameworks (DOSch 1987 and Young et al 1989) at the beginning, and I explained to them why I was interested in hearing their views about their operations and expansion on the Visegrád markets (cf. research questions and early assumptions in sections 1.3 and 3.1). I was also interested to see how their bridgehead relations had developed. Once the guidelines had been explained, the respondents talked freely. I encouraged them to tell their stories with as little interruption as possible from my side. My intention was to minimise my influence on what they considered important or relevant in their ten-year expansion on the Visegrád markets. A tape-recorder¹²⁰ was used so that the researcher could give careful attention to the responses, and to clarify certain issues later if the need arose.

I asked the managers in charge of the Central European operations to participate in the interviews. There are two issues worth noting here. I deliberately chose not to interview the owner-managing director at Company A, and I did not ask to interview the CEO (Chief executive officer) of the group or the members of the owner-family in Company B. The focus of the study was more on implementing decisions in order to expand on the markets concerned, rather than on how the decisions were made by the top management. Consequently, the interviews did not directly capture the top-level decision-making processes. The managers in charge of Central European operations gave direct accounts of the operations on those markets, and referred to the implementation of the decisions. Because I was studying relationships, and since the local partners had a significant economic stake in the joint business, I needed to interview the counterparts¹²¹ too. The bridgehead partner companies definitely participated in the daily operations. Thus, I held discussions with the managing director-owners in two local companies (Company A's operation in Hungary, and Company B's operation in Poland). These local partner companies were small enough - at the time of the interviews - for me to be confident of getting relevant information - a fact

¹¹⁸ The exact interview schedule is given in Appendix 5.

¹¹⁹ Carefully means that I discussed the framework until I was sure that we had a close enough common understanding.

¹²⁰ Extensive literature is available on these data-collecting and analysing techniques, (e.g., Hart 1989, Edwards 1998).

¹²¹ This was agreed upon with the Finnish managers.

also pointed out by the Finnish respondents. In the other cases I interviewed the managing directors recruited for the eventual subsidiary (Company A in Poland and the Czech Republic), and the appointed managing director in the joint venture of Company B in Hungary. These managing directors were, indeed, in charge of both strategic and tactical issues concerning the expansion process being pursued by their respective companies. They were in direct contact with customers and with the Finnish managers. The focus of the interviews, bridgehead-relationship development and foreign-market expansion, never changed. All of the managers gave their own accounts of how past, present and potential operations unfolded.

After having reduced the whole material into manageable blocks of discourse, I sent this reduced data to the interviewees so that they could check if the meanings in the selected extracts were valid. They checked only their own contributions, not what the others said.

As the data-reduction process was going on, I made a detailed description of the cases (see Chapter 5). These descriptions were based on what the respondents told me. Obviously, no one manager could give me the whole picture and it was only after interviewing all of them that I was able to put the description together. Thus, I can honestly say that I considered the opinions of all parties. Since I claim that the descriptions represent a higher abstraction level (see below), I did not send them back to the respondents for further checking.

Thus, the analysis essentially overlaps with the theory building. Some delineation between the two is possible and it is probably useful to discuss that here.

4.4.3 Data analysis and theory development

It is true that research sites and data-collection methods are rather well introduced in studies on theory building. On the other hand, what has been strongly criticised by Eisenhardt (1989) is that the analysis part of case-study research is mostly missing from the reports, despite the fact that the heart of theory formulation is the data analysis¹²². My intention is to show the data

¹²² Especially in case in which the theory is developed through a procedure that GT methodology offers rather than intuitively.

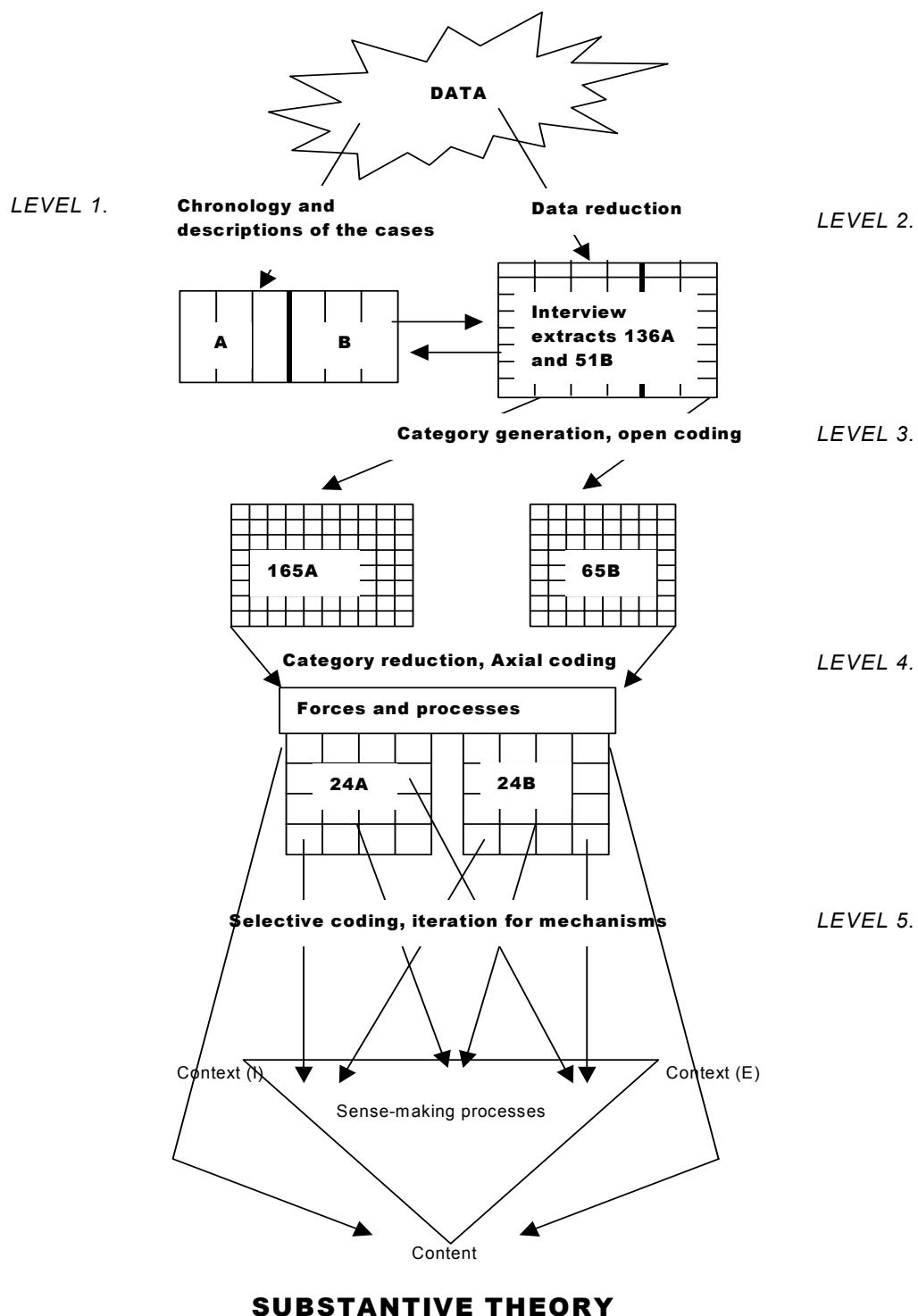


Figure 7¹²³ The data-analysis and theory-development processes according to grounded-theory methodology

¹²³ 136A and 51B refer to the number of interview extracts from the transcribed interview material, 165A and 65B to the number of preliminary extracted categories from the A and B cases, and 24A and 24B to the final number of properties in the six final categories. The final categories are external forces (i.e., Context (E), internal forces (Context (I), Content (i.e., focuses) and the sense-making processes of integration, adaptation and strategy-in-making.

analysis in great detail (Figure 7) in connection with the theory-development process¹²⁴.

The case analysis started with hundreds of pages of transcribed data, then included the case descriptions¹²⁵, the reduced data, the within-case coding according to GT methodology, and the cross-case analysis¹²⁶. Concurrently, throughout the research report I distinguished five abstraction levels (Figure 7).

The first level comprised the case descriptions and the chronology of the operations in each case group. The second level was the data reduction in terms of the selection of interview extracts (i.e. open coding). The third level was the category generation and the fourth was category reduction (i.e. axial coding). The highest level of abstraction is the theoretical framework bringing together the reduced categories (i.e. selective coding). All in all, the grounded-theory analysis comprised the systematic comparison of small units of data (i.e. concepts) (Glaser and Strauss 1967, Strauss and Corbin 1990). It involved the gradual construction of a system of concepts that described and explained the foreign-market expansion in the actual cases (Figure 7). In terms of GT methodology, this means the hierarchy from the lower-level sub-properties and properties and their dimensions, towards the higher-level categories.

The concepts arose as the underlying meaning, uniformity or pattern within a set of descriptive incidents (Glaser 1992). *A category* was a type of concept that could be used for higher-level abstraction, while *a property* was a conceptual characteristic of a category. Properties were thus the attributes that pertained to a category (Strauss and Corbin 1992)¹²⁷, and could be considered to be on a lower level of abstraction than a category. The properties may have had relevant sub-properties, all of which also had dimensions. *Dimensions* referred to the location of the properties along a continuum (Strauss and Corbin 1990). *In practice, the lower-level theoretical elements defined the higher-level ones. First, a category was defined by its properties (see Chapter 6). Later, identifying the place of a category within the emergent theoretical framework gave further clarification of the category definitions.*

¹²⁴ Undoubtedly, any GT analysis is complex. I had to put the detailed analysis that gave the content of each step either in the appendices or in a **separate file** because of limited space in this book. The main issues are presented in this research report. Still, the separate-file contains important details of the grounded-theory analysis. I refer to them in the main text, indicating their actual whereabouts. First, the selected quotations (i.e., reduced data cf. also level 2 in Figure 7) are included in this separate file (FILE/B 1). Secondly, the charts (later called A and B-type tables) that show the within-case coding are in FILE/B 2 (cf. level 3 in Figure 7). Finally, the full analysis of the A cases is in FILE/B 3 and the B cases in FILE/B 4 (cf. level 4 in Figure 7). The excluded file (FILE/B 1 - 4) are available on request

¹²⁵ See Chapter 5.

¹²⁶ See Chapter 6.

¹²⁷ According to Glaser (1992), a property is a concept of a concept.

I stayed very close to the data in order to maintain accuracy and intensity. The theoretical structure was built from the bottom up, and the resulting theory (see Chapter 6) is rather dense, while moderate in simplicity (Langley 1999). It would have been more difficult to develop more general and formal theories using the grounded-theory strategy (Strauss and Corbin 1990, Langley 1999).

This type of theoretical framework is not directly applicable to the other settings, i.e. it is substantive to the setting from which it is derived. In this study, the substantive theory refers to the theoretical framework, derived from GT analysis of the six cases of foreign-market expansion. Before going into detail on that, I would like to summarise how the theory development progressed from the lowest towards the higher abstraction levels.

Description

Case analysis typically involves detailed write-ups for each site, i.e. case descriptions. The case description is relevant, not only in familiarising the researcher with the particular case in the light of the research problem, but also in giving the reader the opportunity to gain his/her own insight into it. The overall objective is to become thoroughly familiar with each case as a stand-alone entity. This process allows the unique patterns of the individual cases to emerge before the investigators focus on conceptualisation. Secondly, the case descriptions facilitate cross-case comparison¹²⁸ (Zaltman et.al 1982, Creswell 1998). Careful and unbiased description is essential, which calls for detailed observation of the phenomenon and the identification of basic concepts and distinctions. At this stage, the researcher is advised (Glaser and Strauss 1967, Edwards 1998, cf. Brytting 1991) to use terms that are close to the data and simple rather than high-level constructs that are wrapped in the jargon of any scientific approach. Indeed, I described the cases in the participants' own terms whenever possible, given that the descriptions incorporated all the other empirical material collected (interviews, observations and secondary data).

All in all, the description of the cases in grounded-theory analysis should be seen as a partial result¹²⁹ essentially connected to the formal data-reduction process. Accordingly, the lowest levels (Level 1 in Figure 7) comprised the dense description and the analytic chronology of the cases (Chapter 5 in this report).

Data reduction

I started the data reduction and open coding at Company A after the interviews had been conducted at the HQs in Finland (1997) and at the

¹²⁸ See Chapters 5.4 and 6.5.

¹²⁹ To avoid misunderstanding, the case descriptions or case-study write-ups included in Chapter 5 should not be considered as simple interview write-ups, but rather as the case stories.

counterparts in the three Visegrád countries, in 1998. These simultaneous processes were still ongoing when, at the end of 1999, the final interview was conducted at the Finnish HQ. However, by that time the earlier interviews had been analysed, and thus the key themes for this "closing" discussion were clear. I transcribed all the interview material and re-read the transcriptions several times in order to identify the passages that fitted probable conceptual elements (i.e. data reduction).

A rather similar time frame was applied for the interviews in Company B, except that the one in Hungary took place only some months after the first interview at the Finnish HQ. The data reduction and the open coding of the material on the six cases were not totally separated. I checked the probable conceptual elements that were identified in the three cases of Company A against the material from the three cases of Company B to see whether or not they arose there too, and if so whether they arose in the same form. Thus, the comparison between the 2x3 cases started at this early phase.

Because I intended to keep the context intact as much as possible, I did not reduce the extracts to the minimum¹³⁰. On the contrary, each one may include many meaningful concepts, although the connections between them were not necessarily obvious in the passages in which the concept was identified. The 136 extracts from the "A group" and the 51 from the "B group" represent a significant reduction of the data. These extracts comprised the second level of abstraction (Figure 7).

What sorts of concept were included in these extracts? Because this was a longitudinal study, many micro- and macro-level themes appeared more than once. Thus, the coding system had to be very consistent in terms of time. Time was reflected in the data reduction because I organised the selected passages in chronological order, within the unfolding expansion processes - country by country - rather than according to when it arose during the interview. The extracts were coded according to the year of the interview. Moreover, I had to evaluate the different opinions of the respondents in order to create as realistic a picture as possible of the expansion processes, and so the codes also identified the actual respondent (Figure 8). The coding of the interview extracts¹³¹ is of utmost importance because the codes are referred to when the grounds for creating the categories are justified.

¹³⁰ In other words, so that they included only one meaningful category.

¹³¹ This coding should not be confused with the coding terms used in grounded-theory methodology!

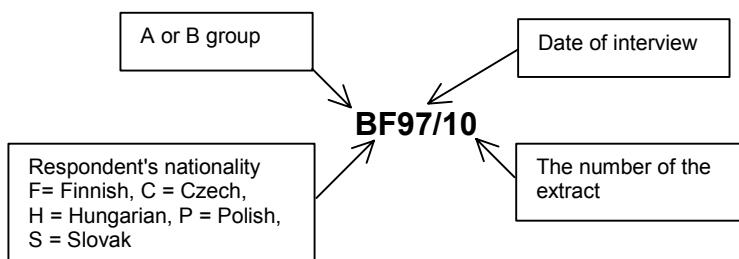


Figure 8 A sample of the codes used in the interview extracts

Coding according to applied GT methodology

At the centre of grounded-theory analysis are the coding strategies. I used open coding to break down the extracts into distinct units of meaning. In much the same way as Strauss and Corbin (1990), Miller and Fredericks (1999) and Partington (2000) suggested, I was thus able to identify more general and unspecified categories. A formal open-coding procedure was conducted on each selected interview extract, involving the search for key words (Figure 9) with a view to connecting them to conceptual themes. Undoubtedly, the broad literature review and the intuitive capacity of the researcher proved useful here. The provisional categories¹³² were given basic codes - according to the Finnish company concerned, the respondent and the code number (e.g., BF57, see Figures 10 and 11). Thus I refined the sets of basic codes both in quantity and quality.

This led to the third level of abstraction. The data reduction and open coding were iteratively connected. The goal of this iteration procedure was to include all the probable conceptual elements in a single analysis in order to go further in the analysis. This resulted in 165 provisional categories from group A, and 65 provisional categories from group B (see Figure 7).

¹³² A provisional category refers to some phenomenon with a conceptual name, and with a clearly defined place in which it was found in the reduced data. Such categories are placed in a simple conditional matrix, and at the same time searches are made for their properties and dimensions in the interview extracts. Preliminary suggestions are made as to which other categories might be connected (A-type tables)

BF97/10

"We have three persons who are maintaining contacts. First the sales-marketing people with their colleagues, then the accounting people maintaining contact and then I'm maintaining contact with the managing directors. We normally all meet together at our meetings. So this is how we co-operate."

Figure 9 A sample of key-word search in the interview extracts

I rendered these provisional categories (i.e. conceptual themes) in tables, which I called A-type tables (Figure 10). This resulted in 24 tables for the bridgehead operations of Company A and 11 for Company B. The tables include all the provisional categories selected from all of the extracts remaining after the data reduction.

The A-type tables have seven columns. The first two of these are codes, the first one identifying the passage in which the category was found, and the second being the code of each provisional category. The category name, in the third column, is sometimes a direct quotation from one of the managers - when his words best described the situation in question or was a better aide-memoire than a theoretical term would have been. Nevertheless, I also used the literature to find suitable category names. The selection of meaningful categories and the relationships identified without exception were based on the empirical data.

Quat.	Code	Name of the category	Level	Matrix	X,Y,Z	Remarks
BF97/10	BF57	BR ties	L2	cond	x,z	Number, functional change according to the B design (BF97/09)
	BF13	Past behaviour	L2	cond	To x	
	BF58	Arriving at routines	L1	conseq	x,z	Meetings, negotiations, change in people etc, Fast
	BF59	Meeting	L1	act	x	Regular, scheduled
	BF60	Content of the meeting	L1	act,	x	See contact persons

Figure 10 A sample of the provisional categories in an A-type table¹³³

The fourth column describes the provisional category in terms of whether it refers to a single low-abstraction-level concept, whether it is a category that

¹³³ The separate file with detailed information is available on request.

groups lower categories, or whether it is a clear conceptual issue. As Figure 10 shows the provisional category of meetings seemed to be on a lower level, and past behaviour on a higher level, at this point of the analysis. The fifth column denotes whether the category refers to a condition (internal/external) of an action, to an action (interaction) itself, or to a consequence of an action or a condition¹³⁴. Here, as Partington (2000) suggested, a simplified conditional matrix¹³⁵ was used. The sixth column can only be explained on the understanding that the theory development in this kind of research starts quite early. All in all, it was simply not possible to work with the 200+ categories that resulted from the open coding without trying to group them in a meaningful way. In fact, three large groups of processes seemed to emerge (sixth column).

The three largest groups were the implementation of the business idea (x in the sixth column), adaptation to the external environment (y), and integration of the new businesses (z). At that point¹³⁶, these theoretical elements seemed sufficient. The implementation of the business idea was clear as the interviewees gave enough factual information that was consistent (e.g., the interview extract below).

"What our partner offered us was the capability of installing our products. In this business, the product is nothing without installation. We need a local company with a team to put them together and after that the delivery is completed. That was one aspect that was counted. The other aspects were the business relationships, the customer contacts, and other local contacts - official and unofficial. Only local people can be familiar with these kinds of things." AF97/43

The changes and differences between the markets were striking. The managers gave proper accounts of these changes and differences over time, as representing the reality in which they were working (i.e. adaptation, see the interview extract below).

"Hungary is growing very fast. Yes, much faster than the Polish market for example, because if you look from 1995 there's about a 40% annual

¹³⁴ It is possible that a category could be placed in the matrix as an action while the same category from another passage might be placed as a condition. This is inherent in processual studies.

¹³⁵ I did not consider all of the possible levels the original conditional matrix offered. Still, the more simple matrix helped later in identifying the mechanisms (i.e. stimulus-organism-response) applied in the theory-building phase of this research.

¹³⁶ The formation of these groups was where the theory-building process started. However, the reader should be reminded that the open-coding procedure goes on here, thus the fact that theoretical elements are emerging does not mean that such elements are directly included in the final theory (i.e. they are provisional).

growth. The sector is not the same, because the privatisation occurred earlier. And that could be a big influence on how these customers operate. As they have a real owner, the owner looks for the technical infrastructure - what they are buying." BF99/09

The series of interviews in the Visegrád markets revealed how the Finnish counterparts were perceived. These interviews clearly indicated organisational changes (i.e. integration, see the next interview extract).

"Great pressure existed for us to invest in technology development if we wanted to do business. The Finnish company was pulling us. There was no direct financial support from Company A, but we could co-operate together on large projects with new customers. Today we're the exclusive Installation Company for that customer in Hungary. On the other hand, we also gave to Company A, we gave our knowledge of the environment, as well as our relationship network and information." AH98/06

Indeed, during the final interviews there was a lot of talk about personnel changes concurrent with shifting the geographical focus of the operations. At the same time, the data did not allow early conclusions to be drawn due to the evident overlap among the groups of processes (i.e., among the provisional pillars).

The last column is a miscellaneous one in that it contains everything else, including the properties and dimensions of the provisional categories, the visible connections between the categories, and the influences of one category on another found directly in the data. In other words, there were indications of how the elements might be connected. I noted the time-related issues here as well, whether or not the category was determined by time, if it occurred only once, or if there was a pattern emerging in relation to time.

Axial coding

The number of provisional categories had to be reduced in the interests of creating a parsimonious theory. The 165 categories from Company A and the 65 from Company B were subjected to a category-reduction process (Figure 7). This was the first step in approaching the fourth abstraction level. The category reduction was guided by the emerging theory in terms of having three simultaneously pursued large processes (i.e., provisional pillars) embedded in the companies' desire to sustain growth and to survive on the market. This axial coding procedure was used to define the categories and to link them together within the cases.

These searches included comparisons of categories based on the related remarks from the A-type tables (i.e., based on columns 4-7, cf. Figure 10). I searched for similarities, differences and opposition between categories - all compared to the others - in order to tighten the definitions, first across the country operations within each group. I needed to evaluate the interrelationships in order to generate higher-order categories. Thus, the emergent theory could be developed further. The evaluation of the interrelationships (Table 6) included categorisation, the search for correlation, structures, processes and causal relationships (Glaser & Strauss 1967, Edwards 1998, Partington 2000). Defining the categories meant that, as far as the data allowed, they were assigned their correct properties and dimensions. For example, if one category had the same properties and dimensions in the data as another, I could combine them and thus reduce the number (i.e. the categories: *Conflict over content* and *Direction without taking into account the members' preferences*). Another kind of situation emerged with the *preliminary categories*, as some became category properties, or signified some dimension of a larger category (i.e. at first there were two categories *formal and informal rules*, which later became a dimension of the property called *cultural difference* that was placed among the other external forces). Significantly, active environmental stimulus¹³⁷ could also be extracted during this procedure.

Table 6 Components of the axial-coding procedures

Adopted from Edwards, 1998

Component	The meaning of the component
<i>Categorisation</i>	Refining categories for classification
<i>Correlation relationship</i>	What is associated with what? Identifies related to qualities
<i>Definition structure</i>	The underlying nature of an experience is explicated, the dimensions of the data are given
<i>Propositions about the processes</i>	What follows from what, under what conditions? Categories map a coherent temporal process; condition - operation (intervention) - consequence
<i>Propositions about the causal relationship</i>	Provide conditions under which a causal relationship between intervention (action/interaction strategy) and its effect (consequence) can be established Predictability in a limited sense

¹³⁷ Active environmental stimulus is signified by management action.

I created a simpler version of all the A-type tables. These new tables, which I called the B-type (Figure 11)¹³⁸, were used to score all the occurrences of each provisional category. Searching all A-type tables for each category helped me to identify their importance. I counted how many times each category in each group of cases appeared¹³⁹ (see the fourth-eighth columns in Figure 11). I renumbered all the categories that appeared more than once in either of the case groups (see the first column in Figure 11).

TABLE II/B-type						
New code	Old code (first identified)	Category name	Group A		Group B	
			Place of category (in A-type tables)	All occurrences of a category	Place of category (in A-type tables)	All occurrences of a category
24	AF24	Past behaviour	2,3,5,10	4	1,2,3,4,10	5
26	AF26	Control/ supervision	2,3,5,6,9,12, 21,23	8	1,3	2

Figure 11 An example of number reduction in the provisional categories, B-type table

This was one way of giving a value (hierarchy) to each one, and ultimately of reducing the few hundred to a manageable amount. Even though this sounds dangerously simple, the fact is that it was accomplished in a way that preserved the original data very faithfully (Figure 11). I also preserved the categories that were mentioned only once, in case they were needed later.

Developing the substantive theory

Case-based theory should contain essential concepts, distinctions and principles linked in a logical manner (Edwards 1998). The within-case analysis and the search for cross-case patterns were where the final theme concepts and relationships between the variables emerged. Here I will briefly continue to relate the steps in building the theory, while *the theoretical elements of the emergent framework are defined in Chapter 6. This is also a means of organising the theory-building blocks related to the methods in this section and the theoretical ones in the forthcoming analysis (Chapter 6)*.

I was able to re-organise the provisional categories into content, context and process groups (cf. Figures 7, 13 and 18). This produced six main (final)

¹³⁸ The separate file including more detailed information is available on request.

¹³⁹ This was possible to do because the cases are examined longitudinally (cf. Seale 1999, 120-139).

categories, into which I could fit the 24A and 24B properties, four properties in each category¹⁴⁰. At this point, the extracted elements were given roughly meaningful places in the theory¹⁴¹. Admittedly, the step described here involved the levelling down of the provisional categories to the property level, while I stuck to the empirical definitions (based on the data). Chapters 6.2, 6.3 and 6.4 introduce all of the categories and their properties that formed the building blocks of the final substantive theory. How did I do this? The next step was the selective coding in terms of GT methodology, into which I incorporated Pettigrew's (1990) *meta-theoretical* framework of contextual analysis, and at the same time, defined the mechanisms as the smallest elements in the substantive theory.

Since the introduction of the *meta-theoretical* framework was an essential turning point in the theory building, I will now explain in some detail why I decided to combine it with GT procedures. Pettigrew (1990) visualised contextual analysis as a triangle in which the angles, or corners, signified the three core blocks of analysis: context - process - content. How this framework is modified in terms of the emergent category system of this study will be seen at the beginning of Chapter 6. The modification is related to the actual process focus and teleological perspective of this study, as well as to the advanced phase of the analysis.

The conditional matrix of grounded-theory methodology comes close, but not close enough, to contextual analysis as described by Pettigrew (1990). Despite its advantages (Chapter 4.1), when I arrived at the selective-coding phase (i.e., where the final theory is put together), GT methodology fell short. The simplified version of the original conditional matrix (i.e. conditions-actions-consequences, cf. Partington 2000) facilitated the operationalisation of the critical intellectual process of data reduction, but the appropriate connections among the extracted categories were not easy to establish. Primarily, grounded-theory methodology is faithful to observational data collected about sociological phenomena, which does not preclude its processual application in organisational settings. Nevertheless, it is implicitly rather than explicitly processual. The theory I was looking for had to be faithful to the research design with its comparative longitudinal case-study data. As mentioned in the section on research design (Chapter 4.2), the analysis in this study pursued the combined use of retrospective and real-time interview data. Thus, the data had to be analysed accordingly. The fact that it was longitudinal meant that I could explore the present in relation to the past and the future. I investigated the cases of foreign-market expansion from a

¹⁴⁰ The fact that both groups had 24 properties does not mean that they were identical. Exceptions to the norm of four properties to each category are discussed later in Chapter 6.

¹⁴¹ In contrast to the provisional pillars mentioned earlier, which had disturbing overlaps.

teleological perspective and on multiple levels, thereby acknowledging that change may have multiple causes. I needed to explain these changes in the contexts in which variety in conditions occurred over time. Temporal interconnectedness was inevitable, in that history is not just events in the past, but it also lives in the present and influences the future¹⁴². Changes were both constrained and shaped by contexts, on more than one level. This mode of analysis, i.e. the context - process - content framework, offered a way of bringing together the particular elements of the potential theory and increasing coherence. At the same time, it helped me to avoid early theory-forcing (e.g., based on provisional pillars). The contextual mode offered both vertical (i.e. multilevel) as well as horizontal (i.e. processual) analysis for the comparative case studies¹⁴³. In my view, this meta-theoretical framework for processual case-study analysis does not contradict grounded-theory analysis. On the contrary, the two fit together very well. The emerging theory benefited from combining grounded-theory methodology with the meta-theoretical framework of contextual analysis. This combination gave more realism to the context and, at the same time, facilitated the conceptual development.

A *process* could be seen as linked action/interaction sequences. However, the smallest units of theory building were not the actions and interactions (or inaction) themselves, they were rather mechanisms (Figures 12 and 13). Allow me to explain. Following the reduction of the data in the GT coding procedure, I arrived at provisional categories referring to the internal (cf. the organism, here the bridgehead relationship dyads) or external (cf. stimulus) context, and to deliberate or emergent consequences. I understood consequences - together with objectives of the companies and feedback - as the content. That was because I had to evaluate the objectives in terms of feedback loops. I believe that assumptions of feedback are inherent in any objective. Without it, no company can evaluate whether it is on the right or wrong track, or indeed, whether it is focusing on the right objective. I believe that this system of putting objectives and feedback together, i.e., seeing objectives in relation to feedback, should work since it is what we all do, compare our objectives to some sort of feedback. The problem with feedback, however, is that there is no way of telling in what form and when it will come. If that were possible, it would not be feedback. When the feedback is negative, it means that the desired consequence had not been achieved, or meanwhile unexpected consequences appeared that might have triggered new or modified objectives. Feedback could be seen as economic, socio-political and cognitive. In other

¹⁴² The ten-year period of time, the nineties, was the actual time period of this research project, but this does not preclude sensitivity to related events that happened before, or that might happen in the future. Acknowledging that history has relevance does not mean that it fully determines the future.

¹⁴³ Indeed, grounded-theory methodology was not directly developed for this type of study.

words, the properties of feedback loops may be economic, socio-political and cognitive¹⁴⁴. I could group these objectives into four types (i.e. four focus properties) according to the sort of feedback in question.

The bulk of the categories, however, referred to actions (cf. responses) connecting the forces of the external and internal environments with the consequences. The earlier search¹⁴⁵ for conditions, actions and consequences made it possible to elaborate on those provisional categories, too. In other words, the process analysis involved in-depth examination and incorporation of the changed action/interaction since these vary over time in response to changes in conditions. Processes develop as a result of certain action/interaction strategies. The effects of earlier actions bring changes in conditions. Changes in context, i.e. in the environments or organisational factors also directed the processes. As far as possible, the mechanisms were described in detail (cf. the separate file); as personal and organisational conditions (that promote or hinder the movement), as strategies used in change, and as consequences. I needed not only to show movement and progress, but also to explain what brought it about. My aim was to give a complete picture of the process phenomena (FME of each case), at the same time taking into account the variations.

In this study, mechanisms as depicted in Figure 12 refer to the inter-relation between process and context (Pettigrew 1990), as well as between process and content. The stress on the word 'and' is crucial because the context will force the actions (i.e. bring the processes) and, at the same time, these actions will shape the context. A similar argument should apply to the process and content relation.

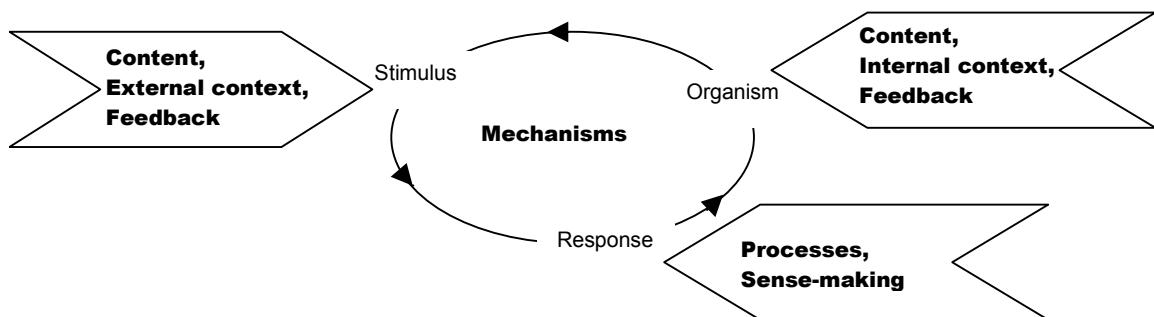


Figure 12 The mechanisms, the smallest unit referred to in the theory

¹⁴⁴ A reference to which the properties of feedback loops are similar is Noda and Collins (2001). This similarity is elaborated on in Chapter 7.

¹⁴⁵ When the A-type tables were created, cf. conditional matrix.

Since the content incorporates objectives, feedback and deliberate and emergent consequences, the mechanisms may be further analysed in terms of they featuring linear or other type of progress (see sections 6.3.2.3 and 6.4.2.3). This may be understood as a pre-assumption that mechanisms are complex to a different degree. One might find rather straightforward, linear mechanisms, circular ones (as Figure 12 shows), or ones that are indeed much more complex, within the same phenomenon.

At the core of a mechanism are actions and interactions, as these are the response part of it. However, seeing the stimulus and the organism as parts of it was equally important. A mechanism would not be understood by seeing it in terms of responses without the force to induce actions or interactions. Further, the meaningfulness of a mechanism would be questionable without seeing some consequences or feedback of it. With respect to the original research questions and the teleological perspective, I had to focus on the mechanisms the companies applied. As I made use of the contextual, meta-theoretical framework, I had to initiate an iterative search for the mechanisms (the results of this search are given in Appendix 8). The mechanisms brought together the sub-properties. Thus, they gave the connections between the properties, and further, between the six main categories (Figure 13).

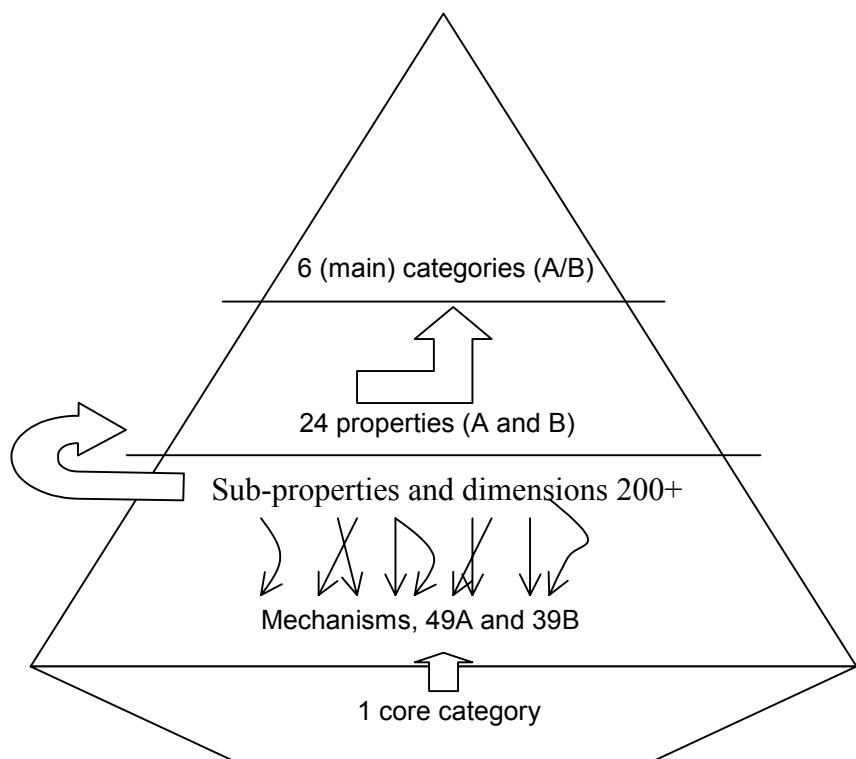


Figure 13 The building blocks of the substantive theory

Together, Figures 12 and 13 show how the mechanisms are incorporated in the substantive theory.

All in all, I discussed mechanisms in which the stimulus organism and response (i.e. each as a sub-property) properly find each other. It sometimes happened that the data was not sufficient to bring out or identify the mechanism completely. In these cases I had to try deductive thinking¹⁴⁶ (Strauss & Corbin 1990), hypothesise possible situations of change, and then look for evidence in the data or back in the field¹⁴⁷.

Admittedly, it needed continuous speculation (Strauss and Corbin 1990, Langley 1999), thinking about the possible underlying mechanism(s)¹⁴⁸ that could offer a reasonable theoretical explanation of the apparent variation (the core category in Figure 13).

During the theory-building process, the overall impression and deductive mode had an effect (cf. Strauss and Corbin 1990). There was constant comparison between the theory and the data (cf. Eisenhardt 1989). Measuring constructs and elaborating on relationships were essential in formulating the propositions on which the theory was built. Judgement (Lincoln 1995) about the strengths and consistency of relationships is what should be achieved. Indeed, iteration worked backwards and forwards between the steps. As Eisenhardt (1989) emphasised, it was necessary to move from cross-case comparison back to the redefinition of the research question - and out to the field - to gather new evidence. The iterative process was relevant in achieving a higher conceptual level, and ultimately in developing a parsimonious, modifiable and useful theoretical framework (see section 6.2). It is shown in the forthcoming analysis how the methodological elements of the theory-building structure described here acquired their conceptual content, which emerged during the analysis. For example, the six final (Figure 13) categories were influencing *forces* - internal and external context, and the content (i.e., objectives, consequences and feedback) - and *processes* - integration, adaptation and strategy-in-making. These ensured the tight integration of all

¹⁴⁶ However, see Glaser (1992, 93).

¹⁴⁷ For instance, the partners in the Visegrád countries were tackling processes of internal reorganization (both in the HQs and in the relationship dyads) in 1998, thus the second round of interviews at the Finnish companies in 1999 focused on those issues. This does not mean that systematic notes comparing the A and B categories were not made for later use.

¹⁴⁸ At this point started to be relevant to search for the basic social process defined earlier. This is revealed in the analysis chapter and discussed in Chapter 7, in accordance with the earlier promise that this section concentrates on the methodologically derived building blocks of the forthcoming theoretical framework.

the theoretical concepts into a coherent whole¹⁴⁹, firmly rooted in the original evidence (Glaser 1992).

Theory testing

The last step was the theory testing. I had a sound, valid, description for each case. I had to acknowledge openly the assumptions implicit in the initial structures. The argument through which the material was linked to existing theoretical discourses needed to be tight and rigorous. It was necessary to compare the emergent concepts and the theory with the existing literature (Chapters 7.2 and 7.3). The answer was to consider a broad range of literature (Eisenhardt 1989), even deductive models in the same topic area. This in turn, helped in discussing the results. Failing this, there would have been a fatal methodological flaw in the case studies because it is the essence of case-based research to display how new cases contribute to established knowledge.

Furthermore, I turned back to the case material to critically assess the "fit" of the conceptual structure of the developed theory (e.g. "hermeneutic lenses" according to Edwards 1998). In other words, I was looking at how it was able to provide access to the deeper dimensions of the cases. Testing the findings is also about evaluating the explanatory power of the developed theory in similar cases (Edwards 1998). It is about checking how far the theory can be extended, and developed by evaluating it in a different context. Testing the theory on other cases is not included in this research report (note the reference to the case group of Company C above).

I truly believe in what Langley (1999) said; no analysis strategy will produce theory without un-codifiable creative leaps, however small those are. I have tried to explain the analysis process in detail. I have fully explained the steps and the theory-building process according to progressively higher levels of abstraction. I hope that all this will give the reader a realistic picture of what happened with the raw data during the course of this research.

I invite the reader to turn to the case descriptions (Chapter 5), then to the data analysis and the theorising (Chapter 6). He or she may then compare the described research process with what has really been done. I then summarise the issues concerning the evaluation of the research process and the outcomes in the light of the whole study. The reason for this is my wish to avoid too much repetition in the text. I also believe, that in a comprehensive grounded-

¹⁴⁹ This section on 'Developing the substantive theory' offers an explanation as to how and why the meta-theoretical framework for processual studies (e.g., Pettigrew 1990) is applied, and how mechanisms were re-constructed (cf. Partington 2000 earlier in this chapter) in this study.

theory report such as this, it is more relevant to discuss evaluative criteria at the end - in this case in Chapter 7.4, which contains a critical summary of the methodological choices.

5 CASE DESCRIPTIONS

5.1 The Role of the Case Descriptions

This chapter describes the foreign-market expansion processes of the two Finnish companies in the Visegrád countries. The focus is on six cases meaning the operations of the Finnish company (A or B) with its potential and/or functional bridgehead partner in each Visegrád country during the nineties. The first group of case descriptions comprises three cases, the foreign operations of Company A in the Hungarian market (case 1), the Polish market (case 2), and the Czech and Slovak markets (case 3). Similarly, the second group concerns the foreign operations of Company B in the Hungarian market (case 4), the Polish market (case 5), and the Czech and Slovak markets (case 6). The case descriptions are based on interviews with managers at the two Finnish companies and at the foreign sites¹⁵⁰. Beyond that, other information was collected from printed material, such as promotional materials with lists of reference deliveries, annual reports, magazine articles and home pages on the Internet¹⁵¹. The interview guide-lines were based on the framework introduced by Dwyer Oh and Schurr (1987), and on the characterisation of entry modes described by Young *et al* (1989)¹⁵².

The descriptions begin with the history of and general information about the Finnish case companies. Thereafter, the aim is to follow the flow of the decisions and actions that shaped the processes in which the case dyads were involved. The discussion covers the trends and events that changed the external and/or internal conditions, which in turn brought about decisions and actions in the cases. Here I have relied on the respondents' evaluations - how they assigned importance to certain changes in conditions, decisions and actions/interactions, and the consequences. The chronology tables are given at the end of the two groups of cases (section 5.4, Tables 8 and 9) in pursuing forwards to the next step in the analysis, namely selecting the main processes in the cases of foreign-market expansion. The tables also offer the reader the

¹⁵⁰ Appendix 5: List of interviews and codes of the raw data

¹⁵¹ The Internet home pages of the two Finnish companies where checked regularly (once in every two months). Furthermore, the home pages of key customers and relevant institutions in the host countries added valuable background information.

¹⁵² The original interview guide appears in the Appendix 2.

possibility to check on the reliability of this description, and the consistency of the first levels of abstraction¹⁵³.

5.2 Company A and its operations in the Visegrád countries

5.2.1 The Company

Company A was established about thirty years ago and it specialises in the design and production of illuminated signs. Its customers include domestic and multinational corporations in various business locations. The products bought and installed are part of the buyer companies' exterior physical image. Today, Company A is one of Europe's leading manufacturers of outdoor identification signs for commercial premises. It was granted a quality certificate in 1994 and an environment certificate in 1997.

The business idea and core competence

The business idea is to produce illuminated signs for customers operating in chain businesses. Usually the customer has its own idea about the logo. The technical and final design work and the production are carried out at Company A. This is its core competence. The company has been the domestic market leader for decades, although there are about two dozen similar types of producers in Finland. However, each one serves different types of customers, partly because of the limited production capacity. Company A focuses on serial production. It follows the "face-lifting" strategies of its customers. Growth trajectories and implemented acquisitions and mergers are vital information. Without any bigger changes in customer strategy, the life cycle of the products is approximately ten years. Customers in Western European markets (including Finland), totally review their image about every 10 years.

The customers pay for the products after installation at their site. Company A does not do the installation, but subcontracts it to small-sized domestic suppliers. Long-term relationships have been built up with a total of ten installation companies spread across all Finnish regions. These long-term relationships mean that the information in the circle - producer, installation companies and customers - circulates very quickly. The actors know each other very well.

¹⁵³ The abstraction levels were discussed in Chapter 4.4.

Growth strategy in the 1990s

There was not enough demand in the Nordic markets - including the domestic market - at the end of the eighties. Company A could not sell its products to its traditional customers. Its strategic idea was to find the same or similar customers in other markets in order to utilise the advantages of serial production. It wanted to utilise the over capacity the factory had at that time. Supplier chains were well established in other Western European markets, and competition among local suppliers was fierce, which made market entry difficult.

Central-Eastern European (CEE) countries represent relatively large markets in comparison to the Nordic countries. The attractiveness of the size of the markets is obvious. Poland, for example, had about 5000 gasoline stations for 40 million inhabitants in the mid-1990s while Finland had about 2000 stations for 5 million inhabitants. Company A's assumption that the Central-Eastern European markets had high-demand conditions - even if latent until the late 1980s - had rather a strong foundation.

After the Soviet system collapsed, the market economy transition first showed positive signs in the Visegrád countries. New construction projects started and many potential customers in Central-Eastern Europe went through new image-creation processes. The potential for selling Company A's products in those markets seemed quite promising.

There were other positive developments on the customer side. In connection with the privatisation process, foreign capital was welcomed¹⁵⁴ in order to restructure many of the industries. The buyers of former state-owned companies were often multinationals. Western companies were entering these markets with acquisition and greenfield investments. The same trend was apparent in the industry in which Company A operates throughout the CEE although there were country-by-country differences in actual entrants and timing. This issue is discussed in more detail later. Some of the international companies were already customers of Company A in the Nordic markets. The company considered it necessary to enter the Visegrád markets at about the same time as their major international customers began to operate there. This was logical, given its general client-follower strategy. It believed that its business idea - which had been under development during three decades - could be transferred to the Central Eastern European markets without major modifications. The problem was to connect to the customers and find a reliable installation company. Company A asked for and received financial support from the Ministry of Foreign Trade in Finland for its starting activities in the Visegrád markets.

¹⁵⁴ Especially in Hungary (cf. Chapter 2)

Company A knew about, and wanted to benefit from, the bilateral free-trade agreements (KEVSOS) existing between Finland and some of the CEE countries. From the customers' point of view, buying products from a Finnish company would cost ten percent less, on average, than buying from other Western producers in the same branch. For the Finnish company, the KEVSOS agreement meant two to three years of advantage in gaining market share without fierce competition until Finland joined to the EU.

The company started to operate in the Hungarian market in 1990. By placing an advertisement in a specialist magazine, it found a suitable partner, and a factory was built in Hungary in 1998. Entry into the Polish and Czech and Slovak markets took place two years later in 1992, and the company has had a sales subsidiary in Poland since 1995. It was unable to strengthen its position on the Czech and Slovak markets¹⁵⁵ during the 90s. Once the new factory had started production in Hungary, the company planned to locate the strategic know-how elements - computer-aided design, sales and marketing - in Finland. Figure 14 below shows the targeted market areas today. There are two centres, the factories in Finland and Hungary. Company A wanted to get to know and have closer contact with its suppliers in order to harmonise the use of raw materials in the two factories. Recently, direct relationships with raw-material suppliers in the Visegrád markets have also been initiated. Earlier, the Finnish wholesaler supplied the raw material to the factory in Finland.

¹⁵⁵ See detailed description at the actual cases

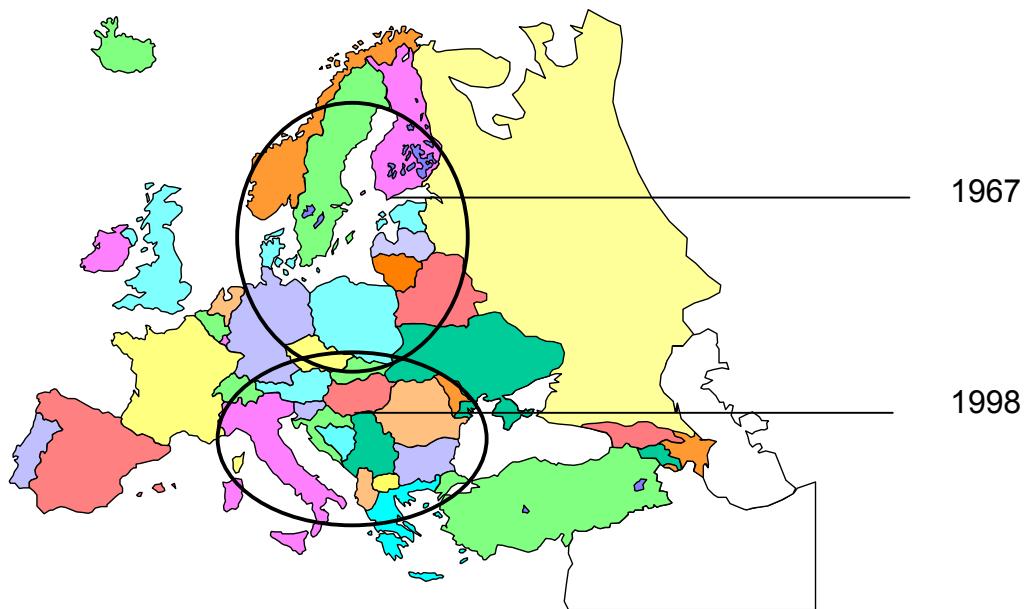


Figure 14 The target markets of Company A with the year of factory establishment

Company A evaluated the Visegrád markets as the most ready to buy the products with which it intended to expand. These countries were no longer seen to be politically unstable. The idea was to be one of the first suppliers there and to get a good market position. This chosen early-mover strategy was justified early on by the profit earned, which they admitted was unexpectedly large in Hungary and Poland.

In 1993, the Company's turnover was about FIM 50 million (EUR 8.3 million), while in 1999 it was over FIM 80 million (EUR 13.7 million). In other words, the company had 60% turnover growth during the six-year period. However, this growth in turnover was not linear. In accounting terms, investments - not just revenues - affect the results. The largest investment in these markets was the factory building in Hungary in 1998-1999. Figure 1 in Appendix 6 shows the turnover growth during the period in question. Exports reached 60% of turnover in 1999, half of which was realised on the Visegrád markets. This illustrates the importance of the Visegrád countries for Company A during the nineties. The number of personnel grew relatively quickly after the mid-1990s: the company had a workforce of 129 in 1996, compared to 140 in 1998. There were 140 people employed in Finland and 60 persons in Hungary in 1999.

Organisational structure and the changes in the 90s

This small company has had a flat organisational structure since its establishment, and the founder, the managing director and his family, have

been the major shareholders. The decision making was concentrated on the owner-manager. The company had sales and marketing, production and materials, and accounting departments in Finland. The managers of each functional department reported directly to the owner-managing director. Long-term business relationships have been established with key customers on the domestic market. The managers' responsibilities are divided according to the key customers although when sales and marketing to international markets began, the tasks of middle-level management were divided according to geographical area.

Other changes were initiated and undertaken in the late nineties (Figure 15). The first task was to appoint a vice president to synchronise the growing foreign-market operations. The intention of the owner-managing director was to share the strategic decision-making responsibilities and ultimately to leave the CEO position to become Chairman of the Board of Directors. Nevertheless, because the owner was not satisfied, the vice-presidents have changed yearly since 1996. Meanwhile, the company was split into two in 1998-1999. One company took care of the bigger projects (larger customers), and the other took care of the smaller or single projects. Consequently, this foreign-market-oriented company was streamlined. The focus of operations is on Central and Eastern Europe at present, and presumably, that continues to be so for the next ten years. Large, serial projects continue to be ordered from the CEE. Nevertheless, this study focused on Company A's operations specifically on the Visegrád markets, during 1990-2000.

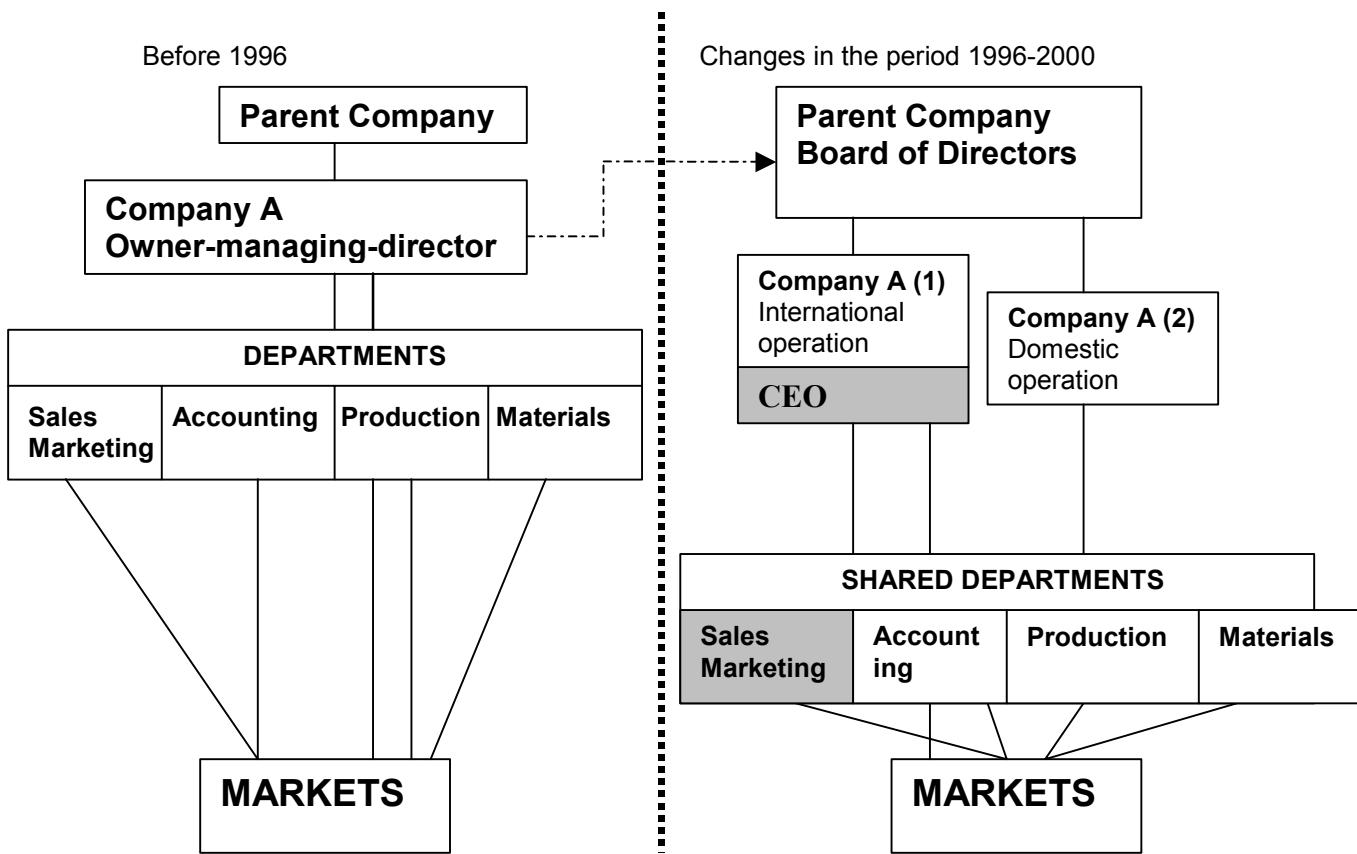


Figure 15¹⁵⁶ Changes in organisational structure in Company A

Next, I present the characteristics of the bridgehead relationship, the investment process, the market structure and the growth of Company A on the Hungarian market.

5.2.2 Case 1. Business operations and expansion in Hungary

Company A started to search for opportunities simultaneously in all three Visegrád countries, the Czechoslovakian Republic, Hungary and Poland, and tried to find a business partner in each one to help it to enter the markets. There was, admittedly, very little fieldwork done by the company. The Finnish Embassy in Budapest suggested advertising in the trade magazine of the industry in its search for a partner. The company started to work on a direct-export basis (1990) with the company that first responded to the advertisement.

The choice of Hungary as the first expansion target complied with Company A's presumption that this was the most "Western" market within the

¹⁵⁶ The lines signify direct connections, the arrow signifies a person's move from one position to another, and the shaded boxes signify frequent personnel changes.

CEE. The political and societal risks were lowest, and the business standards closest to those in Finland. The cultural relations¹⁵⁷ between Finland and Hungary also helped in that Hungary was most familiar to the company in 1990.

The Hungarian partner had, and still has, an agency role. Nevertheless, an independent sales office was established in Budapest in 1993. Company A "employed" the services of the personnel in the Hungarian Partner Company. Discussions had already started about the future possibility of building a factory in Hungary. The place was chosen and purchased some years later, in 1996 although it took some time to legalise the purchase. That and the construction work took about three years, and production started in early 1999.

The development of the bridgehead business relationships in Hungary

Company A invited the managers who first responded to the advertisement to Finland to discuss the possible start of the co-operation. The Partner Company¹⁵⁸ soon started their market research: they represented Company A at a trade fair some weeks after the first meeting in Finland. The first contract was signed a month after the fair. The customer was the largest state-owned actor on the Hungarian market¹⁵⁹, and was also invited to Finland to discuss long-term possibilities. In the beginning, there were more like single transactions - payment against the goods (i.e., LC Letter of Credit) - and no long-term relationship existed. The Hungarian Partner made the first pilot installation that summer and after that, it has had full responsibility on the Hungarian market for every installation. This installation responsibility later spread beyond the Hungarian borders to the neighbouring countries.

Sales started to grow steadily. It took about two years for Company A to open its own office to take care of the money flow in the transactions. However, no new employees were taken on, and the personnel from the Partner Company did the work part-time.

From the very beginning, Company A, the Partner in Hungary and the first big customer were committed to developing the business, for the benefit of all concerned. The Finnish company had the resources for the start-up, a high-quality product and a production capacity for exceeding the home demand. The customer was over its structural transition (it had become a public

¹⁵⁷ Inevitably, the relation between the two languages provides the background for these cultural relations, which certainly motivate other types of cultural events and happenings between the two countries (translation of books, exhibitions, plays etc), despite the different political systems until the end of the 1980s.

¹⁵⁸ From now on, the use of capital letters signifies a specific company, A or B, and their bridgehead Partners, and small letters used to refer generally to companies and partners

¹⁵⁹ Throughout the text this customer is referred as key customer in Hungary or the Hungarian Customer.

company) and expanded steadily. It was financially strong. The Partner was committed to building up the connections between the Finnish producer and the customer. The installation work was subcontracted to it, which gave it the possibility to get a hold on the market and really to grow.

Company A was flexible from the start. It did not make any preliminary calculations about the demand potential; nor did it develop alternative strategies, because it turned out to be good business to sell to a strong customer with the assistance of a committed partner. Turnover and profit were rewarding from the beginning, and there were no significant additional costs¹⁶⁰ compared with business on the domestic market.

Moving production to the Hungarian market

Inflation was very high in Hungary 1995-1996. The Hungarian forint was strongly devalued¹⁶¹, and the advantages of the KEVSOS agreement disappeared. Competition came from foreign and local operators. The main customer in Hungary was not willing to pay for the Finnish labour costs, and local producers could offer lower prices. The Partner Company suggested moving the assembly work to Hungary. Moreover, sending parts rather than ready products would decrease the transportation costs. The Partner Company had been doing basic assembly work since 1996, and the impetus to move even more production to Hungary that grew stronger. The decision was made at Company A to build two factories to cater for both the Hungarian and the Polish markets. Company A was interested in building a factory in Hungary because of the close proximity of the emerging potential markets, eventually Romania and Croatia. The simultaneous decision to build a factory in Poland was supported because Poland itself is a large market. Later Company A had to choose between factory construction in Poland or Hungary.

The managers at the Partner Company quickly responded to the request for a land search by the owner of Company A and presented several alternatives they had selected from a large number of possibilities from all over the country. Company A chose a place in a newly-constructed industrial park close to Budapest. Because of the higher level of services, the prices were higher than average land prices in Hungary, but the Company was not interested in being far away from Budapest, nor in joining a group of Finnish companies in another Industrial Park. On the other hand, the facilities of the Partner Company were in the very close vicinity. From the logistics point of view, the place was excellent and the infrastructure good.

The Hungarian Partner Company was involved in the factory-construction project in other ways, too. It won the tender and was subcontracted to carry

¹⁶⁰ Transportation costs are paid by the end-user

¹⁶¹ Note Hungary's struggle against macro-economic instability (Chapter 2.2.3.)

out the factory's electricity installation. Recruiting the workforce started six months before the factory started production. Company A used experienced workers from the Hungarian Partner to train the new staff.

The original factory in Hungary has doubled in size as a consequence of postponing the factory construction in Poland (1998). This proposal and postponement constitute the second case. The production equipment in the Hungarian factory is identical to that in Finland, and the new factory has brand new machinery with the latest production technology. In this sense, it has higher production standards than the factory in Finland. The capacity of the new factory was planned to exceed that of the Finnish factory within two years, and the two are integrated to serve the whole European market (see Figure 14). The marketing department in Finland is responsible for promoting sales accounting for the total capacity of both factories. Higher demand is expected from the eastern part of Europe, at least for the next ten years.

The new factory is a wholly-owned production facility of Company A. It was initially decided that a Finnish expatriate managing director would be in charge, at least during the initial years. The process of choosing the managing director started at the end of 1997, and a Finnish managing director was appointed January 1998. An office was bought, and the new managing director started to work there in late spring, 1998. Until then, the already existing subsidiary had only one person and the managers of the Partner Company to take care of the money flow. In practice, the daily operations were co-ordinated with those of the Partner Company.

Company A's investment in Hungary was also significant for the country, and the Hungarian president gave the opening speech in December 1998. Work started in the factory with about 40 employees. The company planned to achieve a FIM 10 million (EUR 1.6 million) turnover with the workforce of 40 in 1999, and four times that amount, with double the workforce in 2000. The legal implications concerning expanding the factory site were reached and complied with. Investment in factory construction cost FIM 50 million (EUR 8.3 million), covered by loans from a Finnish bank. A return on this investment was estimated after three years, when the loan was calculated to have been paid back.

The Hungarian Partner Company in the last ten years

Since the first meeting between the partners, fast development and growth have characterised the Hungarian Partner Company. It started with a workforce of four people in 1990. During the following years, a tenfold annual increase in turnover was often achieved. The Hungarian Partner had specialised in the installation of all of the products of Company A. The larger capacity soon meant that they could also install the products abroad. The

Hungarian market belongs exclusively to the Partner Company as far as any installation projects of Company A are concerned. Out of Hungary, the projects put out to tender¹⁶². Any tenders won by Company A or the Installation Company in the CEE area involve the Partner.

At first, 80% of the Hungarian Partner's business was accounted for by installations done for Company A. This figure is still high, but other business grew and the proportion of business with Company A has decreased during the last three years. Installations for Company A accounted for 50% of the turnover of the Partner Company in 1998.

The first installations were strictly supervised by Company A. The quality of the work done by the Installation Company was proved to be satisfactory. Thus today, after more than a hundred installations, such control is not needed. In any case, the most important information about quality comes directly from the customer.

The Hungarian Partner Company has built up strong personal connections with the owner and the export managers in Company A. Problems arose between the two when the Hungarians had financial problems in consequence of the forint devaluation: the Hungarian Partner could not pay in 1996. Even though this situation resulted in conflict between the Hungarian manager and the owner-managing director of Company A, the managers in Hungary still prefer to maintain direct connections to people in the HQ in Finland. The new managing director from Finland (i.e. expatriate in Hungary) is personally less closely connected to the Hungarian Partner Company. Over the years, information exchange became very intensive. There has been daily contact between the partners since the factory construction started. Deliveries, installations and tender applications are going on simultaneously all the time.

The total turnover of the Hungarian company, together with the work done for Company A, was HUF 300-400 million (EUR 1.7 million) in 1997. During these years of co-operation with the Finnish company, the small entrepreneurial company has needed strong investment to increase its technological capacity and develop sufficient human resources. Investments so far have all been made from internal resources. An EUR 1.7 million turnover is satisfactory for the Partner Company, and also for the partnership, because further growth would demand more investments and the involvement of external resources. Until bigger positive changes in the market potential of the neighbouring countries are evident, the size of the company is being kept at around 40 people.

¹⁶² By the customers

Customers and competition

The indirect buyer-seller relationship with the main Hungarian customer is the most significant in Company A's business development in Hungary.

Because the relationship with the key customer is indirect, any description of the market from the point of view of the seller company (Company A) always includes the intermediary (Partner Company). However, Company A has established direct relationships later, with other customers. The Hungarian Customer consistently ordered¹⁶³ 30 new installations of Company A's products yearly. In the late nineties, it started to go into large-scale acquisition projects in the neighbouring countries. Still today, this customer is ordering products and installation directly from the Hungarian Partner Company, which in turn buys from Company A. Originally, some other international customers ordered from the Hungarian Partner Company, but it was agreed between the partners in 1998 that the contracts of the main Hungarian client would go through the Hungarian Partner, while all others would be made directly with the Finnish company. Thus, the Finnish company is contracting for all the installations of the Hungarian Partner.

Multinational customers have been continuously arriving on to the Hungarian market since the mid-1990s and they choose their suppliers based on tenders. Tenders for multinationals concern several countries from the CEE area at once, which worked to advantage of the long-term partnership in that it is able to apply jointly (Producer Company A and the Installation Partner).

Competitors started to move towards the area some 2-3 years after Company A established its business with the major Hungarian customer. Even today, these competitors have invested much less - at least in Hungary - than Company A. During the last six years, only one local competitor has emerged as a possible threat to the Finnish-Hungarian partnership. In fact, it was the policy of the main customer that supported this competition. The customer dealt with the local producer-installation company, just in case. At any rate, this competitor is a much smaller company, especially after the increase in production capacity of Company A. The prices of Company A in the Hungarian market are firmly in the middle range, and small local companies are cheaper. Until today, the quality of Company A's products has generally been higher than that of the local companies, partly because of its larger-scale industrial background. Local competition presented no really severe direct threat in the late 1990s. There are others in the business, but as their chosen customer segment is different, they are not primary competitors.

¹⁶³ One order has a price close to EUR 170,000 (production and installation at the customer's site).

Surviving and growing on the Hungarian market

The expansion of Company A was pushed and pulled by foreseen and unforeseen external factors. These triggered decisions and actions by the Company. It was very open to new opportunities in the new market (i.e. anything could be the result) at first. The Partner Company's involvement in Company A's business development was significant in the 1990s.

The first external push factor was the collapse of the Soviet market, which affected all Finnish producers. The stagnant state of the Nordic energy and construction industry had a particularly negative effect on Company A's growth potential. It should be born in mind that the Nordic market was not small in the previous decades from Company A's point of view. There was strong development in the supply chains but this slowed down significantly at the end of the 1980s. Meanwhile, a general recession hit the Nordic countries. Company A was in the situation that if it wished to be a supplier only in the Nordic market it would have had to wait several years before customers were in a position to renew their image. Consequently, the production capacity of the factory, and ultimately the growth of the organisation, were not sustainable in its traditional markets.

With a stroke of good timing, Company A implemented its strategic idea to expand in the Visegrád markets in the very early 90s. It succeeded to maintain growth profitably, especially in Hungary and Poland. High inflation in Hungary presented a new external pull factor, and the Company transferred assembly to the actual market. This was a necessity if it did not wish to lose its most valuable customer (1995-1996). The success of this solution pushed the Finnish decision maker even further, and the Company decided to move its entire production line to Hungary, with its green-field investment. The green-field investment as a possibility was foreseen 3-4 years before its realisation, the delay between the decision and the implementation being mainly to do with Company A's financial strength. The search for external financial resources was inevitable. The opening of new markets and the arrival of the potential customers closer to Hungary (then to Finland) constituted a strong external pull factor. Company A wanted to strengthen its position in Hungary, where business had so far developed so steadily.

Further growth of the company in the area depends, again, on external factors, namely the opening up of the neighbouring Eastern European countries and the subsequent increase in purchasing power. It is clear for Company A that the Hungarian market itself is not as fast growing as the Polish market, for instance. Hungary was already more advanced in the early 1990s. However, if more Eastern European markets opened up, there would be no problems for the next 20 years as far as the capacity and turnover of the

Hungarian factory is concerned. Meanwhile, the installations made in the Visegrád countries so far will need renewing.

Moving production to Central Europe was strategically important for Company A, and enabled it to better compete with other Western European producers by bringing it closer to the customers. The physical distance from the actual market in that sense is a relevant factor. Without doubt, Company A placed itself in a dynamic, growing market area, compared to its home base.

5.2.3 Case 2. Business operations and expansion in Poland

Although, the 'market studies' were carried out at the same time, there are differences in how Company A established itself in the Hungarian and Polish markets. Its first moves, towards Poland, were clearly 'dictated' by the moves of known customers. The initiating of operations in Poland thus cannot be described without first explaining how the customers were connected to the Company.

Company A pursued a straightforward client-follower strategy in Poland. One of Company A's traditional Finnish customers had previously entered the Polish market. It was one of the firsts to do so - even beating many other foreign companies, and had opened a subsidiary there as early as 1990. This Finnish customer informed Company A that it was going to start operations in Poland. After that, other Scandinavian customers arrived on the Polish market, in the first half of the nineties, all of which had been buyers from Company A. The Company thus saw more potential in Poland because well-known customers had arrived there. The country otherwise presented a bigger market for its customers, and consequently also for the Company. However, the customers were not expanding as steadily as the Hungarian customer did. The one customer in Poland ordered less per annum. Nevertheless, the realised sales on the Polish market represented 10-12 % of Company A's total turnover in the years 1996-1997¹⁶⁴. Half of the turnover was realised on export markets. With about a twenty-per-cent share of export revenues, Poland was the number one export market in 1996-1997.

The establishment of a sales-marketing subsidiary in order to gain control of the market

Company A started with indirect exports to Poland in 1991. A small Finnish company was interested in exporting different products from Finland to Poland, and enquired about Company A's product. However, this Finnish

¹⁶⁴ Total turnover was about EUR 11.7 million at that time.

exporter's interest soon turned away, towards new opportunities that were emerging in Russia. Company A did not, in principle, like the indirect way of exporting.

The Company continued (1992-1993) on the Polish market with a partner company from a small city. This Partner carried out the installation work and represented Company A. They had worked together for about two years, during which time, Company A would have liked more control over the operations. It believed that the market potential was not being effectively exploited. Furthermore, the installation work was not of a satisfactory quality.

Company A decided to establish its own business in Poland, because important customers were already there. It began its search for a solution in 1993. The idea was to have its own representative office, and thus to gain more control over the installation work, too. It started discussions with the Polish man whom they knew through the Finnish company they were working with, at first. The actual business area was quite new to the Polish managing director, his education being more technical-agricultural. Nevertheless, he quickly understood the production process, and he had had some practical experience with foreign companies on the sales-marketing side. He accepted the offer, and was appointed the managing director of the sales-marketing subsidiary. This wholly-owned subsidiary was established in May 1995. The negotiations setting up the operation were short and agreement on how the business should be run in Poland was easily reached. The paperwork and registration took some time, however. The Polish managing director bought a few shares in 1996, in line with the requirement of the Polish authorities that locals have to participate in an established foreign company. Since its establishment, the subsidiary has taken care of all day-to-day business between the customers and Company A in the Polish market.

The organisation of operations

Company A had needed a new Installation Company on the Polish market since 1993, and it was one of the first tasks of the Polish managing director to find one. The one he found was large in comparison with the Finnish installation companies, with an experienced workforce of about 30 people. It does not work exclusively for Company A, and gets its orders from the subsidiary in Poland, based on the orders of the customers. The installation work was satisfactory and the installation company was reliable until 1997, when its capacity was insufficient to meet the potential demand. It had done only a very minor amount of assembly work in Poland over the years. Still, in 1997, the capacity problems regarding installation and after-sales service were brought to light. It was decided that the problem was best solved jointly rather than by employing another installation company. Meanwhile, the subsidiary of

Company A organised several (4-5) small companies for after-sales-service work in different districts of Poland. The capacity of the original Installation Company was increased when it received new tools and technical training from Company A. It was economically viable to have service companies in different district, and to let the proved partner concentrate on the large installation projects.

Developing and sustaining customer relationships

The main customers are petrol stations in Poland, which account for up to 95% of the turnover. This is the customer segment on which Company A concentrates, and the relative efficiency is about four times higher than with any other type of customer. Furthermore, more projects per year are expected from petrol stations than from other types of customers.

The first orders came from a Finnish customer, which later (mid-1990s) halted its expansion on the Polish market. Other international customers arrived, one Norwegian, two American and a Dutch-English multinational conglomerate. The Norwegian customer continued its strong expansion in the Baltic States and Poland during the 1990s, and placed orders directly with Company A. The Company's subsidiary in Poland ordered the installation. The Norwegian customer had previously had contracts with Company A in other markets. There was an area-sharing agreement between Company A and a Norwegian supplier, which was valid until 1995, when Company A won over the Norwegian supplier.

There were changes in ownership in the American multinational customers, but the new owners continued the relationship with Company A for the re-installations.

There were local customers, too. However, their restructuring and privatisation were still not very clear in the late 1990s. They lack capital and still have old-fashioned management systems, and the Polish State is the majority owner. Company A could not build up a successful relationship with the big Polish customers. It was hoped that, after "real" privatisation and under new management, they would turn out to be active buyers, and the Company therefore took part in professional exhibitions in order to get to know them in time. By 1998, the number of important customers was 15 in the Polish market, of which Company A had 4, foreign ones. Company A was able to maintain strong, long-term relationships with the four foreign customers. In any case, new, potential customers emerge every year because the turbulent Polish market is not yet divided up among the customers.

Company A has two types of contract with its four customers. One is a general contract and the other covers installation and maintenance, taken care of by the subsidiary. The biggest customers are trusted fully: they handle the

orders, deliveries, invoices and payments smoothly. Safeguards such as whole or part pre-payment, or payment by Letter of Credit (LC), are in force with the less well-known customers.

The field of competition in Poland

The customers' position is not stable, yet and neither is the competitors' situation. In 1995, the Polish market was still quite a new battlefield. One Norwegian, one Danish, one German and one Italian supplier started activities at least two years after Company A did so. The Norwegian competitor was the strongest at the beginning, but Company A beat it by taking orders directly from the Norwegian customer. It was a quality, a delivery and a service battle. The Danish supplier was strong for only two years, after which it ran into financial problems. The German supplier was not very active during those years, but it was the first to establish a small-scale production facility in the Polish market, in 1998. This investment is significantly smaller than Company A's in Hungary. The main argument for starting production in the Polish market was the growth and development of the local competitors. The locals were competitive in price, and their quality has developed significantly during the last 3-4 years. Some three of them are real threats in some districts of Poland. The competition in 1998 was fiercer, even though some of the main competitors had dropped out (Norwegian, Danish).

The relationship between the parent company and the subsidiary in Poland

Three issues were seen as the most relevant in terms of the relationship between Company A and its subsidiary in Poland. The first was the budget for the operating-costs, the second was the information flow and the type of information between HQ and the subsidiary, and the third concerned the delegation of different work tasks.

The Polish (local) managing director understood the first budget setting for operating-costs as preliminary, and twice initiated renegotiations during the four years of joint operation (1995-1999). The office was moved closer to Warsaw centre in early 1996, but it took about a year even to sit down and negotiate an increased budget level for the Polish office. Company A financed major investments such as the purchase of a company car. All in all, the investment was about FIM 500,000 (EUR 83,000) plus the salaries of the Polish workforce. It could be said that activating operations on the Polish market was gained at low cost to Company A.

The Polish office agreed the installation price with the customer and the cost with the Installation Company. The customer paid directly to the Finnish company. The difference between the price and the cost of the installation covered the running of the office in Poland. Thus, it was self-sufficient.

Daily contact between the subsidiary and the Finnish HQ intensified during that time. The departments in which problems could be solved were contacted directly. The operational structure of operation was not hierarchical, although this was understood necessary since structural changes were frequent in Company A during the late 1990s. One reason for those changes was that the Company wanted to work more closely with its subsidiaries. The question remains as to how it can gain a stronger foothold on the market through its established subsidiary. Control over the operations of the subsidiary was exerted by the finance department of Company A, and the Polish subsidiary was obliged to send regular reports on the financial situation.

The accessibility of the common database was another issue on which the parent Company and the subsidiary did not always agree. The situation has improved since 1998-1999 when the new factory started production in Hungary.

The Polish subsidiary had a workforce of three people in 1998, basically as a department of Company A, one of whom did some part of the CEE-market research in the Polish office from 1998. The advantage of this arrangement is its cost-effectiveness because of the closeness to the actual markets. Many customers have their Headquarters in Poland or in other Eastern European countries, and there is easier access to information in Poland than from Finland.

Should production be moved to Poland?

The Polish manager has been insisting, since 1995, on having production facilities in Poland because getting deliveries from Finland is time consuming and less price-competitive. The pressure was increasing, especially when the local competitors became stronger. The quality and the higher level of technology put Company A one step ahead of its competitors, but this was not sustainable without further action. Its plan had been ready since 1997: to build a factory in Poland, simultaneously with the project in Hungary.

The Polish managing director was involved in the potential investment. He was asked to search for a suitable piece of land on which to build a factory. He delivered the information and took care of implementing the decisions made by Company A. These concerning searching for and buying land with all that administration the Polish bureaucracy demanded. Land was purchased 30 km from Warsaw centre in 1998. The land was significantly cheaper than in Hungary, and lower construction costs were also anticipated. Company A decided to build the two factories simultaneously and customers were informed that production would start in Poland, in order to attract them with the potentially lower costs.

A Finnish managing director was appointed for the factory construction at the end of 1997. However, the plan changed, and this person became the vice-president of Company A, with full responsibility for building the factory in Poland. Meanwhile, the owner's main interest was the factory construction in Hungary. Construction in Poland was postponed for some time because external financial resources were not forthcoming for two projects at the same time. The construction of the factory in Hungary was ahead, and production started at the beginning of 1999. This was the reason for that the vice-president left the company in 1999, and the managing director of the Polish subsidiary left with him. They joined to a competitor. The move of the Polish managing director did not significantly affect the relationship with the Installation Company. Nevertheless, Company A had to search for a competent replacement of the managing director position in the subsidiary, which took about six months. This subsidiary evidently has a strategic role in connecting Company A to the Polish market.

All in all, long-term relationships with the four customers were sustained. Thus, during the last five years the business has still been growing in terms of turnover and sales in Poland. The business activities have not changed, just increased. After all, no new mode of operation was implemented on the Polish market.

5.2.4 Case 3. Business operations and expansion in the Czech and Slovak Republics

The partnership in the Slovak Republic

Company A started its business in the Czech and Slovak Republics two years after it entered the Hungarian market. First, a Slovak customer was found at a trade fair in Hungary. The meeting was accidental in that the Hungarian customer had invited its Slovak colleagues to the fair at which Company A was also present. This Slovak customer (the largest state-owned company in Slovakia) asked for a preliminary offer from Company A, advising it to make contact with an installation company in the meantime. The customer did not wish that to work directly with the Finnish company because it believed it would be too much trouble working with a company from such a distant country. It insisted on including that particular local company in the business. It was agreed that the company in question could be subcontracted for the installation work and function as an intermediary between the Slovak customer and the Finnish producer. At that time, this arrangement was convenient for Company A - and even more so because the Slovak Installation Company had an affiliated company in Prague (i.e. in the Czech Republic).

Company A operated in the Czech market with the same co-operative partner until 1994-1995. However, it learned that the Slovak customer was not very active, and that the partner was not reliable. It received false information about the market situation. Whenever it made enquires, it was told that there were no orders coming from customers, that the market was silent, that nobody wanted to build. There were problems with payments, too. The Czech affiliate of the Slovak partner went bankrupt in 1995, causing a loss of about FIM 2 million (EUR 350,000) for Company A. The Slovak entrepreneur had died. As a result, the partnership was cancelled three years after the first business negotiations. Company A left the Slovak and Czech markets, and remained out of them for about three years. The story continues.

Establishing a sales-marketing subsidiary

In 1997, Company A decided to start again in the Czech and Slovak markets. It believed it would be more successful opening its own sales and marketing subsidiary, and working the same way as it did in Poland.

The Finnish Embassy was asked to conduct a search for suitable employees. The process took three months, and there were approximately 30 applicants. At the end of 1997, the Company chose a Finnish-speaking person for a trial period of six months. The Finnish Embassy's commercial department was also involved in the "market research", mapping the potential customers and obtaining names and addresses. The market study described some possible trends in how customers were hoping to develop in the near future (1-5 years). The new manager of the subsidiary was about to start visiting the actual customers. He was given a week of training in Finland beforehand.

The subsidiary operated from an office at the home of the Czech manager. Company A provided the basic equipment: a computer with no Internet connection, a fax machine and a mobile phone. The location was about 60 km from the capital.

The potential customers

The main task was to obtain preliminary orders from potential customers. Many of them were not at all interested because they already had established relationships with other suppliers, primarily with locals, who were generally cheaper than any foreign supplier. Other potential customers had foreign suppliers in the country of origin. Some large multinational companies had business with Company A in other markets, but even those stayed with the local suppliers because they were cheaper.

The most promising potential customer was a Czech state-owned company, which was known to be about to undergo a "face-lift" in 1998. A Finnish manager went along with the Czech salesman in early 1998 to visit the

customer. The first inquiry came several months after, but in the end, the customer announced that they were not interested. Other potential customers were visited, but at the last minute they also announced that they were not interested because the price was 20% higher than that of the local competitors. The customers also claimed that the Finnish company was too far away, in case any problems. There was only one customer left, but it lacked financial resources after having acquired businesses in the Czech market: there were no resources left for modernising the acquisition.

Still, once more, a potential customer had shown up on the market. This, too, was a multinational and planned acquisitions. The Polish managing director was delegated to handle the project, along with the Czech sales manager, who had already had a working relationship with the same customer on the Polish market. However, the information soon came that the acquisition would not take place for some time.

Price turned out to be a critical issue in the Czech market. Company A could not compete with the local suppliers. By that time there were many small Czech companies who were reasonable suppliers to any foreign or local customers, offering good quality and 20% lower prices.

The other task of the Czech manager was to find a reliable installation company. He found one, but the managers in Company A did not trust anybody by that time. They were afraid that price and product would be given out to local competitors.

The Czech manager tried to find business with new types of customer. Company A did not want these orders because they did not come from chain businesses. This meant that serial production could not be maintained, so it was considered too costly. It mattered, too, that Company A had some big projects going on at that time. There were large orders from a domestic customer (1998), and the factory-construction project in Hungary had just started. There was not enough human capacity to support the Czech market operations, regardless of the stage they were at.

After the 6-month trial period, the financial department cancelled the work contract with the Czech subsidiary manager. Apart from the fact that there was no business realised during the six months in the Czech market, there were disagreements over travel and other expenses, and over his salary for the six months he had spent with Company A.

During the three years Company A was not present in the Czech Republic, the local competition had strengthened. Customers had built up their business relationships with other suppliers. It was impossible to persuade them to change their established supplier to Company A, which had 20% higher prices, despite its good name in Europe, its high-quality products and adequate capacity. The customers preferred a local company, and the subsidiary of

Company A was not accepted as local. The Czech manager was seen as a messenger rather than an independent decision-maker.

Construction slowed down in the Czech Republic and the Slovak market in 1997-1998 and things were quite silent during the end of the nineties. However, that could change at any time.

All in all, Company A decided to move out of the Czech market again, this time mainly because of the lack of resources to support any market activity there. Its other thought was that it would be more price competitive when production started in Hungary. The search for new personnel has started again (1999-2000), but no suitable person has so far been found.

5.3 Company B and its operations in the Visegrád countries

5.3.1 The Company

Developments in a multi-business group of companies

At the time, I started the data collection, Company B belonged¹⁶⁵ to one of the three divisions of a large group of companies (See Figure 16). This Division develops, manufactures and markets line-building material for electricity distribution and transmission, and for industrial applications. Within this Division the case company (Company B) is a medium-sized (See Table 7). It is the main manufacturing company, while other companies in the same division are marketing and sales companies. Company B received the ISO (International Organisation for Standardisation) 9001 quality certificate in 1993.

Company B, to a large extent, decides independently about its business strategy. However, structural changes on the group level have affected its operations. It would therefore be appropriate to give a brief account of the structural changes, as well as of the international expansion of the group as a whole.

This multi-business group has a common focus on producing and selling electrical accessories. The main customers in the domestic and foreign markets are the construction industry, electrical transmission and distribution companies, and the electrical and electronics industries. State participation - as major customers - in these businesses is often significant, but not always.

The turnover of the Group reached EUR 167 million in 1996, and it was maintained at that level in the following years (Table 7)¹⁶⁶. In 1997, 82% of

¹⁶⁵ The ownership structure was discussed in Chapter 1.2.3.

¹⁶⁶ For the reason of introducing Company B as the flagship one of the group in the CEE markets this table is placed four pages later.

the turnover came from the Nordic countries, including the domestic market with its 50% share. R&D spending in the Companies amounted above 3% of the turnover in the 1990s, except in 1998 when it was below 3%.

The original company - an engineering office - was established in the late 1950s, in Finland. It started its product development in the 1960s by broadening its product range from the original metal components to plastic parts, assembly and tools. It started exporting to Sweden in the early 1960s. The 1970s were a decade of tremendous growth for the company during which it launched its first acquisition on the domestic market and set up its first foreign subsidiary in Sweden. By the time of the recession, which struck in the mid-1970s, the company structure had to be reorganised into smaller units.

Activities had already reached as far as Norway by the beginning of the 1980's. For the first time, a managing director was hired to lead the group operations. Intense growth characterised the 1980s, with expansion on the domestic market and in the other Nordic countries, in which the group became one of the main actors in its business area. The Nordic countries were considered the home market.

In 1992, 19 independently operating companies belonged to the group, and only one third of them were based in the domestic market, i.e. Finland. The companies were market leaders in the Nordic countries at that time.

The recession of the early 1990s, was survived by selling shares and freezing investments, but some further foreign acquisitions also took place. Under these conditions, especially in the home market (the Nordic countries), the group had not been able to generate sufficient added value in financial terms. A new structure emerged, and three divisions were streamlined at the beginning of the 1990s. The group aimed at a more customer-oriented organisation with larger units and fewer companies. At that time, the growing importance of networking between companies, and teamwork within them, was realised for enhancing cost effectiveness and improving market position.

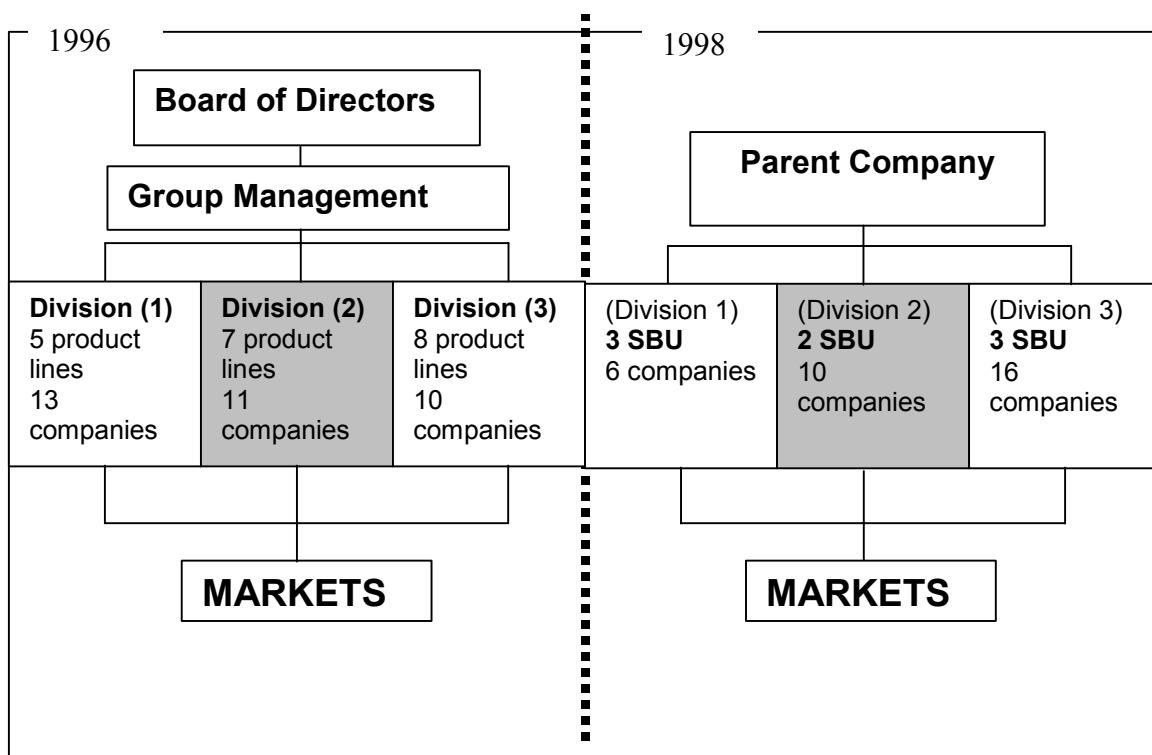
The mid-1990s saw better prospects for the divisions. The domestic market bottomed out, and the construction industry recovered, to some extent at least, in Finland. The effort put into internationalisation in the years of recession started to reap benefits. Because of the recession in the domestic market, R&D was at that time geared towards the export markets.

The next generation of the owner family provided the new Chairman of the Board in 1996, and a new Managing Director was put in charge of the divisions. The new structure, i.e. SBU (strategic business units), came into force in August 1998 (Figure 16) by means of corporate acquisitions, sales and mergers. The aim was to operate more efficiently in seven corporate units. In order to achieve internal efficiency, the organisation was simplified and made

less hierarchically structured. More co-ordination and co-operation between the units in different countries (i.e. foreign subsidiaries) was instigated.

Other large-scale projects of the Group certainly had effects on Company B's operations. One, to mention is that the Group had implemented a large-scale project for developing its internal logistic capabilities in the late 1990s. The aim was to safeguard its international service capability, and ultimately its competitiveness in all markets.

Another simultaneous project was that the Group had renewed its visual identity at the end of the 1990s. Even though they used several other trademarks, the core one played the main role in terms of communication. Further improvement of the Companies' position was seen in both the modernisation of its product range and the enhancement of its marketing efforts and customer service.



Note: Company B is part of the Division 2

Figure 16 Major organisational changes in which Company B was involved during the time of the study

Internationalisation of the Group in the 1990s

Further progress was made in the 1990s in realising the group's internationalisation strategy. It had been a strong group in Nordic terms, and had made a good start in the newly-emerging Central and Eastern European markets in the early 1990s. It began to strengthen its marketing position in other Western European countries.

To come out from the home market, i.e. from the Nordic countries was a necessity, since growth could not be sustained there. The small "home" market was indeed a push factor for focusing more on foreign operations for the whole group as well as for the case company of which it was part. There was a decline in the construction industry in Sweden, Finland and Norway in the early 1990s, and this had a negative effect on the group's financial results. At the same time, new opportunities had arisen in relatively close proximity, in the form of high-level demand conditions in Central and Eastern Europe. These markets were fairly unknown until the companies started doing business there. They achieved a strong position in Central and Eastern Europe, and further growth and good profitability were still being forecast 8-10 years later. Even though the companies had some experience of other Western European markets, they put more emphasis on such internationalisation strategies in the second half of the 1990s. The need for further expansion in other Western European markets arose from the slowly recovering and quite stagnant Nordic markets.

One element in the Group's strategy should be emphasised namely that the production companies had been concentrated in Finland for the last four decades. Larger-scale production was moved first to Estonia in 1997, and then shortly afterwards to Hungary in 1998. The Estonian factory was under the control of the case company, Company B, while the Hungarian factory belonged to another company in another SBU¹⁶⁷.

Main points and indicators of developments on the Group level

The Group has experienced three major structural changes during its 40-years history, and has also expanded on foreign markets (Figure 16 shows the changes during the nineties). It changed from an engineering office into a group of loosely-connected companies, which have become market leaders in the domestic market and in the other Nordic countries. At the time of the

¹⁶⁷ Note that a deeper investigation of both production investments is beyond the scope of this particular study. The production investment in Hungary does not relate to Company B. The investment in Estonia is not discussed because the focus is on the development of business in the Visegrád markets. This does not mean that the investment in Estonia in particular did not have an impact on the cases studied here. Generally speaking, a company's resources are limited and it probably cannot afford all investments at the same time.

structural changes, the group was divided into three product-group divisions. The latest changes resulted in seven strategic business units along the lines of the earlier divisions, but with a simpler structure, and higher-level co-ordination and co-operation among the companies.

The most important markets are still the Nordic countries, including Finland, although turnover from outside grew by about 20% during the 1990s. Today, the parent company of the group is 66% owned by the founder family. The key economic indicators are given in 1998 in Table 7 below, which shows that the case company is, in fact, the "flagship" company of the group in Eastern Europe.

Table 7 Economic indicators of the group and Company B in 1998

Source: Annual Report, 1998

	Group	Company B
Turnover	FIM 1125M (EUR 189M)	FIM 108M (EUR 18M)
Turnover % in the CEE	4.6	46.6
Average personnel	1900	157

Company B's motivation to enter the Visegrád markets

Company B started export operations to the Nordic countries and other Western European and non-European countries about 20 years ago. They went first to Sweden then to Norway, and little by little they started to export to other Western European markets. "Starting exporting" did not mean that it firmly established itself outside the Nordic countries, where it is still the market leader today.

Company B did not operate on the Central Eastern European markets, in the Soviet times. The area was considered closed because the Company could not obtain relevant market information easily, and customers were not reachable. Good sales opportunities were perceived in the Central European countries from the early 1990's, especially in Hungary and Poland. Company B was one of the first ones from the group to enter the CEE markets. It was considered to have had enough experience in the Nordic markets to start export activities to the Visegrád countries, the Baltic countries and Russia. Moreover, the Company knew the potential customers in every country because in an open market it is public information how the government manages electricity supply. The clients in Eastern Europe were already familiar with the product technology before the Finnish company came along. The possibility to buy that Western technology and to make large-scale changes in their systems arose when they were freed from central control. There was (and still is) a

clear need for modernisation of the industries and infrastructure. The CEE countries are promising because large-scale modernisation and new constructions¹⁶⁸ are expected in the long term. The potential sales volume is certainly higher than in the Western countries, where business involves renewing or repairing existed installations. Nevertheless, there are local standards that are applied in every country, and thus the products have to be tailor-made for the local clients. Company B was a pioneer in Hungary and Poland. The KEVSOS agreement helped in establishing a market position during the early years, although other Western companies - the actual competitors - soon became active too, with German and French companies among the strongest. Since the mid-1990s, some local companies have been able to strengthen their positions by developing the same type of products. The markets have reached oligopoly, with only a few known players on the supply side. This also means that company B's market share has decreased. However, sales are still growing because customers are ordering more.

Organisational-growth strategies in foreign markets

Company B applied many types of growth strategy to its market expansions. Organic growth is the most characteristic at the early stages of expansion, and growth in sales is the main focus. More products were added to the sales palette and new markets were tried. The Company concentrated on achieving a significant market position through sales. Product development generally involved the customers in local markets, while acquisitions and alliance formations encouraged further growth.

The sales force (2-3 persons from Company B) started to visit the chosen foreign market. They searched for partners who could be the established connection between the Company and the end customers. Together they introduced the products and possibilities to the end-customers at trade fairs. Business in foreign markets always starts with local staff, and Company B looked for potential representative companies with which they could sign a co-operative agreement. Building up the sales business required a local partner in each market. The products were presented as a choice among several other possible solutions. When the sales results were good, the Company established its own company, often jointly with the co-operative partner.

Today, Company B has sales-marketing-assembly companies in the Visegrád markets, establishing a joint venture in Hungary in 1989 and a sales-marketing subsidiary in Poland in 1993. A wholly-owned subsidiary was established in the Czech Republic in 1999 (Figure 17). Some of the sales and marketing companies were involved in selling products from other units of the

¹⁶⁸ Company B's products represent 5-6% of the total value of this kind of construction.

Group. The product development and the production remained in Finland. Even though the turnover fluctuated in the separate markets, the Visegrád countries were evaluated as one.

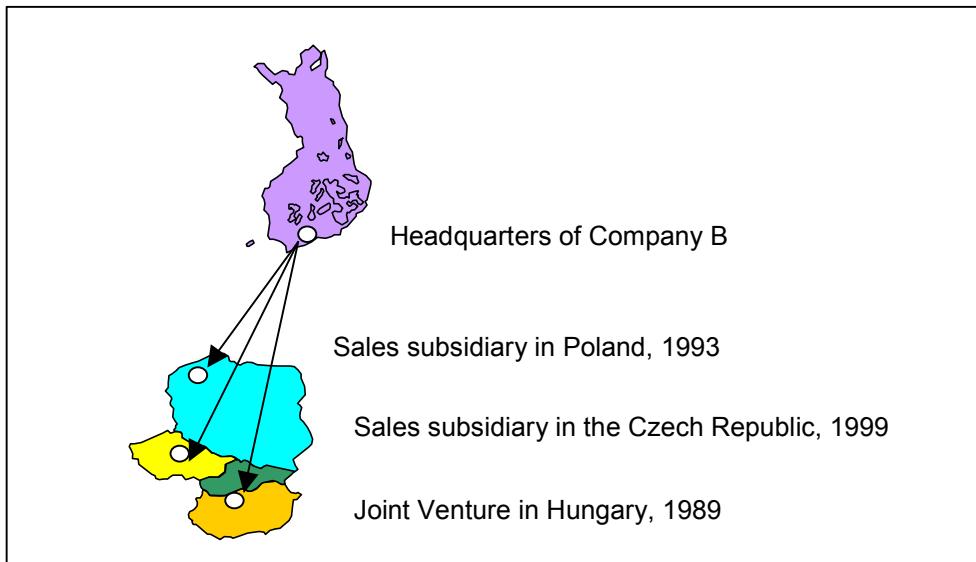


Figure 17 Structure of operations in the Visegrád countries in the nineties

The restructuring of the Group into SBUs increased efficiency by combining the functional "departments". A Central Europe marketing-team handled all the business within the Group, and included the partners in each country. Strategies were developed for the whole area.

The forming of the SBUs, brought personnel changes in the marketing organisation and in product development. The former managing director left the Company at the end of 1998, until which time he was the leader of the management team operating in Central Eastern Europe. The product managers also changed, although the personnel changes did not all happen at one time. Attention was paid to the continuation of personal relationships, although the changes affected the joint operations of the foreign subsidiaries in Poland and Hungary. There was less effect in the Czech market because the subsidiary was born into the new system.

Company B's business idea lies in building up sales networks, country by country, and not in selling the products between countries. It is thus expanding its business towards Central Eastern Europe country by country. The new operations were directly connected to the Finnish company (see Figure 17). The foreign subsidiary was the arm of the Company in the local market, but sales personnel still visited the foreign market frequently. The annual growth in turnover at Company B is shown in Figure 2 in Appendix 6.

In 1998, the turnover was a little over FIM 100 million (EUR 16.6 million) and exports accounted for 60% of the operations. The number of employees grew from about 100 to above 150. Businesses in Eastern Europe accounted for 46% of the turnover in 1998, a prognosis that continued to shape both turnover share and profit.

5.3.2 Case 4. Business operations and expansion in Hungary

Company B witnesses industry-level change in Hungary

Company B entered the Hungarian market a year before it was officially opened, and started operations approximately five years before industry went through major changes related to privatisation. The owner of the companies had connections with the Hungarian state-owned company, and established a JV, with 50-50% shareholding in 1989. The JV was just on paper, because nobody was really doing any business at that time. It started to operate a year later when it became a legal entity of Company B. The 50-50% ownership share turned out to be difficult to work with since nobody took responsibility for any decisions. The Company therefore took 52% of the shares in 1992, and later in 1995 over 70%. This JV in Budapest realised a FIM 1.2 million (EUR 200,000) turnover in 1992, with a workforce of 8 people. The turnover growth, from the start of operations in the Hungarian market¹⁶⁹, is shown in Figure 3 in Appendix 6. What that figure indicates is certainly worth further analysis, namely that the turnover-growth of Company B in Hungary does not correlate with the general growth in the country.

After 1995, the Hungarian market grew more quickly than the other markets in the region. The energy sector was privatised in the mid-nineties, since when the electricity-supply sector has been owned by six Western European multinationals. The maintenance of the electricity lines was subcontracted to about 200 small local enterprises, which turned out to be the actual customers of the JV Company. Company B was able to keep its market position in Hungary, even though the French and German owners were able to order from their home suppliers¹⁷⁰. So far, the technical staffs of the local enterprises (i.e. customers) have been able to choose freely to buy and install Finnish products. Company B's prices were higher than the average Hungarian market price, but its competitive advantage was that it sold and serviced whole systems in its

¹⁶⁹ During the nineties the Group prepared go a public. As far as the research was concerned, this meant the accessibility of much more detailed information, company by company, and country by country. As with Company A, that detailed data was not required to be available when the research was carried out.

¹⁷⁰ The share of Company B's products in total construction value is relevant too.

product packages. Once a customer had decided to buy from the Company, it was likely to be committed to it as a supplier.

Recruiting the workforce for the joint venture Company in Hungary

In addition to enforcing changes in share ownership, Company B had a strong involvement in changing the personnel. The Joint Venture started by retaining the former state employees. The Hungarian State as owner had appointed the first managing director, but the position was soon given temporarily to an elderly lady of 70 who had had a high position for a long time in that State Company. She was highly appreciated by the Hungarians, and from the Finnish perspective, her language skills counted most. Certainly, she was an influential person considering her long-established relations within the State Company. After gaining majority ownership in the joint venture, Company B took charge of recruiting a new managing director. The first step was to select a head hunter, and they chose a Hungarian consultant who had conducted the kind of search they had in mind for other Finnish companies. The consultant offered five candidates of which Company B chose one, a young engineer who joined them in 1997. This change was followed by further changes in personnel. Ultimately, Company B was determined also to have skilled personnel in key positions in accounting and sales, with a good command of the English language. It also felt the need to improve communications between the companies. At the start, there were few people who could speak English and also had good technical knowledge. The new managing director took full responsibility for these matters, although Company B still exerted an influence on personnel policy whenever it felt that making changes could solve a problem. The workforce in Hungary doubled in 1997-2000. New business premises, for the marketing company, were completed in 1997, with a total investment of FIM 4 million (EUR 650,000). The new office premises also comprised assembly rooms and training areas for customers.

The Hungarian State was not involved in the day-to-day business since it had less than 25% ownership in 1995, by which time it had started to move out of the electricity industry altogether. The Hungarian managing director has been running the business, together with Company B since 1997.

5.3.3 Case 5. Business operations and expansion in Poland

The industry in Poland

At the time when Company B formed the JV in Hungary, Poland was going through changes in the political arena. It was only afterwards that the

economic transition was initiated. The actual clients of Company B were, and still are, large state-owned companies. There are more than thirty such companies in Poland, where the energy market is still under full state control. It was only at the very end of the 1990s that partial privatisation was even considered. Electricity purchase and sales prices are not free, and potential customer companies are forced to lower expenditure on investments and maintenance to survive. This has led to a situation in which end-customers do not compete with each other, but rely on their contracted supplier chain. Furthermore, there is the risk that the Polish Government could use strong measures to give priority to local products¹⁷¹. This was probably only a threat, and had never really been implemented during the time Company B operated there. The priority of the Polish Government is to join the EU, where these kinds of measures are not acceptable.

Nevertheless, Company B considered Poland a potential market only after the political turmoil had eased. It entered the country two years later than going into Hungary.

The search for partner - product promotion

The search for sales opportunities on the Polish market began in 1991, and also involved the search for a suitable partner. The initial idea was to find an agent who would work with the Company. The very first partner was problematic. He was doing business in a way that was unacceptable to Company B, or more precisely he did not seem to be committed to the Company, which then gave up the idea. However, it soon had a pressing need for somebody to represent it at an upcoming technical fair in Poland, somebody who could speak Polish and English, and who fully understood the technology involved. A personal contact introduced the second potential Polish Partner Company, and co-operation began after the fair in 1991. One person, an expatriate from Company B, was on hand to support the promotion for about six months, and visited the potential clients with the Polish Partner Company. The partner continued his effective search on the market and the strong promotion of the products for another six months without the Finnish expatriate. It has now introduced the product range to every potential customer in Poland. The product that Company B was offering was new, even though the clients knew about the technology involved. The question was to convince them that it would be a profitable solution to use the whole system offered by Company B in the potential modernisation.

¹⁷¹ See export-import imbalance in Poland, shown in tables of Appendix 1

Sales growth - and the establishment of a sales-marketing subsidiary

The marketing research and promotion were conducted with this second Polish partner. A year later in 1992, when sales started, Company B was still working with two more Polish partners simultaneously. The one who did the promotion proved to be the best, primarily in bringing economic results, but also in technical and marketing expertise and devotion to the business. This Polish partner also carried out a number of successful pilot installations. The first year in which Company B's product was sold was 1992, on the basis of the agency agreement. They decided to establish a "joint" company to serve the Polish market, because the prospects seemed good. The subsidiary was founded in 1993, with Company B having 80% ownership and the two private entrepreneurs owning the Polish Partner Company the other 20%. It took about six months of negotiation before the "JV" was finally established, with the Polish side holding out for more freedom in the actual operations on the Polish market, and for a bigger ownership share.

Company B started the negotiations from the position of 100% ownership, but the Polish partner declared a strong interest in joint ownership. The first offer from the Finnish side was 10% for the partner and after further meetings and telephone calls the end result was 20-80%. Company B would not give more, even though the actual investment would not have been difficult for the Polish side even with 50-50%. The Polish partner realised that 20% was the maximum that would be offered. At that point, the Polish side had more positive feelings about the prospects of growth. Conveying this to the Group owner, and even drawing his attention to the fact that Company B had an attractive market in Poland, were quite difficult.

Operations in Poland in statistics

The subsidiary was directly responsible to Company B for direct sales and marketing, and the agreement was extended to cover products from other Companies. In 1997, 85% of the activities involved selling Company B's products and the corresponding figures were 90% in 1996 and 95% in 1995. The other 5-15% comprised products of other companies from the group. Today 80% of its sales comprise Company B's products, and 20% products from the other companies- a proportion that is growing continuously.

Company B's turnover growth on the Polish market is given in Figure 4 in Appendix 6. As in Hungary, the turnover in Poland does not correlate with the general growth of the Polish market.

Three years after the establishment of the JV (1996), turnover on the Polish market amounted to 15% of the total turnover of Company B. This proportion has continued to increase in 1998, passing 20 %.

The sales volume on the Polish market will continue to grow since new constructions are expected. Company B is not expecting to make losses on that market for many years, although a slow-down in the growth rate and a decrease in market share have been seen since 1998. After some years of joint experience, there still seems to be disagreement between the partners on opportunities in the Polish market.

Customer relationships and the field of competition

Company B with its "JV" was a pioneer in Poland, and there was nobody to share the market with at the beginning. A French company was set up somewhat before Company B, with similar technology, but it did not introduce its product on a bigger scale. The promotion that the Polish Partner conducted on behalf of Company B was very strong, and put the French competitor in the shade. The Finnish-Polish co-operation had introduced the products with the correct technical information, they had relevant, strong technical support from the Finnish company, and they had worked on convincing potential Polish clients that it was possible to change whole systems, even on a bigger scale. The orders began to come in after a year. The clients realised that the quality of the products was really good, and the deliveries were quick and accurate. Pilot installations were built. These first orders helped to establish a good reputation and sales started to grow. The JV Company built up long-term relationships with potential buyers, and by 1997 had succeeded in introducing itself to the whole Polish market. Only a few clients have not yet placed an order. When the market started to react to the strong introduction, competitors also started to appear. The market was open, so the competitors started to work more actively. The local Polish competitor based its operations on copying the products of Company B. The copies look the same, but are cheaper and lower in quality, but the fact that they are cheaper and Polish works does to the advantage of the competitor. This local company has succeeded quite well in attracting some clients to take some of their business there - it is quite an advantage to offer local products to Polish State enterprises in Poland. The people who make the purchase decisions are mostly from the older generation, and are very used to having everything made in Poland. Today, the market shares of the two companies have stabilised. In 1996, the French competitor started to be very active, with aggressive sales promotion. The competition involved technical details, and the French competitor succeeded in taking a piece of the cake from Company B. Nevertheless, turnover in Poland is growing steadily because the market is growing rapidly. The market share is distributed between the two foreign companies and one or even two local companies, although the "JV" has still the biggest share. The Company knows

that their price level is high for the Polish market, since they are producing in Finland, and thus they have to incorporate excellent service to be competitive.

Other arrangements and speeding up operations in Poland

Keeping the delivery conditions within 24 hours for almost the whole range of products requires the "JV" to keep a large stock. The stock system was established by the time the "JV" was formed, and was supported by the Polish side. The "JV" is responsible for the regional offices doing installation and service work, and has been building up the network of offices since 1994-1995. The market area - Poland - is a big enough country to make such a network necessary. Business with the Polish "JV" and the regional offices are entirely in the hands of the Polish owner entrepreneurs, and Company B has no involvement. It is satisfied with the choices the Polish partner has made.

The Polish side suggested establishing an assembly facility, instead of only importing and storing the Finnish products. They thought that it would be beneficial to prove to the customer that the products were partly made in Poland. As the Polish side saw it, this arrangement was under consideration at the HQ a long time before it came to fruition.

Soon afterwards, the Polish side also suggested further developments for production in Poland. This idea was not well received before 1996, when the Group managing director, and later the top person of Company B, changed. The argument for the new development was the same as for the assembling.

Company B was careful on the Polish market at the beginning. The co-operative partner had done a very good job on their behalf, and no great investment was required. In fact, the purely Finnish investment was the share capital and 'the occasional visits'. Then the JV made all the other investment. There was no detailed strategic plan for selling on the Polish market - this came later when several customers started to place orders.

The main product line of Company B will sell well in the future, but it is less certain that the extra services offered will be enough to keep competitors with lower prices at bay. However, the goal is to keep the majority market share.

Since 1996, the idea of having another production company, in addition to the one in Estonia, in the Central Eastern part of Europe has been under active consideration by the Finnish Group. Several projects are underway in all these countries to find out if this idea can be realised. The new top management has become more committed to buying the production facility during the last three years.

The Polish company has been developing through its joint business with Company B. People are getting more experienced, and this is making management happy. The economic results are also satisfactory. Company B

does not control the decision making involved in running the business, since the Polish partner is fully responsible for the day-to-day operations. On the other hand, there is strict financial control, which has been tightened rather than softened over the years.

5.3.4 Case 6. Business operations and expansion in the Czech and Slovak Republics

A slow start in the Czech and Slovak markets

Company B entered the Czech market in 1992-93, at the same time as it entered Poland. Representatives visited exhibitions and fairs in the Czech and Slovak Republics in order to find a local partner. The two markets almost served as one, mainly because of the similar standards in the two countries dating back to the time Czechoslovakia was one country. When Company B planned action (meaning fairs and technical meetings) in the Czech Republic, the Slovak people were included. They are still very close, and have very many joint technical meetings and fairs.

The idea is the same as in all other markets: to have the local partner as an intermediary between Company B and the local end-users. The potential customers are also known in the Czech and Slovak markets.

However, the Czech market was showing slower growth in selling Company B's products than the Hungarian and Polish market, and it took four years to find an exclusive partner in the Czech Republic. Before that, Company B had tried to work with several different companies, and had even considered an end-customer as a representative, despite the fact that end-users are generally not interested in marketing work for the seller. This turned out to be the case here, too.

Nevertheless, the choice of a partner with whom a co-operation agreement could be signed depended on sales results. The partner should be able to sell the products profitably and to give information about up-to-date market opportunities. Finding this kind of partner was not very easy, mostly because the customers were not buying very actively.

From a co-operation agreement to a sales-marketing subsidiary

Company B started more slowly on Czech market, and the sales started growing only in 94-95. The turnover growth since 1996 is given in Appendix 6 Figure 5 as in the cases of Hungary and of Poland. Small deliveries had been made 3-4 years previously, but Company B could not put more effort into the market without having active buyers or an efficient partner. This meant it was

not feasible to put more resources into the business even if resources were available.

When sales started to grow on the Czech market, Company B began to work with a representative company with which it had promoted and marketed its products under a co-operation agreement.

The chosen representative partner had done the early marketing and sales work, and had organised training and technical meetings for end-customers. It represented Company B at technical fairs and mapped out all the possible customers on the Czech and Slovak markets. Company B's name was promoted rather than the Czech partner's name. Customer visits were also organised at Company B in Finland.

In 1999, a subsidiary was established in the Czech Republic through the acquisition of a utility network business, which then also incorporated the original Partner Company. The subsidiary started its operations in July 1999. This newly-established company belongs to the same unit¹⁷² as the Hungarian and Polish joint ventures.

Competitors and customers

I will close the sixth case with a brief explanation of the market structure in the Czech and the Slovak Republics. Obviously, the lack of a real connection to customers during half of the decade caused the relatively slow expansion by Company B on those markets. Competitors faced the same problem, although the situation has changed in the eight years of Company B's presence. One local and two other European competitors have been established on the Czech and Slovak markets, and today these four suppliers share the market (i.e. it is an oligopoly). Of the four, Company B's market share was still the biggest in 1999-2000.

The Slovak market did not develop. The customers have not placed orders, even though they have attended the technical meetings with the Czech customers. Company B considers the country a small market, although construction work is expected there, too, which should lead to some business.

In sum, Company B worked with more than one representative in the Czech Republic, and they changed every now and then. It was as late as 1997 when it finally decided that the partner with which it started working in 1994 could be involved, with its own sales company. Company B tried to follow the same pattern as in Poland, but the process took considerably longer. It is clear that, without buyers the business could not really start, even with potentially good intermediaries. It would not have been reasonable to put more effort into this market, especially when resources could be used more profitably in Hungary

¹⁷² Note that the subsidiary in the Czech Republic started its operations after the new organizational structure had been created.

and Poland. The actual situation also justifies the relatively shorter description¹⁷³ of this case.

5.4 A comparison of Company A and B

To conclude the case descriptions, I would like to point out some of the major similarities and differences between the two Finnish companies based on their described operations in the nineties. At the same time, I will suggest how the six cases can be evaluated as polar¹⁷⁴ cases in order to prepare and facilitate the subsequent cross-case analysis (Chapter 6.5). In addition, I will also look at the chronological details for each company: what were the main events and happenings concerning the operations on the Visegrád markets during the ten years? Like the case descriptions, these tables are based on what the respondents considered relevant.

Company A was established in the late sixties and Company B's parent company in the late fifties. Today, both could be considered medium-sized: with a workforce between 100-150 people, Company A had a turnover of EUR 12.5M, and Company B EUR 18,2M in 1998. Both companies produced a significant turnover growth during the five years between 1993-1998 - Company A's by 67%, and Company B's by 55%. A significant part of this growth was realised on the Visegrád markets.

Company A is an independent company, owned by the founder-managing director (until 2000), while Company B is 100% owned by its parent company, which in turn is mainly owned by the original founder family. Significantly, Company B belongs to a larger group of companies.

Company A has been involved in equipment manufacturing and in the construction and mechanical engineering industries, since its establishment, while Company B operates in the electrical-engineering industry. Both companies are production-oriented business-to-business manufacturers. They sell both tangibles and intangibles, indicating that they regard their products as complex offerings, or even as systems selling.

The domestic market presented clear push factors for the two companies in the late 1980s. They were pushed out of their traditional markets because those markets, which had become saturated - they were too small relative to the production capacity of the Finnish case companies at that time.

¹⁷³ The main data on this case was gathered in the second interview with the Finnish manager, when Company B was starting to put more significant resources into developing its business at least in the Czech Republic.

¹⁷⁴ See Chapter 4.4.2, case selection and data collection

The Visegrád countries became a relevant pull factor in the early 1990s. Given the two companies' tangible and intangible resources, these markets became attractive immediately after the transition started there. More specifically, potential demand for their products seemed high and workable. Forecasts were easy to justify as strong efforts were put into the large infrastructure-modernisation projects by the transition economies. The bilateral free-trade agreement (KEVSOS) between Finland and each of the Visegrád countries created a favourable market structure. Thus, competition could easily be evaluated as long as the free-trade agreements were in force. Active environmental stimulus was clearly coming from the Visegrád markets, as signified by the management actions at companies A and B. The actual responses, over the ten years, are the subject of further analysis (Chapter 6.)

Other issues worth mentioning here, in respect of similarities and differences, include the structural changes at the HQ of both Finnish companies. First, the fact that Company B belonged to a larger group had an effect. The group is indeed a significant influencing factor, as a part of the context in which Company B does business. Some of the differences between the two companies can certainly be explained by the group, which was behind Company B. Company A remained an entrepreneurial company its owner-founder was involved in the day-to-day business and he had the sole decision-making power. At company B, where the owner family had moved out of the day-to-day business by the mid-1990s the managers led the production, sales and marketing operations. Company A operated with one product line since its establishment, whereas Company B, together with the group, produced several complementary lines of products. In accordance with these differences, organisational changes in the two companies also proceeded in opposite directions, partly affected by the growing importance of the new business in the Visegrád markets. During the nineties, Company A reached a level of complexity in its new operations at which it needed to synchronise its new large foreign orders with its traditional business. As the owner-managing director himself realised, one person taking all the responsibility and making all the decisions was no longer enough. By the middle of the decade, the need to implement a new decision-making level between the markets and the top was paramount, and there was a clear need to focus more clearly on export operations, which produced the revenue (Figure 15).

Company B, with a large organisation behind it, had distanced its divisions from the markets. Together with all the other units of the group, it underwent organisational changes in order to get closer to the market and meet the demand. Thus, a flatter organisational structure was achieved during the period between 1996-1999 (Figure 16).

Clearly, something must be said about the sort of data to which the researcher had access during the course of the project. The Group of which Company B was a part was engaged in preparations for becoming a public company during the 90s. As far as this research is concerned, this meant that more detailed information (i.e. quantitative data in Annual Reports) was made available. In the case of Company A, such detailed data was not publicly available for use in this or any other research - Company A being a private company. It has to be accepted that, with private companies, it is the company's own decision what it reveals and what it does not.

As mentioned previously, the researcher had to accept the cases as different entities, to some extent. Each one featured a different game. This must have been reflected in the data, nevertheless it remained a priority to use the same data-collection method throughout.

I believe that the figure giving Company A's turnover growth in the light of Finnish GDP growth is informative for most of the cases (Figure 1 in Appendix 6). This is because the Company had significant orders from the domestic customers during the nineties, too, even though they arrived quite randomly. Furthermore, it was working with customers originating from the Nordic markets, specifically in the largest new market in Poland. The effect of the significant investment in Hungary is also to be seen in that figure.

Growth in Hungary, in terms of turnover, would be interesting to see in comparison to the steady expansion of the one major local customer rather than to GDP growth as a whole. What I am suggesting here is that the actual customer characteristics were the determining factor, rather than GDP development. It became quite clear that the customer in Hungary was exceptionally expansive - although admittedly the Hungarian State had prioritising measures that favoured it.

I am not sure of the relevance of comparing Company B's growth in each market with the GDP growth (Figures 3, 4 and 5 in Appendix 6). During these years the turnover share of the Visegrád markets grew to over 50%, with a predominance of local, state-owned customers. The advancement of privatisation in Hungary during the time period in question represented an important change in the external factors. Still, this did not change the fact that Company B had several customers embedded in the local institutional structure, rather than from the Nordic markets as was the case in Poland for Company A. However, I found no correlation between Company B's turnover growth in any of the markets and the general growth in that market. I hope that the forthcoming analysis will reveal some of the reasons¹⁷⁵ for this. The six cases showed, at least, that it would be simplistic to assume such correlation.

¹⁷⁵ One obvious reason is that the time period (almost 10 years for the cases that started earlier) was not long enough.

The question remains as to how the six cases can be considered polar cases. Indeed, they are polar in terms of the expansion processes that unfolded.

Case 1. (Company A in Hungary) Company A had a start-up entrepreneur as a bridgehead partner, who developed in accordance with the joint goals. There was one expansive local customer with whom the Company was able to establish a strong buyer-seller relationship almost immediately upon entering the market. Neighbouring markets in Hungary also began to be more open towards Company A's products after the mid-1990s. Furthermore, large foreign customers had also arrived by that time. Company A's strategy towards customers leaned more towards customer following than customer searching. It became strategically important to move production to the area in which the customers were to be found.

Case 2. (Company A in Poland) Company A was clearly able to follow a customer-following strategy in Poland, as its traditional customer launched itself on the market at about the same time. It also became important for the Company to keep close connections with the long-term buyers in the Polish market, meaning that it needed to service them to the same high standard of quality (including sub-contracted installation). The subsidiary established by Company A, with its Polish managing director, performed satisfactorily, but by the time the Company decided to invest in Hungary, the Polish operations had become somewhat secondary because of scarce resources.

Case 3. (Company A in the Czech and Slovak markets) This case could be summarised as one that lacked a good committed trustworthy partner, as well as customers, during the time of the Company's first appearance on the Slovak market. By the time of its second entry, it faced competition barriers in the form of established buyer-seller relationships and price competition, coupled with its own lack of resources.

Case 4. (Company B in Hungary) The initiation of entry was based on the early entrepreneurial move of the group owner, who had earlier connections in the country. The Hungarian market was important for Company B, especially after new foreign owners had made investments - as the result of early privatisation of the natural-resource monopolies. As Company B took over the operations, it also took on more responsibility by increasing its ownership share (originally it was fifty-fifty) and recruiting new personnel for the joint venture. This was done in accordance with the HQ policy in Finland, which was to have a sales-marketing subsidiary in the form of a joint venture as an arm of Company B on the Hungarian market.

Case 5. (Company B in Poland) Company B itself found a good partner by following a careful partner-selection process followed by the establishment of a sales-marketing subsidiary in 1993. The Polish Partner Company was a capable entrepreneurial company, with a good understanding of the business

and of the Polish market. The revenues achieved were significant and satisfied both partners. Thus, was the co-operation generally appreciated. However, tension between the Polish entrepreneurs and the top management of Company B was also apparent over the years of co-operation.

Case 6. (Company B in the Czech and Slovak Republics) This case started slowly. Company B's partner-selection process took a longer time. Two reasons for this might be mentioned. One is that the potential customers were less active in the early 1990s than in the other two Visegrád countries. As a consequence, secondly, Company B geared more resources to the faster-developing markets than to the Czech market. The Slovak market was considered a small one. The Company tried to operate on it as if it were one with the Czech market, arguing that the two were still relatively small.

Table 8 below summarises the events and happenings at the cases of Company A and puts them in chronological order. It also shows how things happened simultaneously, and how many issues needed to be handled at the same time in three (four) markets and at HQ. The chronological case descriptions constituted an essential early research step in developing the grounded theory. This should be seen as part of the abstraction level (1), that can and should be achieved when a processual case analysis is conducted (Pettigrew 1990).

Table 8 Company A's operations in the Visegrád markets (1990-2000)

DATE:	EVENT:
1991	Search for Partner company by advertising in Hungary <i>Start of market study in Romania</i>
1992	Direct agency agreement with the Partner Company in Hungary for sales-marketing and installation
1993	Establishment of sales-marketing subsidiary in Hungary (100% Finnish ownership) Trade fair in Hungary, meeting with Slovak customer International subcontracting in the Slovak and Czech markets, for sales-marketing and installation International sub-contracting with a Polish company for sales-marketing and installation
1994	<i>ISO 9001 Quality certificate</i>
1994	<i>Finland full member of EU, KEVSOS free-trade agreement outdated</i>
1995	Sales subsidiary in Poland (100% Finnish ownership, Polish managing director)
1996	Sales subsidiary in Poland 98% Finnish ownership, 2% Polish managing director International subcontracting ends in the Slovak and Czech Republics, Company A moves out of the market HUF devaluation, payment problems with the Hungarian partner Plan to build production facility in Hungary First vice-president at Company A
1997	Plan to build production facility in Poland Second vice-president at Company A Finnish managing director appointed for the subsidiary and for the planned factory in Hungary Finnish managing director appointed for the factory planned in Poland ISO 14001 Environment system certificate Search for office manager in the Czech Republic (autumn)
1998	The factory managing director from Poland appointed as third vice-president at Company A Establishment of sales subsidiary (100% Finnish ownership) with the selected Czech manager in the Czech Republic (winter) End of trial period, the contract with the Czech manager is not renewed, Company A moves out of the Czech market. (summer) Third vice-president left Company A (autumn)
1999	The company was split into two Production in the factory in Hungary starts (spring) Polish managing director left Company A (spring) First installation in Romania (summer) Search for marketing director for Company A (summer) Search for marketing director for the Polish sales-marketing subsidiary (autumn) Marketing director is appointed at Company A (winter) <i>Introducing new technology development</i>
2000	Land for factory building is for sale in Poland New manager is appointed at the Polish sales-marketing subsidiary (spring) Search for CEO, while owner/founder manager intends to be the Chairman of the Board <i>Organising starts for listing on the Helsinki Stock Exchange</i>

Table 9 below similarly summarises the cases of Company B. The reader might immediately notice that not only the case descriptions are themselves shorter - relative to those for Company A - the table is, too. This certainly does not imply that less care was taken with these cases - on the contrary. It is more

a reflection of the earlier explanation that more detailed quantitative data was available at Company B. Indeed, the more managerial company (Company B) revealed more quantitative data while they discussed the operations on the Visegrád markets during 1990-2000. The entrepreneurial Company, A, gave more details verbally, and thus it may seem that more happened. I hope that the cross-case analysis (Chapter 6.4) will offer a grounded explanation for this and many other issues.

Table 9 Company B's operations in the Visegrád markets (1990-2000)

DATE	EVENT
1989	JV in Hungary 50% Finnish Group Owner company - 50% Hungarian state
1990	JV in Hungary 50-50% Company B - Hungarian State
1991	Market study in Poland
	Annual industry trade fairs 3-4 in the Visegrád area (participation every year)
1992	JV in Hungary 52% Company B
1993	JV in Poland 80% Company B - 20% Two Polish Entrepreneur, Appointed managing director is one of the Polish entrepreneur
1994	<i>Building of new manufacturing facility in Finland</i> <i>Finland full member of EU, KEVSOS free-trade agreement cancelled</i> Partnership in the Czech Republic for representing Company B
1995	JV in Hungary 76% Company B
1996	<i>Owner of the Group appointed Chairman of the Board, new top management in the group</i>
1997	New Managing Director appointed for the JV in Hungary <i>Factory in Estonia started production under company B's control</i> New office building in Hungary
1998	SBU, regrouping operations into seven business units new visual identity Managing director of Company B left, new managing director appointed immediately. <i>Production in Hungary started by another company in the Group</i>
1999 (summer)	Acquisition in the Czech Republic Establishment of sales subsidiary in the Czech Republic
2000	Regrouping operations into four business units started, effective as from 01.01.01 Company B acquired minority shares in its subsidiary in Poland, thus is 100% owner

I will now move on to the formal grounded theory analysis, in which I will show step-by-step what could be achieved and how, in terms of integrative theoretical output based on the six cases described here.

6 FROM DATA ANALYSIS TOWARDS THEORY BUILDING

6.1 Data analysis

This research project aimed at understanding and explaining foreign-market entry and expansion in two Finnish medium-sized manufacturing companies during the time period of 1990 to 2000, in the Czech and Slovak Republics, Hungary and Poland. Both companies are production-oriented, notwithstanding the fact that they regard their products as complex offerings. They sell systems to business buyers. Company A's business is in mechanical engineering, while Company B's is in the electrical-engineering industry.

What I needed to understand was what drove the managers making and implementing decisions to achieve the desired end of sustaining the growth of the company in newly emerging markets. I needed to discover more about the mechanisms (i.e., stimulus-organism-response) in order to understand better the ongoing broader process of foreign-market expansion. My preliminary assumption was that business relationships with local intermediaries significantly influenced operations in the CEE markets. Hence, both foreign-market expansion and business-relationship development were in focus in the study. In keeping with this double focus, I chose so-called bridgehead relationships as my unit of analysis.

I arrived to my theory largely with an inductive procedure (in contrast to intuition) and that inductive procedure is documented such a way that reader can follow. The presentation of the theory development however, should not be considered as evaluative criteria of any result. It shows the usefulness/ doability of the GT procedures and their potential to bring out significant understandings. That is why I present in detail how the substantive theory developed (cf. Edwards 1998, Parry 1998, Partington 2000). Examining the theory-development process may help to see how far one was able to increase our understanding of the reality out there. From the perspective of theory development, one is able to assess the effectiveness of the creative loops (cf. Langley 1999), which is to compare the case descriptions with the explanations of the connections between the categories in the substantive theory (cf. Eisenhardt 1989, Edwards 1998). With the words of Weick 1983 and Lincoln 1995, *intensity* and accuracy in terms of explaining the variations are the evaluative criteria of the newly built theoretical framework.

Inevitably, the theory generation became embedded in the cross-case analysis. This analysis was conducted in two stages, the first within the two groups of cases (A and B, Chapters 6.3. and 6.4, and the separate file), and the second between them¹⁷⁶ (Chapter 6.5). The focus of this chapter (Chapter 6.) is on defining the elements included¹⁷⁷ in the developed theory, and on the relations between them. Both cross-case analyses are in line with the ultimate aim: to tighten the theory in such a way that it is useful, parsimonious and modifiable. On the one hand, the cross-case analysis facilitated a more conceptual definition of the theoretical elements (cf. Glaser and Strauss 1967, Strauss and Corbin 1990, Edwards 1998, Miller and Fredericks 1999). On the other hand, comparing it with both the pre-understanding presented in Chapter 3 and a broader set of management literature¹⁷⁸ could further tighten the substantive theory (Goulding 1998). This also means the evaluation of the theoretical arguments (3.3.1-3.3.5) in the light of the data-analysis results. It should be remembered that these reflections on earlier conceptual and empirical findings essentially intervened in the development of the substantive theory. For example, the core category of maintaining organisational momentum (see the forthcoming section 7.2.2) emerged as the basic social process of FME in the cases (cf. Strauss and Corbin 1990). However, this could not be accepted only by directly acting on the data analysis without seeking reference in previous research findings. All of the results obtained from the comparisons are presented in the discussion chapter (Chapter 7).

¹⁷⁶ Everything that was achieved within the groups is compared.

¹⁷⁷ I arrived at higher- and lower-level categories, their properties and dimensions through the coding procedure offered by grounded-theory methodology (The separate file contains information of the procedure and it is available on request). Particular mechanisms and positive and negative feedback loops became understandable within the actual context. The GT analysis steps were explained and described in Chapter 4.4.

¹⁷⁸ The broader literature review (Organizational change and decision-making, competitive selection and inter-organizational heterogeneity, resource-based views and entrepreneurial discovery), conducted in the search for the theoretical sensitivity that is essential to any grounded-theory analysis, facilitated this later reflection. Comparing these findings (i.e. the substantive theory) with others in a broader field of theoretical understanding should strengthen the conceptual relevance and widen the usability of the substantive theory developed here on the basis of the six cases. The broader review was conducted in parallel with the formal analysis. Thus, it was not possible to present it in advance.

6.2 The substantive theoretical framework created through data analysis

6.2.1 The lay-out of the substantive theoretical framework

In any case, I built this theory from the bottom up¹⁷⁹. There are proponents of the strategy, for the sake of readability, to briefly introduce the substantive theory first (e.g., Skelley 2000). I believe it will prove helpful to read first where the journey will end. Figure 18 below represents the main elements of the theory achieved on the basis of the grounded-theory analysis.

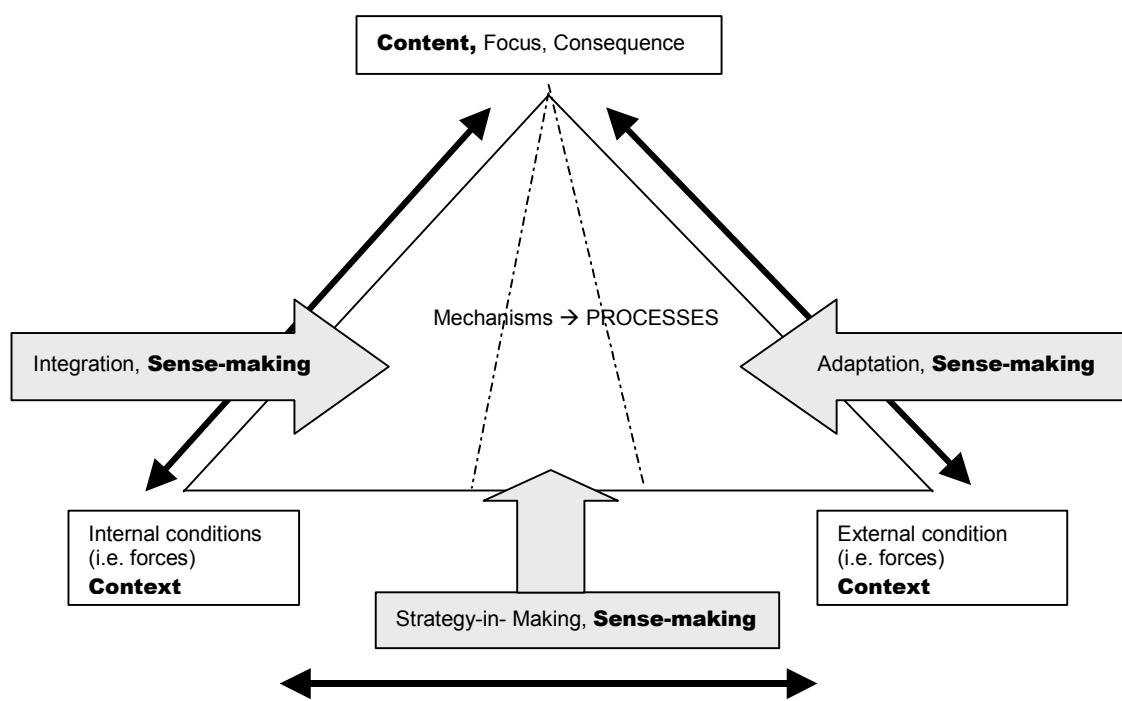


Figure 18 The theoretical framework generated from the comparative longitudinal case study by applying grounded-theory and contextual analysis¹⁸⁰.

These main elements of the substantive theory, rather than the details of the theory-development steps (cf. 4.4.3), are given here. They chart, from a teleological-process perspective and from that a mechanism means in this study (cf. Figure 12), how the case bridgehead relationships operated and

¹⁷⁹ Explanations of how I arrived at the higher abstraction levels are given in Chapter 4.4. The case descriptions, in considerable density, are given to help the reader to draw his or her own conclusions in the fifth chapter. Nevertheless, it should be borne in mind that the case descriptions themselves (Chapter 5) are already partial results, i.e., represent the first level of abstraction.

¹⁸⁰ The black arrows on each side of the triangle reflect the basic social process that I will discuss in section 7.2.2.

expanded on the Visegrád markets during the nineties. This in turn will bring me closer to the answers of the research questions.

As I discussed in section 4.4.3, Pettigrew's (1990) meta-theoretical framework, did not contradict with the GT analysis, rather it facilitated the conceptual development. This framework is a meta-theoretical one. Thus, it should be seen as a research programme and not as the theory itself that this study develops.

6.2.2 The influencing forces in the theoretical framework

In accordance with the assumptions inherent in the meta-theoretical framework, I accepted that what I would 'observe' would be the changes in all the elements built up during the processes. In this study, the right-hand corner of the triangle (Figure 18) signifies the environment, with respect to the conditions in the business environment that are relevant to the operating companies. In other words, the right-hand corner of Figure 18 represents the **external forces**. The analysed bridgehead relationships operated on the Visegrád markets. These markets are transition economies, and at the same time also considered emerging markets. In accordance with my understanding that foreign-market expansion was part of the overall growth strategy of the companies (3.3.5), the extended domestic business environment (i.e. the Nordic countries) had to be taken into consideration, too. The example below shows how one Finnish manager described the forces in the company's business environment during the early 1990's.

"When the network has been built up, it's there. In Finland, just a year ago our networks were ready. There was a meeting, about a year ago, when it was said that the networks were more or less ready in our country. After the Second World War, the state supported the building. But then there are places and periods for building up new lines. This period is just now in the CEE countries, because they are renewing everything.... We're building systems to last for decades." BF97/01

In section 3.3.2, I discuss the determinants of internationalisation according to the literature. Together, the domestic and the new host environments created forces in which customers and competitors created the most important external forces for the profit-oriented companies in this study. Adaptation processes (see later) were required from the case operations.

The left-hand corner of the triangle (Figure 18) represents **internal forces**. The category refers broadly to the bases on which a company defines its

results (Drucker 1999). In this respect, the internal conditions include the people (i.e. leaders, executive managers and workers) in the organisation. What sort of structure does the organisation apply in order to make and implement decisions, given that the goal is to create wealth? In this sense, the bridgehead relationships had to be included in the internal forces. Thus, the analysis of the internal forces was not restricted to the Finnish companies A and B. Their counterparts in the Visegrád markets added significantly to the competencies in that they carried on the business as executives and workers. Thus, they became part of the organisation, i.e. added to the structure. Indeed, another key force here was the companies' competencies, as defined by product/production quality, capacity and processes - both production and sales/marketing.

"This is our strategy to sell to companies who need more than one /of the product/...who need the same type of /product/ several times." AF97/10

"Design and manufacture are here in Finland. Usually, local staff does the installation for us. The customers give us old manuals or basic instructions; they show us the logo they are considering. We do the technical design, maybe also the visual design and the production."
AF97/11

I identified eight properties, four in each group of dyads from the internal context and another four in each group of dyads from the external context. Although the identified forces are not identical in the two groups of cases, they are introduced in sections 6.3.1 and 6.4.1 (details of the identification process are in the separate file).

From here on, the top corner of the triangle signifies the content, in other words **the focus** of the actual operations. What are the companies' objectives in relation to the businesses they are in? During the nineties, for the cases in question, it was about organisational growth by implementing their business concept in a new market (i.e., foreign-market expansion for which I gave the definition in section 3.1). There were related focuses, such as achieving economies of scale, a reputation in customers' eyes, and learning (i.e. the creation of relevant new knowledge). Once the focus of the case relationships was seen as content, it logically followed that the consequences - both deliberate and emergent - should be evaluated in the light of these focuses (*cf. Figure 12*). Feedback loops were introduced within this category. Altogether, four properties were identified in Company A's cases, and five in Company B's, as the actual content was evaluated. In the later analysis sections (6.3.3

and 6.4.3), I discuss the focuses of cases A and B, and elaborate on the feedback and the applied mechanisms.

6.2.3 The processes in the theoretical framework

The research questions in this research project; how did the Finnish companies expand their business, how did the case companies develop their strategies and what was the role of bridgehead relationships referred mainly to searching for processes. Three large sense-making processes emerged from the data, which were evaluated important in answering the research questions, and thus, filled the body of the framework (Figure 18). By definition, sense making is the process of giving meaning to perceptions (cf. Weick 1983, Gioia and Chittipeddi 1991). It also refers to the capacity for the effective application of the power of the mind, as a basis for action or response. It implies the consistent ability to judge and to decide in a prudent and intelligent way. Given the teleological perspective underlying this investigation, it seemed appropriate to use the sense-making concept. I connected the responses to the three corner elements of the framework (Figure 18), and was thus able to group them into three sense-making processes. Since there were enough properties for these three processes in the data, their place in the conceptual framework could be fixed.

All in all, the case bridgehead relations operated in a spirit of correspondence and harmony (i.e. making sense) between the internal and external contexts and their focuses. The body of the triangle, i.e. the processes, signifies what did the case dyads to achieve temporary or more permanent correspondence and harmony between their objectives and internal and external conditions on the Visegrád markets, during the ten-year period.

The smallest units in the theory building are thus the mechanisms (Figure 12). Examples of mechanisms in the cases analysed here include partner selection, communicating market information, applying for external financial resources, recruiting a workforce and rewarding individual performance. The choice and combination of mechanisms, and the way in which they were applied, were unique to each case (within groups A and B). Thus, some of the sub-properties and dimensions were different (cf. separate file). However, the data analysis revealed significant similarities between the selected cases on the higher abstraction levels. In fact, these similarities could be conceptualised within the three sense-making processes on the basis of matching properties across the cases. Understandably, that was a theoretical consequence of the case selection (section 4.4.2).

The first sense-making process was **integration**, which means forming, co-ordinating or blending 'things' into a functioning or unified whole. In this study, integration refers to the ongoing process of striving for harmony between the company focus and the internal conditions it creates (Figure 18). When something is integrated into something else, the two together possess a unique quality. This integration process was visible from two main angles. First, the Finnish company with the partner company¹⁸¹ functioned as a unified whole, or incorporated the new local employees¹⁸² into the larger unit (i.e. the Finnish company). It is generally assumed that forces that are united act in concert. What it means to act in concert is illustrated in the following quotation.

"Today, our relationships with customers, more and more, are based on tender applications. These are not only for one country, but also for larger areas including several countries in Eastern Europe. We have good chances of winning these tenders, as does Company A. Then, the local customers in each country are used to having a monopoly. They are still key players, so it is important to Company A and to us." AH98/12

Integration also means ending segregation, and creating equal membership in the organisation. This refers more to the second angle, namely the new businesses in the new markets that were integrated into the old businesses. Equal membership, or the need to create it, was certainly dictated by the economic importance of the new businesses. Re-organisation of the internal structure, both in the Finnish headquarters and in the relationship dyads, thus prevailed.

"... Of course, I've been trying to co-operate with our colleagues in Finland, especially recently when there were some major organisational changes being implemented in our company. That's been the issue in the last couple of months. There were revolutionary changes in the company compared with earlier times. So, now is the time for us to be closer and to co-operate, so we can increase the efficiency of our activities."

AP98/11

¹⁸¹ Cases: Company A in Hungary, Company A in the Slovak Republic, Company B in the Czech market until 1999, partially also Company B in Poland and Hungary

¹⁸² Cases: Company A in Poland and the Czech Republic, and Company B in Poland and Hungary.

The second sense-making process was **adaptation**¹⁸³, which means adjustment to the environmental conditions (cf. Calof and Beamish 1995, Zettinig & Hansén 2002). It also has to do with the kind of modification that enables an organisation to be fit for existence under the conditions of its environment. Adaptation in this study means arriving at correspondence between the focus of the companies and the chosen environment (Figure 18). Indeed, the adaptation processes comprise the strategic and tactical behaviour of a firm in the face of environmental changes. Here, the moves of the potential customers and competitors, as well as the macro-level changes, required responses from the company. Furthermore, adaptation processes need adequate, and at the same time unique, mechanisms. Adequate processes require up-to-date, trustworthy market information in order to sustain relations with good customers and to fight competition. Adaptation to customers is evident in the following quotation. The actual bridgehead partner adapted to its customers on a specific point (i.e. warehousing at its own risk).

"Before the JV was established we already had the stock, because it was otherwise impossible to serve the customers. The customers are specific. They need the products very quickly. The product has to be in place in one week. They don't plan. They make instant decisions. This is a different country, really. There's no stock at Company B in Finland, so they started production after the orders came, but that was too late."

BP98/09

I called the third sense-making process **strategy-in-making**. This refers to all the mechanisms that are brought more directly into correspondence in the internal and external contexts (cf. Mintzberg 1994, Hamel 1996, Eisenhardt and Sull 2001). It refers to modification, in accordance with a pattern, example or set of principles (see the following quotation).

"I have always been in a simple system, having the majority in every country...In Hungary it was first fifty-fifty, and that was impossible, nobody took responsibility, so we then changed it to fifty-two, and now it's seventy-six. There must be real power on one side. Somebody has to take the responsibility." BF97/08¹⁸⁴

¹⁸³ In fact, it means adjusting the intensity or quality to environmental conditions, making things compatible that do not seem so in the first place. Making the organisation more fit may refer to a specific or a new use or situation. It also means bringing things into correspondence with one another.

¹⁸⁴ On the surface, what this quotation tells us is something about integration. However, the key issue here is the actual guiding rule applied from past routine to the new business. Thus, this is a good example of what I mean by strategy-in-making. In any case, most of the references to it seem at first

Strategy-in-making in this study refers to promoting close and exact correspondence or harmony between parts of processes, thus between the mechanisms. The following is an example of how certain mechanisms were actually not in correspondence (Case 3, 1998).

"It was not his fault, we didn't support him. He was travelling alone. Of course we gave him some office machines but that's not enough. He should have had somebody visiting the clients with him. In the end, our account manager closed his business. He saw that there were only expenses and no business, nothing to be earned." AF99/13¹⁸⁵

All in all, the result of the data analysis was to bring out the specific meanings of the three corner elements, based on the actual cases, and to illustrate how they were connected through the specific mechanisms (see Appendices 7 and 8). This showed how processes unfold. In other words, I was able to put forward suggestions as to how the mechanisms I found built up the larger processes, guided by the iteratively developing theoretical framework¹⁸⁶. Here, again, I am referring to the original research questions. These mechanisms say a lot about how companies A and B, together with their local partners, made sense out of their business concepts in order to create wealth and earn money - in the light of the ever-changing external and internal forces.

In the very description of the cases (Chapter 5), the aim was to let the main issues in each one emerge. However, by conducting further analysis I was able to offer coherent explanations with which I could ultimately proceed towards higher levels of abstraction. I believe that enough empirical data was analysed to put together the substantive theories of the two groups of cases (A and B), and then to go further by comparing them. It should be remembered that I reduced the data to small categories referred to as stimulus, response or organism. Now, in building up the theory, I need to find all the three in order to see the actual mechanisms clearly. Identifying the mechanisms and establishing the actual connections among them increased my capacity to develop the theory. As mentioned earlier, this does not mean that all of the

sight to say something about integration or adaptation. Indeed, the theory helps us to bring out the conceptual meaning.

¹⁸⁵ Similarly, the key issue here is resource allocation, which emerged as a core element of the strategy-in-making sense-making process

¹⁸⁶ One could understand the theorising process in terms of the methods applied (i.e. GT and the contextual mode) to be similar to how puzzles (i.e., games) are put together without exemplar. The broad picture is already visible, although some details are not in place yet.

mechanisms appear out of the raw data. Some of the missing ones could fall in place through deductive thinking (Strauss & Corbin 1990).

A discussion of the theorising process follows, based on the data from the three cases of Company A (section 6.3) and Company B (section 6.4). The text is in bold when it is a question of the core elements of the theory. The bold script thus refers to the main building blocks i.e. the main categories of the case-based theory, which are the external context, the content, the internal context and the three sense-making processes, integration, adaptation and strategy-in-making. The properties identified in each category define the category, and those properties are written in italic script.

6.3 Analysis of the cases of Company A

6.3.1 The list of the properties emerged

Company A's business idea since its establishment has been to produce illuminated outdoor identification signs for commercial premises. During the three decades of its existence, its business has become more focused, and it produces and sells the equipment to large customers in chain businesses. It gained a strong position in its domestic market. In the early nineties, however, the Nordic market (i.e., the domestic market, too) was saturated. By that time, Company A perceived and acted on new opportunities in the Visegrád countries, and by 1999, 30% of its turnover came from those markets. How the company achieved expansion in the Visegrád markets is the subject of the analysis in section 6.3. In accordance with the GT methodology applied, I extracted categories and their properties and dimensions, and reconstructed the mechanisms (cf. Figure 12). Concurrently, the emergent theoretical framework (Figure 18) helped me to understand the significance of these elements.

I extracted six main categories from the three Company A cases (Table 10), which were either processes or forces. I was able to differentiate between the six categories also, according to how this study defined a mechanism (cf. Figure 12) as that differentiation can be seen in the second row of the Table 10. The forces came from the organism, which was the extended organisation with its bridgehead relationships. They also came as stimuli from the external environment. Concurrently, the consequences of earlier actions and the objectives had to be evaluated together with the internal and external forces.

Table 10¹⁸⁷ The six categories from the three Company A case

1. Internal forces (CONTEXT) IC	SENSE-MAKING (PROCESSES)			5. External forces (CONTEXT) EC	6. Focus, Consequences (CONTENT) F
	2. Integration SMI	3. Strategy-in- making SMS	4. Adaptation SMA		
Organism part of mechanisms	Response part of mechanisms	Response part of mechanisms	Response part of mechanisms	Stimulus part of mechanisms	Stimulus and organism part of mechanisms

The Table 11 indicates the properties found to each category. I have organised the columns in both tables 10 and 11 as they best mirror the emergent theoretical framework. As Figure 18 visualise, I realised that the integration process is in closest relation with the internal forces, while the adaptation process with the external forces. Thus, it seemed sensible to put these categories side-by-side. Similar logic can explain why I have put the strategy-in-making process into the middle in the connected figure and tables (Figure 18 and Tables 10 and 11). The six categories were multilevel ones, as the identified attributes and characteristics (i.e. properties) illustrate, and this order is thus best suited to explaining the emerged theoretical framework. For me the most sympathetic order of discussing the properties of each category is that I discuss the **external forces** (Tables 10 and 11, column 5) first. For this category I could find four meaningful properties (coded EC-1, EC-2, EC-3 and EC-4). These properties behave mainly as a stimulus in terms of how mechanisms could be built up. The second category is **internal forces** (Table 11, column 1), in which I have understood four properties (IC-1, IC-2, IC-3 and IC-4) as the organism element of the mechanisms. The other three categories, which were built up as processes, were the responses; **integration, adaptation and strategy-in-making**. Mainly actions (i.e., on property and sub-property levels) defined the sense-making processes. The four properties of each process type are introduced in Table 11 (columns 2, 3 and 4) and I give their definitions in the next section. It seemed important from the point of reconstructing the mechanisms to discuss the content last. The category for the content is comprised all of the objectives and the consequences of the bridgehead relations in relation to their actions (cases 1, 2 and 3). The consequences could be seen as they were desired or realised. During the ten-year period, the bridgehead relations had several objectives that could be grouped into four. The parties had organisational growth (F-1) and related

¹⁸⁷ IC means Internal Conditions, SMI means Sense-making integration, SMS means Sense-making Strategy-in-making, SMA means Sense-making Adaptation, EC means External Conditions, F means focuses and consequences (i.e. the content). These abbreviations are also used in the presentation of the Company B cases (Chapter 6.3.) and the cross-case analysis (Chapter 6.4).

economic objectives (F-2). They were concerned about socio-political objective (F-3) in having the possibility to do business. At the same time, their idea was of possessing and using adequate information (F-4) in order to be competitive (see section 6.3.2 for more details). Altogether, these objectives referred to the content (Figure 18) into which feedback was incorporated and I named the category **focus** (column 6 in both Tables 10 and 11). The four properties (F-1, F-2, F-3 and F-4) in this category may have stimulus and organism features in terms of being part of a mechanism.

These six categories, comprising 24 properties altogether, facilitated the inclusion of all the necessary elements that meaningfully explain the foreign-market expansion in cases 1, 2 and 3. The 24 properties from the Company A cases (Table 11) may have had relevant sub-properties. The properties and sub-properties also had dimensions. I had to elaborate on all those in order to explain the differences that appeared among the three cases (cf. separate file). For example, rewarding the partner was a repeated action of Company A and that action was most prominently seen in case 1. This action could be considered within the **integration sense-making process** category and it belonged to the property of *establishing and developing a bridgehead relationship (SMI-2)*. I needed to search for the forces that induced the action. The forces jointly came from the internal organisation in conjunction with the desired consequences found within the **focus** category. Among these desired focuses, that counted the most were the business-growth expectations (F-2), i.e. relationship benefits in economic terms.

The six categories (EC, IC, SMI, SMA, SMS and F) constituted the main building blocks of the 'theory' (i.e. *a framework for analysing FME*, Figure 18) with their properties and dimensions. These properties and dimensions helped me to pinpoint the connection among the categories and enabled me to build the mechanisms and processes (section 6.3.2). Thus, I was able to explain FME and later, in Chapter 7, to compare my explanations with earlier research findings.

Table 11 The properties of the six categories extracted from the analyses of cases 1, 2 and 3 (i.e. Company A cases).

Internal forces IC	Integration SMI	Strategy-in-making SMS	Adaptation SMA	External forces EC	Focus, Consequences F
Properties IC/1-4	Properties SMI/1-4	Properties SMS/1-4	Properties SMA/1-4	Properties EC/1-4	Properties F/1-4
Leadership IC-1	Gaining initial experience SMI-1	Timing SMS-1	Gathering market information SMA-1	Progress of transition EC-1	Organisational growth F-1
Organisational culture IC-2	Establishing /developing bridgehead relationship SMI-2	Allocating resources SMS-2	Relating to customers SMA-2	Requirements of the customers EC-2	Expectations of Business growth F-2
Organisational structure IC-3	Changing structure SMI-3	Guiding by rules SMS-3	Fighting competition SMA-3	Competition Barriers EC-3	Implementing the business idea F-3
Competence (s) IC-4	Controlling SMI-4	Emergent strategy SMS-4	Positioning SMA-4	Cultural differences EC-4	Learning F-4

Note: The identification codes of these properties are used throughout Chapter 6.

Section 6.3.2 gives the definitions of the properties based on the analysed data. Section 6.3.3 contains an analysis of the mechanisms connected to the actual focuses¹⁸⁸ (cf. teleology) identified in Company A's cases. My solution of analysing the mechanisms is that I do it at the point at which the objectives and consequences were plugged in. The tables (in Appendix 8) are the central devices for extracting the mechanisms around the focuses of the A- and B-cases. All full mechanism, which I could identify, can be read line-by-line in the Tables¹⁸⁹ 1 and 6 of the Appendix 9. After analysing the A- and B-cases mechanisms (sections 6.3.3 and 6.4.3) I compare the two groups of cases based on those results (cross-case analysis, 6.5).

6.3.2 The definition of the properties

In accordance with the pursued grounded-theory approach, the elements on the lower abstraction level defined those on the higher level¹⁹⁰. Consequently, the following properties defined the A-case six categories.

¹⁸⁸ This category consists of objectives, consequences and feedback.

¹⁸⁹ The legend explaining the meaning of the symbols is in Appendix 7. These symbols are used consistently throughout the whole analysis.

¹⁹⁰ The definition of a category is given by properties of that category (cf. section 4.4.3)

I defined **external forces (EC)** in the three cases of Company A in terms of four properties, the *progress of transition* (EC-1), the *requirements of the customers* (EC-2), *competition barriers* (EC-3) and *cultural differences* (EC-4). These forces are largely out of the control of the three case bridgehead relationships. In terms of mechanisms, the four properties could be seen as stimuli.

The progress of transition (EC-1)

The first property refers to all of the macro-economic changes and developments that influenced the customers and the competitors, which in turn influenced the case bridgehead relationships. The ever-changing market structure was encompassed by macro-mechanisms such as privatisation, industrial restructuring, macro-economic stabilisation and bilateral and multilateral agreements with the host countries.

There was a need to consider the domestic business environment and not only the Visegrád markets. Given the understanding that foreign-market expansion was part of the overall growth strategy of Company A. The situation on the traditional market applies to the external forces, which also created the stimulus in conjunction with the growth desire and the competencies the Company had during the early nineties.

Customer requirements EC-2

The second property of the external forces incorporated the requirements the customers had of the bridgehead relationships. These could be defined in terms of marketing mix (4Ps). The buying behaviour of the customer (i.e. system buyer) was connected to the industry they were in. Customer concern about local or foreign suppliers was a relevant issue that was explained in terms of buying behaviour and marketing mix. The customers' requirements created the direct stimuli mainly leading to adaptation-type responses.

Competition barriers (EC-3)

This property concerned what type of competitors the case relationships faced and when. It was a question of what the competitors really did to win customers from the bridgehead relationships. Competition may have created barriers to the growth of the dyads in question. The significance of competition barriers from the bridgehead-relationship perspective was whether they created them or needed to break them down (cf. SMA-3 property later).

Cultural differences (EC-4)

This property included more general, societal, political and macro-economic differences between markets. However, with respect to the three

case operations, it referred to administrative routines that were consequent with the historical development of a country (i.e., Finland and the four Visegrád countries)¹⁹¹. There were differences in the bureaucratic systems in all of the host markets and that of the Finnish company got to use at home. To a certain extent corruption existed in all of the host markets. Although this was generally assumed in terms of administrative routines, this did not mean that it affected all of the cases in the same way.

I defined **internal forces (IC)** in terms of the following four properties: *leadership* (IC-1), *organisational culture* (IC-2), the *organisational structure* (IC-3) and *organisational competencies* (IC-4), all of which were within the control of the three case bridgehead relationships. In terms of mechanisms, the four properties could be seen as the organism. Through them it was easier to understand who the respondents to the forces of the external environment were and to explain what the organism (i.e. the dyads) was like. Regardless of the fact that the internal forces are the determinants of and determined by the actual focuses.

Leadership (IC-1)

This property referred to who directed the company's operations and how and who had the authority to make resource-allocation decisions. Leadership (IC-1) referred to the members of the extended organisation who drove the FME. The leaders had more latitude and discretion than other people within the organisation to make decisions, set strategic directions and influence the organisational culture (i.e. act as leaders). In this group of cases in the case of a sole decision maker, it was of outmost importance to understand the owner's individual characteristics, including his leadership style, behavioural patterns (e.g., entrepreneurial or managerial), skills and capabilities.

Organisational culture (IC-2)

This property referred to the blend of individual, company, industry and national culture of the organisational members. Notwithstanding, in the A-cases, the organisational culture seemed to be determined by the leader.

The property included how the companies evaluate their development trajectories. Company A realised the expansion more as an entrepreneurial process (cf. the tendency to maintain certain social standards). Organisational culture gave important explanations how joint interest and shared goals within

¹⁹¹ Another property in the internal-conditions category involves differences mainly on company and personal levels. The tendency to maintain certain social standards was more relevant at the company level (IC-2).

bridgehead relationships developed. What it took business culture to converge or diverge.

Organisational structure (IC-3)

In general, organisational structure refers to the differentiation and integration of work tasks. As an internal force, it refers to arrangements that have been in place for some time. However, the internal structure does not apply only as forces. There are changes in it over time. These changes are seen in another property.

Two types of structure were distinguished, the organisational and the organising. The first referred to the relationship between the functional departments and with the decision makers. In other words, this structure paved the way for channelling decisions from the top down, and supporting them from the bottom up.

The organising structure refers both to how businesses with external relationships are organised, and to how operations are organised within the company (e.g., operational modes, and the relation of the businesses to each other).

Competencies (IC-4)

This referred to product/production quality, capacity and competencies in relation to processes, e.g., production, sales/marketing and organising.

I defined the **integration-process category (SMI)** in the three cases of Company A in terms of four properties: *gaining initial experience* (SMI-1), *establishing/developing a bridgehead relationship* (SMI-2), *changing the structure* (SMI-3) and *controlling* (SMI-4). This complemented the definition given in the emergent theoretical framework (Chapter 6.2). The four properties explained how the bridgehead relationships acted (or non-acted) upon forming a unified whole and integrating the new businesses into the old ones. The properties helped to understand to what extent the case relationships strove for and achieved harmony between their interests and the internal conditions they had created. They mainly comprised actions and interactions and in terms of mechanisms, they thus incorporated responses.

Initial experience (SMI-1)

The point here was that Company A intended to rely on local experience in the three cases because of the unpredictability of customer willingness to buy and the perceived lack of time. It was clear that the company tried to gain time by buying fieldwork rather than doing it itself. Because the relationship dyads in question were pioneers in the markets, learning from direct competitors was

not possible. The initial experience gained determined the development of the bridgehead relationships and the overall FME processes for a long time.

Establishing and developing bridgehead relationship (SMI-2)

Indeed, these specific relationships were the tools used by Company A to implement its business ideas in the new markets. The sub-properties operational tasks, communication, conflict resolution, personal ties and rewards defined this property.

Changing structure (SMI-3)

The organisational structure as a force has been defined already (IC-3). The changes made in it created the new context. This property incorporated the changes made in the organising (e.g. operation modes) and organisational structures (division of work tasks, hierarchy of decision-making).

Control (SMI-4)

Control referred to resource-capital protection and the procurement of rare non-imitable assets and competencies, i.e. what, how and why of controlling FME in bridgehead relationships.

Four properties; *gathering and using market information* (SMA-1), *relating to customers* (SMA-2), *fighting competition* (SMA-3) and *positioning* (SMA-4) defined the **adaptation sense-making-process category (SMA)** in the three cases of Company A.

These four properties facilitated explanation of how the case companies made sense of the external forces in the light of their objectives (accordingly the category has its place in the emergent theoretical framework, Figure 18). The adaptation process could be considered necessary because the forces of the external environment were largely out of the control of the bridgehead relationships. A direct connection between the theoretical elements of adaptation and the external forces could be argued since the latter directly introduced actions that facilitated the earlier.

Gathering and using market information (SMA-1)

This property was defined in terms of the sources of information (e.g., transaction, up-front analysis) and the varied learning mechanisms the cases applied (i.e. listening to the locals, shifting experiences between markets, leaking knowledge and trial-error learning).

Relating to customers (SMA-2)

This property referred to all proactive and reactive responses to pre-assumed and real customer requirements, and to the types of customer relationships the bridgehead partners pursued and sustained. Accepting the Installation Company, which the Slovak customer chose was a reactive response of Company A. For proactive 'response' the increase of the size of the greenfield investment in Hungary can be seen as an example. Since that was based on Company A's expectation of having customers in Croatia, Romania and Ukraine in the near future.

Fighting competition (SMA-3)

This referred to how the bridgehead relationships exploited and sustained competitive advantage. It may or may not be obvious, but the more long-term relationships with customers Company A could establish, the better it succeeded in fighting the competition. In order to understand the full meaning of this property, one needs to be aware that the competitors did the same. They also wanted to attract business. The question was how long-term relationships with customers could be established and sustained. It was most significant about competition barriers (EC-3 defined before) from the bridgehead-partnership perspective was whether they created them or needed to break them down.

Positioning SMA-4

On one hand positioning had the meaning of being the sum of the three other adaptation properties. On the other hand, its real significance was apparent if it was considered together with the timing property. An example of such an inter-property alliance would be early entry itself, which is part of positioning. This property may incorporate reactive and proactive behaviours in terms of market presence, but only time will tell.

I defined the **strategy-in-making process (SMS)** in terms of four properties, *timing* (SMS-1), *allocating resources* (SMS-2), *guiding by rules* (SMS-3) and *emergent strategies* (SMS-4). Through them, it was possible to explain how the case companies strove to achieve close harmony and correspondence between the internal and external forces, and other patterns and principles. This is in accordance with the definition of the category in the emergent theoretical framework (Figure 18). This category and its properties also provided invaluable further explanations of FME and BR development processes. Briefly, the managers making decisions had time constraints (cf. SMS-1). Rational explanations of the decisions made and implemented were connected to resource-allocation issues (cf. SMS-2). The FME developed

according to pre-determined decisions (cf. SMS-3), and to less pre-determined ones (cf. SMS-4).

Timing SMS-1

Timing is a property that had to be included because it seemed to determine overall performance (i.e. success and/or non-success in each market).

It had its relevance in different forms. It qualified almost all actions, it was evidently part of the decisions-making process in that the question when decisions should be implemented always arose, and time itself was seen as a resource.

Allocating resources (SMS-2)

Resources (i.e. financial, human, customer, time and knowledge/information) referred to the means of doing business. In order to succeed in the business, the appropriate resources had to be in the right place at the right time, as the leader/owner perceived it.

Guiding with rules (SMS-3)

This property referred to pre-planned rules and decisions. In other words, once these rules and decisions had been implemented their justification was established. As far as the unit of analysis is concerned, the concept of guiding rules may capture the dynamics within the bridgehead relations better than corporate strategy, which would consider Company A alone. Like corporate strategy, these guiding rules similarly aimed at aligning the companies' strengths and weaknesses with their external opportunities and threats. They could be seen as an internally consistent set of goals and policies on the relationship level.

More details on the kinds of rules they were and how they changed over time are given in the context of the actual mechanisms in the Company A cases (cf. separate file).

Emerging strategy (SMS-4)

This property referred to new rules and decisions (formidable strategies) that are initiated by coincidences, and therefore could not be pre-planned. The process of justification was pursued after implementation. In this sense, the property of emergent strategies was an opposite of the property before (SMS-3).

The definitions of these properties were based on the data itself. Their real significance was apparent when they were considered together with the mechanisms of which they were a part. My aim in the next section to put these

final elements into each mechanism, and to introduce the results of my analysis of the full mechanisms (i.e. those in which all of the necessary elements were found) in respect of the three A cases.

6.3.3 The objectives and the mechanisms of the FMEs in the A-cases

6.3.3.1 The objectives with feedback to them

In order to see full mechanisms (i.e., stimulus - organism - response) I also had to elaborate on the desired, realised and non-realised objectives of the A-case bridgehead relationships, in relation to the business they were in during the nineties. The actions and the internal and external forces could not fully explain how any of the mechanisms unfold. Either way - achieved or not - these objectives could be seen as the content, as beginnings or ends of certain mechanisms. Hence, this category incorporated internal and external feedback. An example of internal feedback, which came from the organisation, is when the Vice President and the Polish managing director left the company in response to the decision of not investing significantly in Poland. An example of external feedback, also from case 2, is when the domestic customer suggested for Company A to enter Poland, since that action of the customer was based on the earlier satisfying businesses with the domestic partner (i.e., Company A). Company A focused (cf. **Focus category (F)**, column 6, Table 11) on growing and expanding on foreign markets (F-2) in order to create wealth and revenues (F-1) (cf. economic feedback). In order to sell its products it needed to implement its business idea on the new markets (cf. mainly socio-political feedback). These focuses turned into reality through the actions in the sense-making processes it and its local partners implemented. I also found objectives and feedback that were cognitive in nature, for example in relation of introducing more carefully control of the business partners since disappointment with the installation company in Slovakia (cf. case 3).

In terms consequences, it was most important to understand whether the partners were conscious or not in realising one. To this, I refer by differentiating between deliberate and emergent consequences. Nevertheless, once an objective (i.e. objective on sub-property level) had been achieved to some desired extent, new objectives were pursued. It was often clear that the case operations had several simultaneous objectives, which were interrelated. The main ones involved organisational¹⁹² and business growth expectations (i.e. economic objectives F-1 and F-2, see this section and Appendix 9, Table

¹⁹² Measures of organisational growth are seen as a sub-property involving both tangibles and intangibles.

2). However, without implementing and sustaining its business idea on a market and learning, the company could not realise those main objectives. I will now move on to defining the four properties to the focus category concerning the A-cases.

Organisational growth (F-1) and economic feedback

By definition, property F-1 referred to organisational growth in terms of wealth and revenue creation, which benefit people in the organisation. The beneficiaries were the owner, the executives and the workers. My focus category also included the dyad partners, i.e. I considered the benefits on their side, too. Organisational growth actively involved, or at least affected, the bridgehead partners. Organisational-growth objectives are connected to feedback from the external environment, e.g., book value, or price in the case of merger or acquisition. Tangible assets and resources primarily measure organisational growth. The desire to grow was a primary stimulus in every case operation. If organisational growth could not be predicted or realised, the bridgehead relationships had to make strategic or tactical changes, with or without mutual agreement.

Expectations of business growth (F-2) and economic feedback

Expectations (F-2) referred to direct and indirect measures of business growth in the markets in question. All in all, this property constituted the dynamic relation between efficiency and efficacy. The direct, i.e. quantitative measures, were for example, sales volume and increasing importance of each foreign market in terms of revenue creation to the total and/or domestic operation. In my opinion, the number of customers were better seen as indirect measure since the more customer relationships in a market did not automatically meant more growth (Hungarian vs. Polish market). The relationship and network benefits were not always directly measurable because they were complex, and complex objectives drove them. For example, relationship benefits were seen within the mechanism of task sharing and delegation in which the partner delivered its tasks by using its valuable market connection for the benefit of the extended organisation. These benefits were mainly economic, i.e. gaining revenues. If the tasks of the partner (cf. SMI-2) were satisfactorily fulfilled, i.e. revenues were gained, more tasks could be delegated. While economic results were achieved, more were demanded. Meanwhile, the partner became more and more integrated. However, the drivers were not only economic objectives (cf. F-1 and F-2), but also those concerning implementing the business idea (F-3) and learning (F-4) since valuable connections and information on the market were necessary, too.

Implementing the business idea (F-3) and socio-political feedback

Implementing the business idea (F-3) meant that the dyads had to establish their business concept on the new markets (e.g., opening sales-marketing subsidiaries or the Finnish company visited trade fairs with the potential partner in order to place their joint offer to potential customers). This was a precondition of operating within the same legal and institutional frameworks as local and other foreign companies did. Meanwhile, this property could be said to refer to reputation and legitimacy issues, which were relevant in creating long-term buyer-seller relationships. In terms of being established in the market the bridgehead relationships assisted the Finnish company in achieving positive socio-political feedback. This property included the external socio-political feedback. On the one hand, implementing the business idea could be seen as an antecedent of the realisation of economic objectives, but on the other hand, this was not a group of objectives at the time the new foreign business was initiated. For example, in the same way as the entry of a company needs to be accepted in the host environment, further moves need to be accepted. In other words, positive feedback of the environment has to be considered important. For example, when Company A moved production to the Hungarian market, the president of Hungary opened the new factory.

Learning focus (F-4) and cognitive feedback

The use of relevant information was a precondition for realising economic objectives. If new knowledge proved to be supportive in terms of the achievement of the organisations' economic objectives, it was incorporated and was manifested as competence. If it failed, new information from different sources was required. In this sense, there was a focus on learning (F-4). This is to show also how cognitive feedback worked. Internal cognitive feedback could come from the bridgehead partner or any member of the organisation. The local partner often transmitted external feedback (e.g. from customers) to the Finnish company. Thus, business relationships could bring cognitive benefits, too, in that they gave valuable new information to the case operations.

I will now present the results of my analysis of the identified mechanisms. In my view, the mechanisms were pivotal for the efficient analysis of the longitudinal data. Since the study was conducted from a teleological-process perspective and the analysis so far had identified four groups of objectives (properties of the focus category), these focus groups are my starting point now. *The longitudinal set up* in the study allowed me to see that objectives were not confined to the data, and this also applied to several actions and

conditions. Each mechanism could be evaluated according to how an objective within it was achieved.

For the 49 identified mechanisms in the A cases I calculated how many times any one incorporated several objectives and what those objectives were in terms of their being economic, socio-political or cognitive. I also made calculations concerning their¹⁹³ occurrences with other theoretical elements (i.e. the forces and the sense-making processes). Finally, I counted the occurrences of the three different signs¹⁹⁴ referred to linear, loop-type and very complex developments in each mechanism in order to see how linear or complex the mechanisms were. I carefully distinguished between positive and negative developments. All of the calculations were made with a view to introducing certain occurrences as a proportion of all of the mechanisms or all of the objectives identified. *Thus, I arrived at numerical results (percentages), some of which are presented in the following sections.* All of the calculations concerning the mechanisms of the A and B cases are given in Appendix 9. *Had the relations not been expressed in quantity, in the form of percentages, the two case groups would not have been comparable, since there was a significant difference in the number of mechanisms identified.*

However, since I analysed qualitative data according to the GT methodology (see Goulding 2002) these calculations should be evaluated accordingly. *The numbers should not be considered exact.* They may show the extent of the differences and probable tendencies. I also believe that, even with a very close replication of this study, the researcher would not arrive at exactly the same numbers. Nevertheless, I trust that in these and the following three cases (six cases altogether) the tendencies and differences, on the basis of which I made my calculations, are in a similar direction. In other words, these simple calculations produce meaningful results that could provide a basis for comparing the FME processes in the two groups. These calculations I made within the two groups of cases and do not make suggestions of statistical generalisation of the results beyond the analysed cases.

All in all, *these simple calculations*, rather than quotations from the managers¹⁹⁵, *I chose in order to increase the credibility of the claims that could be achieved in this qualitative research* (cf. Seale 1999, 120-139). This should be seen an acceptable choice in the light of the longitudinally collected

¹⁹³ Certain type of objectives

¹⁹⁴ A mechanism linearly developed as single stimulus released one definite action (response) with single objective driving that action. Both ends of such the mechanisms could be found in the data. The complex mechanisms are those in which a number of forces and objectives drive related actions. The less complex mechanisms are between the linear and the very complex ones but in both the complex and less complex mechanisms the developments are more loop or circular type. It is not so clear where these mechanisms start and end. The signs are introduced in Appendix 7.

¹⁹⁵ All interview extracts (quotations) are in the separate file, which is available on request.

data, the applied teleological-process perspective and the contextualist mode of analysis.

6.3.3.2 Occurrences of objectives in the A-case mechanisms¹⁹⁶

The search for mechanisms produced a flood of fully explored ones. These analysis only concerns those in which all of the theoretical elements can be understood (Appendix 9, Table 1). In other words, the mechanisms on which calculation is made here are those in which I could see the objectives (named as focuses, F), the internal and/or external conditions (EC and IC), and some responses (SM) all together. Fraction of mechanisms i.e., in which I failed to see all the theoretical elements, are not included in the analysis at present. This limitation may be corrected in follow-up studies¹⁹⁷ with the same cases.

I now turn to the results of the analysis of these full mechanisms. The number of mechanisms I identified in the A cases was 49, while there were 101 occurrences of some kind of objective (already grouped in the four focus properties) (Appendix 9, Table 2). In other words, at least half of the mechanisms included simultaneous focuses (Figure 19, diagram on the right-hand side). This supports my earlier arguments that FME expansion is a complex process that was embedded in the overall growth process of the cases.

This may also explain why I found it difficult afterwards to describe the process as one of linearly unfolding steps. The steps were taken in more than one direction. For example, one fifth of the mechanisms exhibited all four focuses (Figure 19, diagram on the right-hand side). An example is the entry any of the Visegrád markets. That was a step of positioning (in terms of adaptation sense-making) influenced by the perceived positive transitional changes in those markets. The primary objective was to sustain the company's growth and earn revenues (F-1 and F-2). The objective of implementing the business idea (F-3) could be seen in terms of the chosen timing (within strategy-in-making sense-making process) and the learning objective (F-4) in applying the guiding rule (also within strategy-in-making sense-making process) of searching for local intermediary.

About 60 percent of all mechanisms exhibited an economic focus (Figure 19, diagram on the left-hand side), and both types organisational and business growth often appeared together (Appendix 9, Table 2). In fact, the latter

¹⁹⁶ (Tables 1 and 2 in Appendix 9)

¹⁹⁷ An essential item on the future research agenda is to discuss the results of the study with the original respondents and to set up similar studies in which groups of researchers (or students) would be involved in the data analysis. I will return to this point in Chapter 8.2 in which I discuss potential research routes.

appeared alone in about 20 percent of the mechanisms (F-2): it is a fact that business growth is a frequent concern of managers in terms of how much the firm earns in certain markets.

No mechanisms were exclusively related to the organisational-growth objective (F-1). There maybe two reasons for this. First, organisational growth may have been achieved through sales growth in the A cases. Secondly, the extended organisation clearly saw the processes as entrepreneurial. The organisational-growth objective was seen together with the business growth objective and was highly visible because the A cases were lead by the entrepreneur/owner. In fact, Company A was a smaller medium-sized company, and the business concept was built around one product line turning out large pieces of equipment that the company had to sell to large customers in series (cf. tenders).

The socio-political (F-3) and learning (F-4) objectives were seen less frequently (about one-third) in all of the mechanisms than the economic ones (Figure 19, diagram on the left-hand side). More than half of the times they were evident in the mechanisms they had to be considered in relation to the main, economic objectives (Appendix 9, Table 2).

The socio-political objectives pursued in the A cases (F-3) were mainly connected to external feedback (from customers), and comprised one fifth of all objectives. This may reflect on the approach of Company A, that beyond the Nordic customers who Company A followed for example to Poland, it went for searching new customers. The more the customers accepted Company A's offers, the more sustainable the competitive advantages were. However, revenue creation was also determined by the expansiveness of the customer (cf. F-2 property, the number of customer cannot be seen as a direct measure for business growth). In addition, ownership changes (through acquisitions and mergers, for example) among customers were to be expected in the turbulent markets, and indeed happened many times. The A-case bridgehead relationships encouraged the new owners to renew orders and not to change supplier. Indeed, the economic objectives and the objective of implementing the business idea frequently occurred together (Appendix 9, Table 2). It seemed that the realisation of economic objectives required of pursuing socio-political objectives, too.

The participants in these FME processes admitted to a considerable knowledge gap in respect of the new business environment and of the partnerships. Company A was new on the Visegrád markets. It had international experience mainly in the Nordic/domestic market, where it also had some large multinational customers. The bridgehead partners were new in the business. The Visegrád environment changed rapidly for them, too (Chapter 5.2). The bridgehead relationship arrangements, which aimed also at

filling the gaps in knowledge concerning the business of either side may make it understandable why some of the internal feedback was cognitive in nature.

Nevertheless, the learning objectives (F-4) comprised about one fifth of all objectives (Figure 19, diagram on the left-hand side). The majority of objectives were economic. This may show to what extent was the cognitive aspect important. One may ask whether the FME in these cases could be understood as a learning process when learning was significantly less presented among the objectives. Or these foreign-market expansions are better explained by that the bridgehead relationships committed to each other and to the markets through which they could earn revenues. I believe, these foreign-market expansion processes (i.e., of the three A-cases) were based on economic-growth objectives (cf. Chapter 3.3.4).

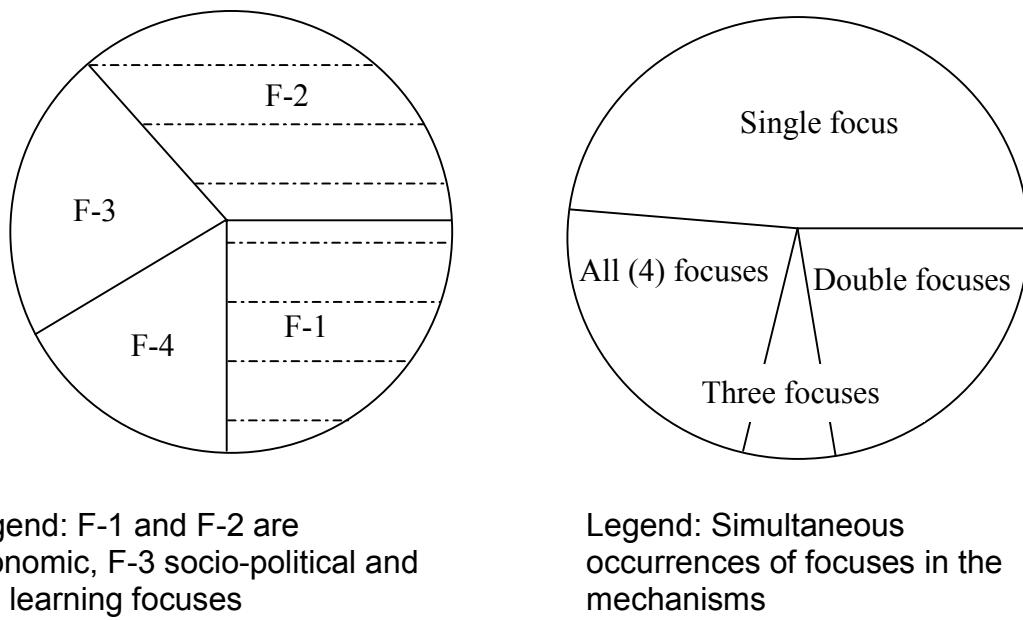


Figure 19 The occurrences of objectives in the ten-year FME of the A-cases

6.3.3.3 Occurrences of objectives with other properties in the A case mechanisms¹⁹⁸

I also calculated which objectives (i.e. focus properties) were in strongest relation with which other properties as a proportion of the occurrences of all of the objective (101) in the identified mechanisms (cf. Lincoln 1995). Out of all

¹⁹⁸ (Tables 1, 3 and 4 in Appendix 9)

properties the ones which defined one of the sense-making processes (i.e., categories) had the strongest connection to objectives. That may be easy to explain with that objectives are carried within actions. Thus, the objectives were more directly seen with the sense-making process properties than with internal and external forces.

Nevertheless, I identified economic objectives most connected with external forces (EC) in a few mechanisms (5%). These strong connections referred to the push effect of the domestic market in constellation with the pull effect of the Visegrád markets in the early nineties. The proportion of objectives; implementing the business idea and learning had very little connection to external forces in all focuses. The socio-political and learning objectives were in play in the actual sense-making processes. In contrast, the external stimuli released economic objectives more directly. This may be interpreted that in the cases of Company A the economic objectives came first.

The objectives that were proportionally strongly connected with the internal forces (28%) were those related to the *leadership of the owner entrepreneur* and to the *competencies of Company A*, later incorporating the bridgehead partners' competencies. How these connections appeared in the data? The partners in a business relationship dyad may accept objectives or there may be disagreement. Those, agreement and disagreement in objectives appeared in the mechanisms with a strong connection to internal forces of either side of the bridgehead dyads. Evidently, the bridgehead relationships primarily pursued economic objectives judging from the percentage incidence compared with other objectives associated with the internal forces (Appendix 9, Table 3).

What is more interesting, was how the objectives appeared in connection with the sense-making processes (cf. other properties). This, about 67% of all objectives (Appendix 9, Table 4), that occurred with properties of the sense-making processes, provided the 'flesh on the bones'; i.e. one could see the A-cases in the emergent theoretical framework. *This is to say that I was able to re-position the A-case FME processes in the emergent theoretical framework so as to illustrate how it works* (Figure 20, cf. Figure 18).

First, all of the mechanisms were relevant to the integration processes in which the objectives were in strongest relation to any of the four properties in the category. These mechanisms comprise the integration category, and thus the left-hand side of the theoretical framework (Figure 20).

Secondly, the mechanisms were also all relevant in explaining the adaptation process in which the objectives were in strongest relation to any of the four adaptation properties. These comprise the adaptation category, and thus the right-hand side of the theoretical framework (Figure 20).

Thirdly, all of the mechanisms were relevant in explaining the strategy-in-making sense-making processes in which the objectives were in the strongest

relation to any of the four properties in that category. These mechanisms fit in the very middle of the theoretical framework (Figure 20, cf. Figure 18).

The majority of the mechanisms in all three sense-making processes included economic objectives, most notably in terms of adaptation (32%). It is probably clear by now that the more customer relationships that were established, and the more orders that came from those customers, the more the business could grow as an organisation. The adaptation mechanisms showed the highest incidence of implementing the business idea (SMA with F-3, 10%)¹⁹⁹, which can be explained in terms the importance of customer feedback. Implementing the business idea also appeared among the mechanisms of integration in the sense-making process, which probably shows that the bridgehead relationships were the tool for attracting the attention of customers. Since, the bridgehead partners were seen internal part of the FME processes part of the implementation of the business idea (i.e., the socio-political objectives) were seen together with the integration sense-making processes. That I saw here is the local partner transmitted the feedback of the customers or the other actors on host markets to the expanding Finnish company.

The high proportion of economic objectives in terms of integration was quite understandable. Since it was exactly the idea in joining forces of the case companies (i.e. the bridgehead relationships) to secure revenues and sustain organisational and business growth for both sides of the partnership.

Company A and its partners in cases 1 and 2 agreed that they learned from each other and learned with the customer in the turbulent markets. This was apparent in the extent to which this objective appeared in both the adaptation and the integration sense-making processes (9% and 7%). However, the economic objectives compared to learning one were 3 and 2.5 times more visible in these two sense-making processes. Further, the learning objectives were barely visible in the strategy-in-making mechanisms. This may have been because of Company A's changes of plan were often ad hoc, and less preparation and analysis before decisions were made. In their strategies these cases focused almost exclusively on economic gains. Their aim was to operate where they sensed revenues, although they put relatively little effort into preparation.

¹⁹⁹ For example, the largest Hungarian customer kept the direct relationship with the bridgehead partner, rather than with Company A. In that situation socio-political objectives came into focus in that how Company could agree with that arrangement and secure this way the long-term relationship with that valuable customer. For another example, the objective of implementing the business idea played a role in the adaptation processes could be seen in Company A being consequent in focusing on large, serial offers to customers. Since the potential local competitors could supply only to smaller orders during the first half of the nineties.

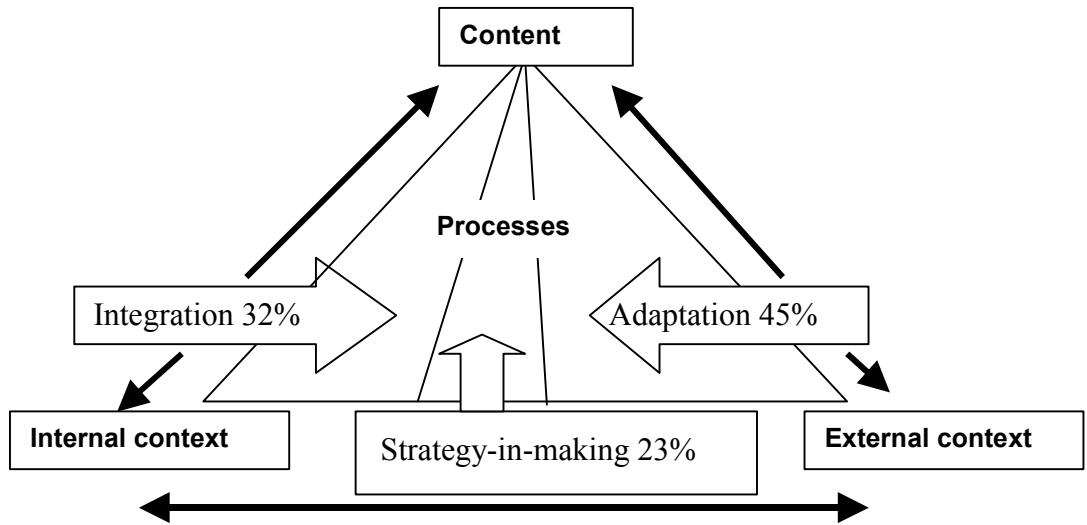


Figure 20 The A-cases in the theoretical framework

All in all, it is clear from the data that the customers formed long-term relationships with the A cases were treated with care. Company A and its partners seemed to favour achieving the desired objectives by adaptation (especially to customers) more than through integration and strategy-in-making sense-making processes. Technically the percentages, how the objectives appeared in connection with the three sense-making processes (cf. the properties of the sense-making processes) can be placed in the emergent theoretical framework (Figure 20) and they show quite well what the A cases had done in the previous ten years. These cases expanded on the Visegrád market with strategies applied to the adaptation. The role played by the bridgehead partner seemed to be significant exactly to that sense-making process. While strategy-in-making were less consistent in these cases the role of the bridgehead partner in that was also less.

I will later compare Figure 19 with a similar figure for the B cases. This will be very helpful in establishing how different (ultimately unique) the two sets of cases were.

6.3.3.4 Loop-type and linear developments in the A-case mechanisms²⁰⁰

Was the FME linear in the A cases or not (3.3.2 and 3.3.6)? Did risk taking or uncertainty avoidance underlie the process (3.3.3)? Could I prove that what the managers presented was an entrepreneurial process? Indeed, the next step was

²⁰⁰ (Table 5 in Appendix 9)

to make simple percentage calculations in order to determine what sort of process FME really is.

In order to answer these questions, I calculated with all the focus occurrences (101 in 49 full mechanisms). A mechanism linearly developed as single stimulus released one definite action (response) with single objective driving that action. Both ends of such the mechanisms could be found in the data. The complex mechanisms are those in which a number of forces and objectives drive related actions. The less complex mechanisms are between the linear and the very complex ones but in both the complex and less complex mechanisms the developments are more loop or circular type. It is not so clear where these mechanisms start and end. The relation between the elements appeared to be linear in the first group of mechanisms. There were others in which I could see the positive and the negative directions of the feedback loops, in respect of the actual objective(s) included in them. In those cases, I specifically counted the mechanisms that provoked negative feedback. My reason for counting the negative turns specifically was based on my assumption that, by clearly seeing the positive-negative loops, they may indicate the extent of risk taking, and ultimately how entrepreneurial the process was. Finally, I counted how many times the feedback loops to the objectives in the mechanisms could not give a definite direction of developments. These I considered the most complex mechanisms.

The results, the different types of connections²⁰¹ within mechanisms as a proportion of all objectives, are given in Appendix 9, Table 5. Of all of the focuses in all of the mechanisms, one-fifth had linear links to feedback or consequences. However, the majority of mechanisms, and the objectives they encompassed arrived to consequences in ways that are more complex. The actors could not determine the exact consequences in advance. Loops rather than lines better described these mechanisms. The 25% occurrence of complex feedback loops suggests that the process might not be so linear. I identified four types of objectives²⁰². There was no wonder that the respondents could not always speak in terms of linear development. They could not give the direction of the causes and effects (both retrospective and real-time data was analysed). In my opinion, the companies oriented the operations to the direction from which they received positive economic feedback.

More than half of the objectives could be related to either positive or negative outcome in mechanisms that featured loop-type developments. There are several explanations for these results. One may be that the market was indeed turbulent. With or without a good bridgehead relationship, there was no

²⁰¹ The legend explaining how these three types of relation were coded within each mechanism is given in Appendix 7.

²⁰² Two economic F-1 and F-2, one socio-political F-3, and one cognitive F-4.

control over other actors. (See also the low linearity percentage in mechanisms in which socio-political objectives were identified.) Another reason may be that it was indeed an entrepreneurial process, on all sides of the case partnerships, and the charismatic owner entrepreneur decided on everything.

I believe that the realised negative loops, which I counted specifically in the A cases, were the ones the operating company should have been able to avoid. However, when an entrepreneur pursues an objective and the result turns out to be negative, it may give the strongest indication (3.3.3) that the managers took a risk. If they had been able to forecast the negative result, they would not have gone down that path. Actually all of the mechanisms described as complex or assigned loop type causes and effects say more about risk taking than about uncertainty avoidance. These mechanisms persisted although the outcome was not known.

These results suggest that the FME process of the A cases was not linear. In my opinion, both the actual negative consequences (15%) and the complex mechanisms may suggest risk taking of the actors rather than uncertainty avoidance. Especially because of the earlier introduced simultaneously of objectives applied in the A-cases (Figure 19) and the result giving relatively high percentage of non-linear developments may support the idea that here the FME process were an entrepreneurial one.

I then analysed the B cases (Chapter 6.4) in order to find further helpful insights.

6.4 An analysis of the cases of Company-B

6.4.1 The list of the properties emerged

Company B belongs to a multi-business group of companies engaged in the manufacture and marketing of line-building materials for electricity distribution and transmission and for industrial applications. It is one of the manufacturing companies within the group, medium-sized in itself with a reasonable amount of freedom in terms of its business strategy. During Soviet times, the company did not consider Central Eastern European markets on which to operate. Since the early nineties, however, it has perceived and acted on the good sales opportunities that have arisen, especially in the Visegrád countries. By 1998, almost 50% of its turnover came from the transition region²⁰³ of Europe. How it expanded on the Visegrád markets is the focus of this analysis.

²⁰³ The Visegrád countries and the Baltic States were included in the statistical indicators. The region gained significance in terms of group turnover, as 15% was realised there by the turn of the

The six categories comprising 24 properties²⁰⁴ altogether explained the foreign-market expansion of cases 4, 5 and 6. By comparing them within these three B-cases I was able to establish the actual mechanisms and feedback loops, and to explain the similarities and differences. The analysis of the B-cases follows as closely as possible the analysis of the A-cases. This means that I give first the list of all properties found relevant in the B-cases. In this it is central the Table 12, which is to be seen parallel to the Table 11 of the A-cases. Next, I will give the definitions of the properties, which define the categories of the B-cases. Similar calculations I made on the mechanisms of the B cases (Appendix 9, Tables 7, 8, 9 and 10) than on the A-cases. The cross-case analysis will summarise all comparisons made between the two groups of cases.

First, as I did at the A-cases, I discuss the **external-forces** category (Table 12), in which I could find four meaningful properties. These properties mainly had a stimulus function in terms of how mechanisms could be built up. The second category was **internal forces** (see Table 12), comprising four properties that I took to be the organism within the mechanisms. The other three categories were the responses, thus they actually reflect certain processes. The three process categories, **integration, adaptation and strategy-in-making**, were grouped mainly around action-type (i.e. they included interaction and inaction) properties (Table 12).

While comparing the Tables 11 and 12, one of the differences in the list of properties can be seen immediately. Emergent strategy did not arise in the B-cases as a property in the strategy-in-making category. This of course, is relevant in terms of the differences between the A- and B-cases. There were 11 properties (Table 12) altogether in the three sense-making process categories in the B cases.

The last of the categories came from the stated objectives of cases 4, 5 and 6, which I named **focus** (Table 12). As in the A-cases, these properties referred to the content i.e., to the business the cases were engaged in during the nineties (Figure 18). The consequences could be considered in terms of certain focuses, and were more deliberate in nature. It was this that brought out the fifth property (see below).

millennium. As mentioned in Chapter 5.3, Company B was the 'flagship' company of the group in expanding towards the CEE.

²⁰⁴ The number of properties was similar in the A-cases. However, two differences emerged on the property level, and many lower-level differences could be seen throughout the analysis. This provided the basis of the cross-case analysis in Chapter 6.5.

Table 12²⁰⁵ The properties of the six categories extracted from the case-analysis (cases 4, 5, and 6, i.e. Company B cases)

1. Internal Forces IC	2. Integration SMI	2. Strategy making SMS	4. Adaptation SMA	5. External Forces EC	6. Focus, Consequences F
Properties IC/1-4	Properties SMI/1-4	Properties SMS/1-4	Properties SMA/1-4	Properties EC/1-4	Properties F/1-4
Leadership IC-1	Gaining initial Experience SMI-1	Timing SMS-1	Gathering market information SMA-1	Progress of transition EC-1	Organisational growth F-1
Organisational structure IC-3	Establishing/ developing bridgehead relation SMI-2	Allocating resources SMS-2	Relating to customer SMA-2	Requirements of customers EC-2	Expectations of Business growth F-2
Organisational culture IC-2	Changing structure SMI-3	Guiding by rules SMS-3	Fighting competition SMA-3	Competition barriers EC-3	Implement the business idea F-3
Competence IC-4	Controlling SMI-4		Positioning SMA-4	Cultural differences EC-4	Learning F-4
					Integrating locals F-5

Company B also focused on growing and expanding in foreign markets (F-2) in order to create wealth and generate revenue (F-1) (column 6 Table 12). Thus, it needed to implement its business idea (F-3) on the new markets, which required the extended organisation to learn new things (F-4). At the same time, the company decided to integrate the potential local intermediaries (F-5) institutionally²⁰⁶. This early integration of the bridgehead relations (i.e. intermediaries) through ownership was another way in which the B cases differed from the three A cases. This is to point out the second difference immediately seen in comparing the Tables 11 and 12.

Company B's somewhat different focuses also turned into reality through the strategies and mechanisms it implemented, which the extended organisation (i.e., the bridgehead relationships) applied²⁰⁷.

²⁰⁵ IC means Internal Conditions, SMI means Sense-making integration, SMS means Sense-making Strategy-in-making, SMA means Sense-making Adaptation, EC means External Conditions, F means focuses and consequences (i.e., the content) These abbreviations were also used when the Company-A cases (Chapter 6.3.) and the cross-case analysis (Chapter 6.5) is presented.

²⁰⁶ In these three cases, institutional integration means the control exerted on those partners by ownership.

²⁰⁷ Company B could have ended up with one bridgehead partner in each country, even if the form of operation was that of a majority-owned joint venture in Hungary or subsidiary in Poland and the Czech Republic (cf. section 3.1).

In terms of mechanisms, the properties in the focus category could be seen both as stimuli or the organism. This is because these objectives referred to the content into which feedback was incorporated. The constituent elements could be seen as starts or ends which may suggest reciprocal but also circular developments. The categories were similar to the ones identified in the A cases. Interesting differences appeared only on the lower levels, and gave substance to the cross-case analysis (Chapter 6.5). These differences were most visible in how mechanisms discussed in section 6.4.3 unfolded (the sections 6.3.3 and 6.4.3 should be comparable).

The ultimate point of analysing the B cases was to gain further insight into FME and bridgehead-relationship developments. I gave definitions for all of the properties concerning the FME of the B cases²⁰⁸ in section 6.4.2. These I believe are going to be supportive in establishing what sort of sub-properties and dimensions comprised the very similar properties of the A- and B-cases, and to what extent the theory emerged in the fit of the two sets of analyses. My aim was to find out whether similar mechanisms and feedback loops were in play in both sets of cases.

6.4.2 The definition of the properties

Each property that defined the six categories of the B cases is briefly described here, with some added comments where appropriate.

The **external-force category (EC)** had the same properties as defined in the A-cases. These included *progress of transition* (EC-1), *customer requirements* (EC-2), *competition barriers* (EC-3) and *cultural differences* (EC-4). Only in lower levels (i.e., sub-properties or dimensions of these four properties) could differences be identified, which were reflected in the differences of the A- and B-cases' mechanisms.

Progress of transition (EC-1)

This referred to all of the macro-economic changes and developments that influenced the customers and the competitors, which in turn influenced the case bridgehead relationships. The similar macro-mechanisms on the host markets as in the A-cases, as well as consideration of the domestic business environment are incorporated in this property.

²⁰⁸ In order to achieve coherence, I had to present the analysis of the B cases as I did with the A-cases, and I have followed the same principles. The text follows the columns (Table 12) in the order 5, 1, 2, 4, 3 and 6. The order of the properties may change within the categories. Any changes are discussed in the appropriate sections.

Customer requirements (EC-2)

The second property of the external forces incorporated the requirements the customers had of the bridgehead relationships. This could be defined in terms of marketing mix (4Ps). It also included the buying behaviour of the customer (i.e., system buyer) and concerns about local or foreign suppliers.

The customers' requirements created stimuli, which in the B-cases could lead to both adaptation and integration-type responses.

Competition barriers (EC-3)

This concerned the influence of the actors on the markets who competed for similar customers. This situation creates barriers to the growth of the dyads in question. The creation or break down of competition barriers is important questions to the later property of fighting competition SMA-3 (cf. similar properties at the A-cases).

Cultural differences (EC-4)

This incorporated the administrative routines developed as a result of the historical development of a country (cf. similar property at the A-cases). Bureaucracy on the macro and business levels, corruption and language differences were essential aspects of this property, too. The influence of language differences on structural changes was more openly discussed at the B-cases.

The four main forces (i.e., the properties) incorporated into the **internal-condition category (IC)** were similar to those in the Company-A cases (cf. Tables 11 and 12). However, some sub-properties and dimensions were new or different, which added enrichment. These are also discussed when the mechanisms are compared.

Leadership (IC-1)

This property referred to who leads the bridgehead relationship's operations and how. Who had the authority, and to what extent, to make resource-allocation decisions? The leaders more than other people had the latitude and discretion within the organisation to make decisions, set strategic directions and influence the organisational culture (i.e. act as leaders). The appointed management group, rather than the owner(s), engaged in this type of leadership at Company B. The property was one of the key elements in the cross-case analysis of the case-groups A and B. Entrepreneurial and managerial behaviour fall towards different ends of the same continuum. This could explain how dimensions of other properties behaved in comparison of the two groups of cases.

Organisational culture (IC-2)

This concerned how the partners (individuals/companies) in the B-cases bridgehead relationships evaluated their development trajectories. This was influenced by the corporate values of the whole Group. As the property before may suggest Company B realised the expansions more as a strategic-management process. That is to say something about the tendency to maintain certain social standard.

Organisational structure property (IC-3)

In general, organisational structure refers to the differentiation and integration of work tasks. However, there are changes in it occur over time. These changes, as were in the A-cases, are seen in another property. As an internal force, it refers to arrangements that have been in place for some time.

Two types of structure were distinguished, the organisational and the organising (cf. the similar property at the A-cases). These are to do with how decisions are channelled between the top decision makers (management group in the B-cases) and the executives implementing them. Since, for the management group, the means of enforcing the organisational culture were more clearly embedded in the enforced structure, the order of these two properties could be changed (IC-2 and IC-3, concerning the B cases).

Competencies (IC-4)

As in the A-cases, this referred to product/production quality, capacity and competencies in relation to processes, e.g., production, sales/marketing and organising.

The **integration-process category (SMI)** in the three Company-B cases could be defined in terms of the same four properties as in the A cases: *gaining initial experience (SMI-1)*, *establishing/developing bridgehead relationships (SMI-2)*, *changing the structure (SMI-3)* and *controlling (SMI-4)*.

Gaining initial experience (SMI-1)

Since the Company B built its new businesses on the basis of past experience, the initial experiences on the new markets could not be seen as determining the FME process for long. Thus, this property referred to early local experience in complementing Company B's past experiences.

Establishing and developing bridgehead relationships (SMI-2)

As in the A-cases, these relationships were a revenue-generating tool²⁰⁹ (F-2) in the new markets. The sub-properties comprised operational tasks, communication, conflict resolution, personal ties and rewards, but there were clear differences in dimensions and in how the mechanisms unfolded in the two sets of cases.

Changing organisational structure (SMI-3)

As in the A cases, an established structure was seen as a permanent internal force. Concerning the B-cases, too, changes in that force occurred during the ten-year period in question. When companies make structural changes, they create a new context, which is defined by the changes. This property incorporated the changes made in the organising and organisational structures (cf. IC-3). Since Company B had a strong focus on integrating the new businesses (see F-5 later), the structural changes were given high priority during the ten-year operation. They appeared to be the means of enforcing leadership, implementing a common corporate culture and more effectively gaining from competencies.

Controlling (SMI-4)

Company B strongly controlled the market processes, its assets and competencies. This property also incorporated, the how and why of controlling FME in the actual bridgehead relationships.

The **adaptation-process category (SMA)** in the three Company-B cases comprised four properties; *gathering and using market information* (SMA-1), *relating to customers* (SMA-2), *fighting competition* (SMA-3) and *positioning* (SMA-4).

Gathering and using market information (SMA-1)

This was defined in terms of the sources of information (mainly up-front analysis) and by the varied learning mechanisms the cases applied. Company B relied on its past experience and on the cumulative experiences of the group. That is rather than listening to the locals and shifting experiences between markets. Hence, there were important differences from the A-cases in both the sources and the mechanisms of information gathering.

²⁰⁹ In the words of the managers, the bridgehead partners were the arms of Company B or the children of Company B.

Relating to customers (SMA-2)

This referred to all of the proactive and reactive responses to pre-assumed and real customer requirements. The difference from the A-cases was that Company B always had a direct relationship with its customers. This strategy, as brought in the new markets, can be considered as proactive. The product promotion to potential Slovak customers that was arranged together with promotion to the more active Czech customer could be considered also as proactively relating to customers. For reactive response, the building of after-sales network and warehousing in Poland (case 5) may be considered. It was also important to see that the responses to customers' requirements may come from either side of the relationship or jointly.

Fighting competition (SMA-3)

This referred to how the bridgehead relationships exploited and sustained competitive advantage while the competitors tried to do the same. The more long-term relationships with customers Company B could establish, the better it succeeded in creating barriers against competitors. This I also understood in terms of creating and breaking down those barriers. The property was further clarified in terms of the complex mechanisms of defending market share by competing with additional services and on prices.

Positioning (SMA-4)

As in the A-cases, positioning could be considered the sum total of the responses incorporated in the other three adaptation properties. The inter-property alliance with timing (argued also at the A-cases) was relevant in the B-cases too. Especially by understanding, that in the B-cases pre-empting competitors was even more decisive in the Visegrád countries during the nineties.

Three properties explained the **strategy-in-making process (SMS)** in the Company-B cases: *timing* (SMS-1), *allocating resources* (SMS-2), and *guiding with rules* (SMS-3). The property of emergent strategies (SMS-4 found in the A-cases) could not be identified.

Timing (SMS-1)

The justification for including timing as a property was the same as in the A-cases. Timing seemed to determine overall performance. Thus, its place was in the strategy-in-making category. It seemed to have relevance in forms of qualifying almost all actions, it was evidently part of the decisions-making process and time itself was seen as a resource.

Resource allocation (SMS-2)

Resources referred to the means of doing business (i.e. financial, human, customer, time and knowledge/information). Allocation meant that the appropriate resources had to be in the right place at the right time, according to the perception of the management group.

Guiding by rules (SMS-3)

This property incorporated the pre-planned rules and decisions involved in running FME. In the Company B cases, these rules and decisions were connected to the set of goals and policies that aligned the group's strengths and weaknesses with the external opportunities and threats. Thus, the property strongly relates to the corporate strategy of the Group. In terms of the unit of analysis (i.e., bridgehead relationships), it was promising to elaborate on the actual guiding rules rather than on the corporate strategy of the Group. Nevertheless, it has to be noted that the rules were quite strict, well established and relatively abundant in terms of the new operations. In all situations, the rules and decisions that preceded implementation had to be justified. The justification was based on Company B's managerial know-how and/or past-experience and routines. There was no emergent strategy observable in the same sense as in the A-cases (cf. forthcoming cross-case analysis).

The above properties, which were defined on the basis of the data itself, were sufficient to explain how the B cases achieved their objectives (i.e. the properties defined the focus category). I will discuss these objectives and the analysis results concerning the mechanisms in the following section.

6.4.3 FME objectives and mechanisms in the B cases

6.4.3.1 The objectives with feedback to them

The last of the categories comprised the objectives together with consequences and feedback to them throughout the FME of the B case bridgehead relationships (cases 4, 5 and 6). First, I will define this category with its properties, as in the A-cases, and then I will continue with the analysis of the mechanisms.

Organisational growth (F-1)and economic feedback

As in the A-cases, I made a distinction between organisational growth (F-1) and business growth (F-2). This is to see *organisational growth in terms of wealth and revenue creation, which benefit people in the organisation*. Organisational-growth objectives are connected to feedback from the external

environment, e.g., book value, or price in the case of merger or acquisition. Organisational growth was evaluated on the group level in the B cases.

Expectations of business growth (F-2) and economic feedback

The property (F-2) referred to direct and indirect measures of business growth in the markets in question. All in all, this property constituted the dynamic relation between efficiency and efficacy. Indeed, this property definition resembled that in the A-cases (F-2). However, the measure for evaluating the operations on each new market was rather based on the economic gains. Intangibles did not come to surface, or they were not easily separable from the tangibles (e.g. sales volume, profit).

Implementing the business idea on the potential market (F-3) and socio-political feedback

This property was included for the same reasons as in the A-cases. Implementing the business idea (F-3) meant that the dyads had to establish their business concept on the new markets. This was a precondition of operating within the same legal and institutional frameworks as local and other foreign companies did. Thus, this property could be said to refer to reputation and legitimacy, which were to be sustained too, in order to create and sustain long-term buyer-seller relationships. In the B-cases, too, the property incorporates the socio-political feedback that came from the external environment.

Learning (F-4) and cognitive feedback

Cognitive objectives were not easy to extract from the B cases. The company trusted that its own experiences were valid (and they were), thus it did not seem in need of new knowledge. Its focus in terms of learning was on building on past experiences and complementing the group's cumulative knowledge with local knowledge. It transferred its knowledge to the new markets in a controlled manner. Nevertheless, feedback that was cognitive in nature came from both, internal and external sources.

Integration of the locals (F-5) and socio-political feedback

The objective of institutionally integrating the local partners was the main ingredient of this property. This was specific to the B cases and was a deliberate objective from the time of entry into the region²¹⁰. The integration focus was always there, based on past experience. Economic growth (F-2) was conditional in terms of how strongly was this objective pursued. It

²¹⁰ This was not the case when Company A entered the Visegrád markets

incorporates the socio-political feedback came from the extended organisation (i.e., internal environment). The objective of integrating the partner could not always be automatically realised. That situation explained how the integration sense-making process was implemented.

These 24 properties (i.e., processes and forces) gave a reasonable understanding of the ten-year expansion process of the B-cases. There were differences between the two groups of cases, but at first glance the six categories look identical to those found in the cases of Company A (Tables 11 (A) and 12 (B)). The six categories (also supported by the meta-theoretical framework cf. Pettigrew, 1990) had relevance for both groups of cases. This is not surprising bearing in mind the case selection (described in Chapter 4). I identified different sub-properties and dimensions to the properties, which could explain why the actual combinations of mechanisms were in some degree different in the cases. Concerning the B-cases, one property had to be added to the focus category, and the property of emergent strategies disappeared from the strategy-in-making category. Most of the other properties required some modification in definition, which were mentioned at the definitions that I gave for the B cases properties. *Since the differences were found on lower level, they could not justify a new category to be incorporated.*

Next, I present the results of the analysis of the mechanisms extracted from the B cases (Appendix 9, Tables 6-10). I used the same analytical techniques than in the A-cases. All of the calculations were made with a view to introducing certain occurrences as a proportion of all of the mechanisms or all of the objectives identified. I calculated how many times any one mechanism incorporated several objectives and what those objectives were in terms of their being economic, socio-political or cognitive. I calculated also the occurrences of objectives with other theoretical elements (i.e., the forces and the sense-making processes). I made the similar calculation based on the signs referred to linear, loop-type and very complex developments in each mechanism in order to arrive to conclusions concerning the linearity vs. complexity of the FME in the B-cases. The positive and negative developments were also considered. The same limitations applied as in the A-cases. The percentage numbers may show the extent of the differences and probable tendencies, but *these numbers should not be considered exact*. I trust that based on the results of these simple calculations I can compare the FME processes in the two groups meaningfully. Again, these calculations I made within the two groups of cases and do not make suggestions of statistical generalisation of the results beyond the analysed cases.

6.4.3.2 The occurrences of objectives in the B-case mechanisms²¹¹

I analysed the 39 whole mechanisms identified in the B cases (Appendix 9, Table 6), as I did with the A-case mechanisms. There were 60 references to objectives. 60 objectives, in other words they featured in 35% of the mechanisms simultaneously. This also supports my argument that FME is a complex process and it is embedded in the overall growth process of the companies in question. More than half of all of the objectives was economic, and almost all the economic objectives were related to business growth (Figure 21, diagram on the left-hand side).

Specifically, in the B cases *organisational growth* applied to the whole group, i.e., the interests of the shareholders and owners. Because the unit of analysis was the bridgehead relationships of Company B, the focus on organisational growth was less apparent. The business growth objectives were even more prominent than in the A-cases. This could be understood so that sales growth was a major aspect of organisational growth.

The socio-political objectives were the implementation of the business idea and the integration of the local partner as defined above. Concurrently, the two groups of objectives incorporated socio-political feedback, which I differentiated according to its origin, the external environment (property F-3, in Table 12) and the internal organisation (property F-5, in Table 12)²¹². The two had about equal share (20% each) among all objectives identified (Figure 21, diagram on the left-hand side). This, of course, implies the importance of realising these objectives.

In terms of external socio-political objectives and feedback, economies of scale (sub-property to F-2) were achieved because Company B sold systems and even part of the systems complemented by other companies in the group. A favourable network affect was built up in each market with the help of the bridgehead partners. Company B did not facilitate sales between the country markets. Since the name of the group was established (F-3, the whole group) on one of the markets, customers might well have been interested in the products of the entire group, which would tie in with its objectives. Once the customers had decided to buy the system, a positive cycle for the whole group was set in motion, while the market operations were independent from each other. This could be seen in the deliberate promotion of the products, which was also instigated (with F-3 focus) quite independently in each market. Product promotion, as series of action, was incorporated into the *initial*

²¹¹ (Tables 6 and 7 in Appendix 9)

²¹² In the A-cases I could not identify the property of F-5, in contrast in those cases the objective of learning (property F-4) was more apparent. I will further elaborate on the relation between these two objectives.

experience property (SMI-1). This, in the B-cases, formed a link between *customer demand* (EC-2) and *bridgehead-relationship development* (SMI-2).

However, independent the expansions on the Visegrád markets were, these successful expansion indirectly supported the position of Company B, and the group, in other European countries including mid-European EU-countries. Thus, reputation seemed to be relevant (F-3), as in the A-cases.

Economic and socio-political objectives together show (Appendix 9, Table 7) that there is more to business than economic gains. As far as the external socio-political and economic focuses were concerned, almost 20% of the identified mechanisms concerned pre-empting the competitor. As network benefits were discussed above, once the customer had started to buy, i.e. the buyer-seller relationship has been established, he or she was most unlikely to change supplier.

Internal socio-political and economic focuses together accounted around 15% of the identified mechanisms (Appendix 9, Table 7). This was also to be expected. The Finnish company did not want to work with independent agents. Even in the slowly developing case 6, it controlled its potential partner strongly in terms of independent action²¹³. Potential integration was never out of focus. Company B had over 40 years experience in the industry on which basis it claimed that the integration of the local partner is the requirement of the customers. In reality, the economic objectives conditioned the internal socio-political objectives, which concerned the integration of the local partners. Once sales had started and reasonable volumes and revenues were reported in the books, Company B integrated the local partner.

All in all, business growth was the prime focus in all cases of Company B (Figure 21, diagram on the left-hand side), although the implementation of the business idea and the integration of locals were also considered essential. Both types of socio-political objectives seemed to give relevant properties to the focus category.

In view of the high stakes involved, one may assume that the gathered information on the customers would be valid for a relatively long time. The situations of change in customer base, in the industry in which Company B operates, is not entirely unpredictable in developed or emerging markets. This also explains why there was so little reference to cognitive objectives and feedback (Figure 21, diagram on the left-hand side F-4 3.3%, cf. Appendix 9, Table 7). Company B did not appear to acknowledge the need for new knowledge. Other than the reasons mentioned above, this was probably because it was sure that it had enough experience (especially in integrating local partners), and it probably counted on the cumulative experience of the

²¹³ Note that Company B tried more alternatives in terms of potential local partner in the beginning, and let them compete for a stronger relationship (SMI-1).

group. Consequently, there was a deliberate rotation of people within the group, which consciously protected that accumulating knowledge base while it made structural changes. During the nineties, it probably had enough information to operate on any European market (East or West). One cannot say that it did not learn, but the majority of the learning happened before the nineties, or remains to be learned. Company B learned a lot before the ten years analysed in this study, and what it is currently learning on the Visegrád markets may be relevant in the future when it gears its economic objectives towards other emerging markets.

The main point concerning this part of the analysis of the mechanisms of the B-cases is similar that was in the A-cases. The B-cases' FME and the bridgehead relationships applied to the FME was driven by economic rather than cognitive objectives (3.3.4).

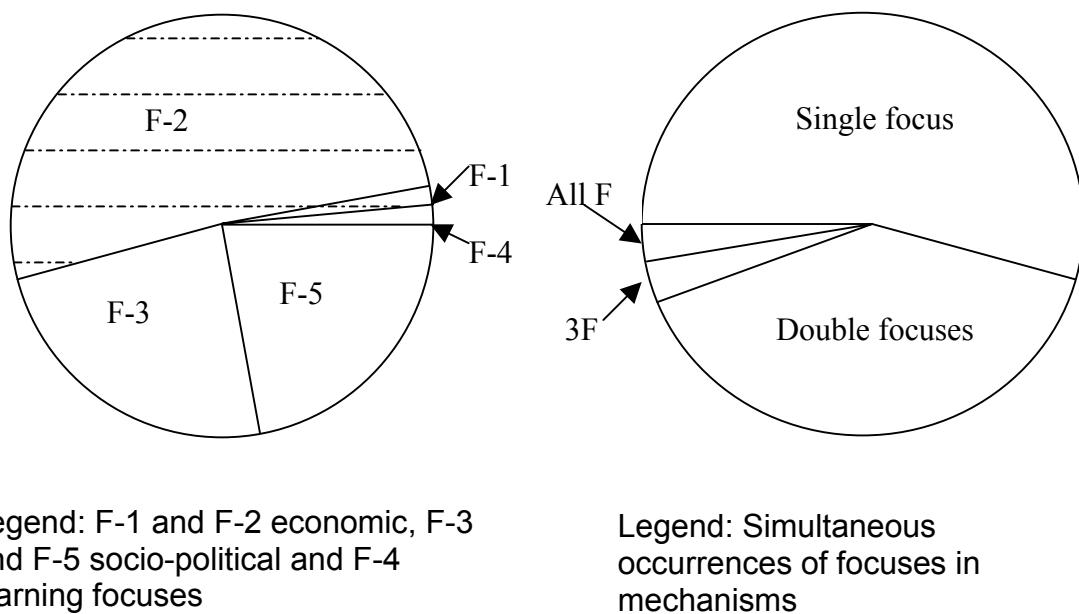


Figure 21 All occurrences of objectives in the ten-year FME of the B-cases

As the right-hand side of Figure 21 shows the objectives appeared mainly alone or in pairs. They were in pairs as the business growth objectives found with either internal or external socio-political objectives (Appendix 9, Table 7). The strong representation of the two socio-political objectives (Figure 21, F-3 and F-5 in the diagram on the left-hand side) may suggest that for the B-cases without social-political acceptance, inside or outside, potential economic gains were less likely.

The differences that the Figure 21 of the B-cases shows in comparison to the Figure 19 of the A-cases will be discussed in the cross-case analysis.

6.4.3.3 The occurrence of objectives with the other properties in the B-case mechanisms²¹⁴

As with the A cases, I counted the focus occurrences as they appeared with the other properties, and made my own judgement in terms of which property an objective connected most strongly with in a certain mechanism. This calculation enabled me to put the B cases 'back' into the emergent theoretical framework (cf. Figure 18).

The occurrence of economic objectives strongly with external forces referred to the situation in the early nineties namely the saturation of the domestic market and the pull effect of the Visegrád market (cf. A-cases in section 6.3.3.3). Of course, the external forces were seen in the mechanisms in other times, too. However, at those times, I judged a stronger relation between an actual sense-making process property and the objectives.

The occurrence of economic objectives strongly with internal forces was almost non-existent. I could not associate economic objectives stronger and more direct with internal forces than I could with actions. That was probably because the respondents revealed their actions²¹⁵ rather than the conditions (i.e. I saw more of the sense-making process and less directly the internal forces). The other explanation may be that important internal forces were more group-related, not so directly seen to the objectives of the bridgehead relationships.

The most interesting was how the five focuses appeared in connection with the processual properties that comprised the theoretical framework. All of the mechanisms were relevant to the integration processes in which the objectives were in the strongest relation to any of the four properties of the integration category. These mechanisms comprise the integration category, and thus the left-hand side of the theoretical framework (Figure 22, cf. Figure 18). I made similar judgements concerning the two other process categories (see also the corresponding section in the A-case analysis).

An economic focus was prevalent in all three sense-making processes. In terms of integration, this referred to a joint focus, meaning that Company B persuaded the partner that their economic objectives coincided. In terms of adaptation, economic objectives were around 25%. This is probably understandable given that Company B knew the customers quite well before

²¹⁴ (Tables 8 and 9 in Appendix 9)

²¹⁵ In the B-cases strategic planning and analysis were prevalent. In advance of implementing justification of decisions were in place.

starting to do business with them. It was more certain that they would buy its product if, and probably only if, it offered it early enough (i.e. before the competitors). Despite the relatively low percentage, the significance is clear²¹⁶. It is also clear that that the strategy-in-making was driven by economic objectives.

The high percentage of socio-political objectives suggested a clear focus on acquiring local partners in terms of integration processes. The company integrated the new business very consciously in terms of partner selection (SMI-1) and its changing structures (SMI-3). Even more, than in the A-cases, Company B regarded the bridgehead relationships as market-expansion tools. This socio-political focus also influenced the strategy making. The socio-political objectives in the adaptation processes were more to do with external acceptance on those markets (e.g., customers, the macro-environment). As mentioned above Company B gave the highest priority to economic objectives, and a relatively high priority to its socio-political objectives on account of integrating fully the local partners. The fact that the learning objectives had a very low importance has also been mentioned.

In answering the original research questions with the help of the emergent theoretical framework (Figure 22), it could be concluded that the B-case bridgehead relationships made sense of the FMEs on the Visegrád markets by concentrating on integration processes (cf. objectives with integration close to 45%). The managers of Company B were occupied by making strategic plans, which was evident from the data. In connection, there were references to FME as step-wise process. That is why the relation of objectives to the strategy-in-making processes was reasonably prevalent (30%). The company knew its customers, and did not need to search for them. This may explain why the objectives were relatively less related to the adaptation processes (26%).

²¹⁶ Without a customer who buys there is no business. The clear strategic objective of pre-empting the competitor is there, otherwise competitors would have done it.

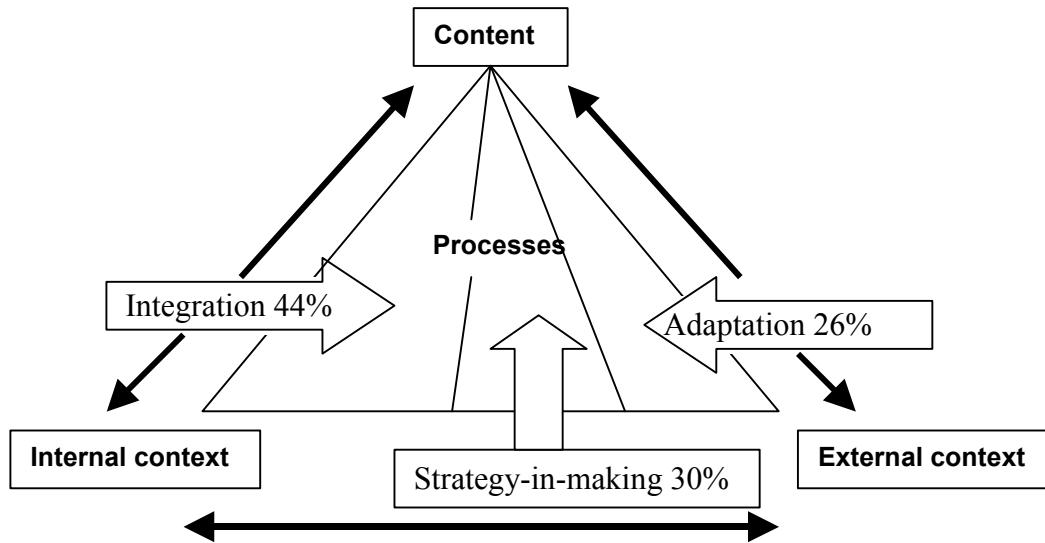


Figure 22 The B cases in the theoretical framework

The role of the bridgehead relationships were in facilitating market expansion of Company B. This role, Company B wanted to ensure by integrating the partner. This is why it seems that the objectives were connected more to the integration than the adaptation sense-making process.

These findings are discussed further and compared to the A-cases Figure 20, in section 6.5.

6.4.3.4 Loop-type and linear developments in the B- case mechanisms²¹⁷

Similarly as in the A-cases analysis, the next calculation aimed at understanding how linear or non-linear the FME process of the B-cases were (Appendix 9, Table 10). I calculated with all the focus occurrences (60) in 39 full mechanisms. The first group of mechanisms was in which the relation between feedback and response appeared to be linear. The second group was in which I could see the positive and the negative directions between objectives and feedback but the connections were more loops than linearly developing ones. In these cases, I specifically counted the mechanisms that provoked negative feedback. Finally, I counted how many times the feedback loops to the objectives in the mechanisms could not give a definite direction of developments²¹⁸. These I considered the most complex mechanisms. Similar questions than in the A cases (cf. 6.3.3.4) underlined these calculations in order to be able to arrive to conclusions based on comparing the analysis of

²¹⁷ (Table 10 in Appendix 9)

²¹⁸ There was more than one action with multiple objectives.

the two groups of cases. Thus, what is the significance of the high percentage of socio-political focuses, especially concerning complex and less complex feedback loops? How linear was the FME (3.3.2 and 3.3.6)? Did risk taking or uncertainty avoidance underlie the process (3.3.3)? My reason for counting the negative turns specifically was based on my assumption that, together the negative and the very complex development in the mechanisms may indicate the extent of risk taking. Could I prove that the B-cases pursued FME more as a strategic management process than entrepreneurial one?

The socio-political objectives within the linear mechanisms reflected Company B's significant experience of integration and entering markets in which mapping the customers was relatively easy and routine. The linearity could have referred to the strength of control in the partnerships. The complex mechanisms associated with socio-political objectives could have been connected with the turbulence of the market (F-3) and to some lengthier partner-selection process.

The overall picture of the Company-B cases was also one of complex mechanisms: around 70 percent of all objectives involved them. This, nevertheless, indicates that there were more linear mechanisms than in the A cases. It could be pointed out however, that the balance between very complex, less complex and linear mechanisms seemed to be relatively even (Each had a share of 30-40% in reference to all identified objectives, Appendix 9, Table 10). I assume that the non-linear mechanisms incorporated risk taking in these cases, too. Also the negative loops appeared in all occurrences of the objectives (8%). Further conclusions I have drawn from Table 10 (Appendix 9) only by comparing it to the corresponding A cases (6.5.4).

This result may support of seeing the B-case FMEs as a strategic management process. The linearity in mechanisms with economic objectives referred to the straightforward relation between sales growth and business growth²¹⁹. Company B, being a member of a larger group of companies and led by an appointed management group, probably took fewer risks and had a wider perspective. At the same time, it expanded step-by-step on each market, controlled its relationship partners rather strongly and knew its customers in advance.

I will now move on the cross-case analysis, which compares the results obtained by analysing the mechanisms of the A- and B-cases (Appendix 10).

²¹⁹ The more complex connection within the mechanisms with economic objectives may have reflected the turbulence of the market.

6.5 Cross-case Analysis

6.5.1 Aim and structure

The main aim of the cross-case analysis was to compare how the two case groups fitted into the emergent theoretical framework. It is not meant to suggest which of the groups performed better, or that one should act like the other. The question was whether the framework explains the FME of both case-groups rather than predicts it. These sections follow the same structure as the A- and B-case analyses (Sections 6.3.3.2 and 6.4.3.2 onward, cf. Appendix 10).

In the spirit of the bottom-up approach, some mechanisms were revealed during the interviews, or in the combined accounts of all the counterparts. Not all of the mechanisms were mentioned. Those that remained hidden are not lost forever, of course, since it is always possible to return to the sources to find the missing elements. As far as this research report was concerned²²⁰, however, it was not a question of going back to the field again, but rather one of coming up with conceptual meanings, putting together what was revealed and adding to it what could be speculated about whenever there was enough evidence in the empirical material.

6.5.2 The occurrence of objectives²²¹

Around 60 percent of the objectives in the A-cases were economic, and 19 percent were cognitive. The respective figures for the B cases were 55% and around three percent. The differences between the A and B groups in terms of learning (cognitive) objectives were pointed out and fully discussed in the case analysis (6.3.2 and 6.4.2). In summarising these four figures, they are connected to sales, acquisitions and mergers as essential revenue-creating processes. A company may need to learn, but that may not be the main driving force behind the FME process. Further, learning and gathering relevant information are not necessarily associated with business aims and do not necessarily coincide with the business operations. Inter-organisational relationships may be connected with achieving economic objectives rather than knowledge creation. The companies formed relationships in order to cut costs and gain resources, with the objective of increasing their profits. I will return to the significance of this result in Chapter 7 in the context of my challenge to the Nordic School on these grounds.

²²⁰ In contrast to the research project as a whole (cf. the final paragraphs of 4.4.3 and 8.2)

²²¹ Cf. Appendix 10.

Business growth objectives were even more prominent in the B cases, and sales growth in particular was a major aspect of growth on the Visegrád markets. As for not seeing so directly organisational growth objectives in the B-cases the explanation may be that *organisational growth* applied to the whole group, i.e., the interests of the shareholders and owners. Because the unit of analysis was the bridgehead relationships of Company B, the focus on organisational growth was less apparent. That is to understand that organisations grow by creating profit, but profit is not necessarily shown in the organisation that created it. Company B earned money and grew in business terms, while the group as an organisation grew. Company A directly turned its business growth into organisational growth. The difference between a medium-sized entrepreneurial organisation and a medium-sized managerial company can be seen in that how organisational growth objective were more easily seen in the A- than in the B-cases. Since Company B was embedded in a larger group of companies, the organisational growth objective did not surface in the data, whereas for Company A, the entrepreneur/owner's desire to lead its company to grow was evident.

Given the findings on economic versus socio-political (F-3 and F-5) focuses, in the two groups of cases, the Nordic School with its network approach may be on right track. That is to consider socio-political issues relevant for a company expanding in foreign market. However, socio-political explanations of the FME in the two groups of cases were not enough. The numbers may show why socio-political explanations alone for the FME processes in question could not be justified. That is to be seen in the respective proportion of economic and socio-political objectives of all objectives were 60 and 21 percent in the A-cases and 52 and 42% in the B cases. I cannot deny that socio-political considerations are relevant (trust, commitment and atmosphere, to name some of the concepts that are highly interesting for network researchers). They are necessary but not sufficient, and again, the focus seemed to be on economic issues, which were necessary to understand for giving the full picture of FME in the cases, in question. However, there seemed to be a clear difference in how socio-political objectives were related to economic objectives in the two groups. The reason for the significantly higher percentage of socio-political objectives in the B cases was to do with strong focus on integrating the bridgehead partners, as discussed in 6.4.2.2. Furthermore, socio-political considerations carried more weight in Company B, which had a large organisation behind it and was led by a group of managers who were responsible to the stakeholders. There was a clear emphasis on internal socio-political issues. The emphasis in the A-cases was on external socio-political objectives. This probably adds to the differentiation in terms of entrepreneurial and managerial FME processes between the two

case-groups. These results are consistent with that difference seen in how Company A's group gave more weight on adaptation and the B-group on integration sense-making processes (cf. next section).

The mechanisms with multiple focuses were more apparent in group A (52%) than in group B (35%). The FME mechanisms in the A-cases focused on all types of objectives (economic, socio-political and cognitive) at once, while those in the B cases did not. The more simultaneously pursued focuses may characterise growth processes of an entrepreneurial organisation rather than a managerial one. Company B may be seen more as a managerial company probably because it had sharpened its objectives and competencies in integrating its local partners, while it knew its customers better.

Over 50 percent of all objectives in both cases were economic. This could indicate what was the real driving force in the analysed operations. Undoubtedly, other objectives were pursued and feedback received, too, and not by chance. Indeed, in my view, at certain points, the decisive elements are connected to socio-political and probably also to cognitive issues. These often appeared in the mechanisms with the economic objectives, which drive the complex embedded FME.

6.5.3 The occurrence of objectives with other properties²²²

I turn now to the sense-making processes and their connection to the objectives and feedback in the mechanisms. My comparison is based on the information in Figures 20 and 22 tells to us (cf. the emergent theoretical framework (Figure 18) and Tables 4 and 9 in Appendix 9).

The differences between the two groups of cases in terms of achieving objectives through integration or adaptation mechanisms seemed quite significant and that of strategy-in-making featured more in the B than the A cases. The A-cases applied integration mechanisms with strong economic objectives (17%) and there was some concern about socio-political (7%) and learning (7%) issues. However, *adaptation processes were more prevalent in terms of their economic, socio-political and knowledge objectives (A-cases)*. These cases pursued significantly little strategy-in-making in order to realise objectives. *The B-case objectives appeared mostly in integration (44%), followed by strategy-in-making and adaptation as already indicated in section 6.4.3.3 All of the sense-making processes included socio-political objectives, (e.g., most of the integration processes), but very few cognitive ones.*

²²² Cf. Appendix 10.

Some explanation of these differences I gave at the analysis of each group of cases (sections 6.3.3.3 and 6.4.3.3). Here I comment on how the emergent theoretical framework fits to the analysed cases. Indeed, without the emergent framework, these findings could not be extracted. On the other hand, the numerical results show that the elements are in the right place and *the framework helps to understand the FME deeper in both case groups* (cf. 24 properties in each case group). In other words, the six categories (defined according to their properties and their places in the framework) should help to explain how the analysed cases expanded in the Visegrád markets during the nineties. *The emergent theoretical framework enabled me to compare meaningfully the two case groups.* As Figures 20 and 22 show, the A cases focused 28% less on sense-making integration than the B cases. As discussed above, Company B had an established strategy, which it applied almost routinely, for integrating its local partners. The cases focused less on adaptation than the A-cases probably because it was more clear who the customers were and how the competition could be pre-empted. The A-cases focused less on strategy-in-making than the B cases, possibly due to the entrepreneurial²²³ versus managerial leadership, and to the above-mentioned established strategies (routines) of Company B.

6.5.4 Loop-type and linear developments²²⁴

Most of my conclusions from comparing Tables 5 and 10 in Appendix 9 are speculative. I believe that I have identified enough mechanisms in the two groups of FME process. However, the extracted mechanisms could have been further scrutinised in terms of how linear and complex they are. At this point, it seems that the FME processes of the A and B cases were not linear, since I was able to identify linear mechanisms only to the extent of 20% in the A cases and 30% in the B cases.

Linearity meant straightforward connection between stimulus - organism - and response. In these cases, it was quite easy to see where the mechanism starts and ends. This linearity probably correlates with changes in operation mode. If this is the case, the differences between the two groups in terms of linear development could be explained in terms of the evident differences in how they changed entry mode. The B cases had clearer strategic considerations in terms of partner selection, and partner integration was strictly conditional on economic feedback.

²²³ Cf. the characteristics of the owner/entrepreneur in section 5.2.

²²⁴ Cf. Appendix 10.

As I see it, the FME processes included very complex loop-type developments in both cases (26% in the A-cases and 38% in the B cases). These mechanisms were the ones with simultaneous focuses with actions relating to more than one sense-making process and the end of these mechanisms were not easily identified. The rest of mechanisms could be described with less complex loops. These to be seen between the linear and the complex mechanisms.

Given the loop-type objectives and feedback occurrences (complex and less complex but not linear), I believe these being evidences of risk taking (3.3.3) in both case groups. Except for Company B socio-political objectives, which of those were found in linearly developing mechanisms mostly. The linearity in respect of socio-political objectives in the mechanisms referred to the internal rather than the external. Again, I would connect this to the power of Company B in integrating the local partner.

The less complex loops may have resulted into vicious or victorious circles. Whenever there was no clear-cut outcome forecast, the companies still took risks, and still looked for opportunities. The difference may be explained by the fact that Company B might have had better forecasting ability, or because the managers planned and analysed more carefully before making decisions. This may be supported by the results concerning negative feedback loops, which were two times more in the A- than in the B-cases (15% and 8% respectively, in reference to all objectives occurred).

The complex-loop type of development may suggest that the companies were inclined to pursue multiple momentum in a positive direction. If that were the case, the higher incidence in Company B (Table 10 in Appendix 9) raises the question why that might be so. The company may have understood its momentum better, or followed it more consciously. Being able to identify and pursue multiple momentum may be explained with its more extensive experience of internationalisation, considering the whole group, too. This may apply to the ten years I have been analysing the operations of the two groups specifically on the Visegrád markets, but there is no saying what the situation will be in five years. In addition, in view of the fact that the customers were different it could be said that the market was more unpredictable for the Company-A cases. Thus, positive momentum could be seen less clearly. I speculate that the score on complex feedback loops may be even higher if the company consciously focused on multiple positive momentum, and lower if it was not aware of its momentum.

If I only consider the linear development, I would understand less than half of the FME process pursued by the cases in question. Furthermore, there is probably an optimal balance for each and every company to deal with very complex, less complex and indeed linear development.

To conclude the data analysis, I would like mention two issues relevant to the acceptance of the theoretical framework developed in relation to the data analysis presented here (see more in section 7.4).

First, from a qualitative perspective, this study was set up for the comparison of processes from which I was able to extract relevant information by calculating the occurrences of certain elements. This enabled me to create nominal and ordinal scales (Appendices 8 and 9), which in turn allowed me to derive explanations and make conclusions. Building on this type of data, interval or absolute scale, which would involve further mathematical equations, is not possible. There is probably not even a need at this stage of the theory development.

Secondly, I point out the potential errors concerning the analysis made on the extracted mechanisms. On the one hand, I may not have seen certain loops in sufficiently simple terms. Thus, I described them in too complex a manner. On the other hand, I may not have seen the real complexity, and have perceived a simple loop when it was actually complex. All these descriptions are, however, documented (cf. separate file). Furthermore, the errors I might have made in rebuilding and evaluating the mechanisms are not many and those anyhow may neutralise each other. Their negative effect may not destroy the acceptability of the emergent framework. Nevertheless, I am inclined to say that everything I have extrapolated from this analysis is tentative and it is not yet the final result could be derived with the GT methodology from the original data.

At this point, the results may encourage questions of the following kind. What if things go really the way the analysis at present suggests, rather than other way? Whether the novel theoretical framework offers for us a relevant alternative to understand foreign-market expansion in newly-emerging markets? These questions are also considered in the next chapter in which I interpret the results of this analysis in the light of previous knowledge, my theoretical starting point and methodological choice. I give the full answers to the three original research questions after these interpretations, in section 8.1.

7 INTERPRETATION OF THE RESULTS

7.1 Assessment to extensive discussion

There was a need to turn from the static analysis of existing diversity among firms to a dynamic, process-oriented explanation of the evolution of diversity. The problem then shifted from a cross-sectional to a longitudinal one (Porter 1991). Although clinical process-oriented studies could identify additional variables and enrich understanding of their complex interactions, studies that directly explore the causes and mechanisms that shape the process of internationalisation are rare (Pettigrew 1990, 1997).

First, as promised in chapter 3.4 I will relate the findings of the analysis to discussions in related fields. The focus is on identifying and supporting the basic social process that has emerged in the study (7.2.2), and on reconstructing the case stories with the help of the newly-developed theoretical framework (7.2.3). Secondly, I will go back to the arguments put forward in section 3.3. Rationality of choice among competing theories (cf. Chapter 3) guided me to put aside the subsequent theoretical works. I chose the grounded-theory approach to develop a novel theoretical framework with which the question of how FME unfold in emerging markets could be answered.

It was said long ago that the cost of parsimony in social theory is often predictive inaccuracy for many individual cases (Pinder and Moore 1979). Strict reliance on modes and means mask the richness that is attributable to intra-organizational differences. Attempts to measure the average, the typical and or the dominant level of any of the parameters for the sake of sub-grouping overlook crucial internal differences, and in many cases yield estimates that are in fact unrepresentative of any particular sub-units of a given organisation. Similarly, I discussed the conceptual problems of internationalisation theories in sections 3.3.2 - 3.3.6. In my opinion, the usefulness of approaching the phenomenon from the Nordic School theoretical standpoint was questionable. I argued that even combining them with other theories within the IB tradition might offer weak explanations with regard to my empirical problem. For example, Bell (1995) and Covello and Munro (1995 and 1997) criticised the theories of the Nordic School for not having enough explanatory power concerning the internationalisation of rapidly growing high-tech small firms. If that were the case there, how could they explain FME

in newly-emergent, turbulent markets, even in mature manufacturing industries? Thus, some earlier empirical evidence also supported the approach of creating a substantive theory rather than further testing existing theories. All in all, I chose none of the existing ones. The way in which I relate the results of the grounded-theory analysis back to my theoretical departure reflects how the five arguments put forward in Chapter 3.3 related to each other.

The final section of this discussion chapter is devoted to a critical review of the methodological choices I made, which resulted in comparative longitudinal case studies and a grounded-theory approach.

7.2 Reflection back to previous knowledge

7.2.1 In supports of the conceptual elements incorporated into the new theoretical framework

The goal of this chapter is not to repeat what has already been written in earlier chapters. As the emergent theoretical framework guided me, now I aim to assess the findings of the analysis in the light of selected studies outside of the immediate field. In this way, I hope to tighten the empirically developed theory and to go more deeply into a conceptual explanation. These selected discussions from related fields help me to answer certain questions. In so doing I hope to support the answers to the original research questions (see research questions in section 1.3). How did the differences between the six cases arise? Why did they take different courses of action in a 'similar' external environment? How and why did Companies A and B make different choices? Why were the successes in one country not replicated in the other? Why did not, or could not Company A implement a catch-up strategy in the Czech Republic? Why might Company B have been able to go in another strategic direction than that of the pioneer strategy in the same country? This type of question has been one of the driving forces behind the development of the strategy field within management research (Noda - Collis 2001). Scholars in strategic management focus on a firm's differential strategic commitments to a business and the resulting differential strategic positions - both product-market and resource within an industry.

Some justification for why the processes within FME could be seen as sense-making is in order at this point. Managers usually have good skills of seeing, recognising, or matching patterns that confer obvious evolutionary benefits (Arthur 1994). In dealing with complex problems they look for patterns, they simplify the problem by constructing temporary internal models or hypotheses or schemata to work with. This means that they carry out

localised deduction based on their current hypothesis, and act on it. Feedback from the environment comes in, which may strengthen or weaken the temporary internal model (hypothesis). Using simple models to fill the gaps in understanding is inductive behaviour that is widely practised by managers.

The managers in the case companies acted upon their current most credible, plausible (profitable) temporary internal models. They kept several in mind at the same time, and kept track of the performance of these models. Once they acted, they updated the track record of all their models. According to Arthur (1994), learning should be seen as a device i.e., objective in terms of discarding poorly performing models (ideas) and generating new ideas. Managers pursue certain ideas because they have worked in the past. There has to be an accumulated record of failure before it is discarded (e.g., case 3).

For an explanation of how differently the expansions on each market intensified, one could turn to Weick's (1983) thoughts on managerial actions. According to him, managerial thinking is interwoven, inseparable, and occurs simultaneously with actions (Weick 1988). Most managerial situations contain gaps, discontinuities and loose ties among people and events, indeterminacy, and uncertainties (Weick 1983). Managers bridge these gaps, and think themselves through them - tie the elements cognitively and tie them together in reality. Thinking intensifies this activity. Moreover, accuracy is subordinate to intensity, since situations can support a variety of meanings (Weick 1988). More forcefulness imposes more coherence. Explanations that induce greater forcefulness are more valid because they have a higher potential for self-validation. Indeed, the success of both Finnish companies in Hungary can be explained by the intensity of actions. Their success in Poland could be similarly explained. However, it should be emphasised that the intensity there was on the side of the bridgehead partners. The relevance of this argument became clearer when I compared the situation with actions pursued in the Czech and Slovak Republics. Activity on all markets was about the same in the beginning, especially given Company A's statement that no fieldwork was done in advance. As far as the successful operations were concerned, I would agree that with intensity the action became more focused, because people saw what they were doing.

The presumption of logic, action and explanation implies sense-making in organisational life (Weick 1983). Presumptions enable actions to be tied to specific explanations. The linkages between presumption, action, consequences and meanings (Weick 1988) create the causal loop. According to Weick (1983), sense-making in organisational life is the mechanism of giving meaning to perceptions.

While keeping this in mind, I discuss the 24 properties in the six categories (i.e., processes and forces) of Company A and the somewhat different 24

properties of Company B in a similar six categories, which give a reasonably deep understanding of what happened during the ten-year expansion processes. Since I conducted this study from a teleological-process perspective, I will first discuss the identified focus properties, i.e. the objectives incorporated into the focus category of the substantive theory. Next, I discuss the external and internal forces and the sense-making process categories. The text devoted to each category follows the order of the properties as they were placed in the Tables 11 and 12.

7.2.1.1 Focus, Consequences - the Content

My teleological perspective enabled me to see simultaneous management objectives, which I evaluated as the content, i.e. *organisational and business growth, implementing the business idea and learning*, of the case operations. *Integration of the local partners* was a more specific objective of Company B. The objectives could be seen as stimuli or organisms according to how the mechanisms were defined, and they incorporated consequences of actions and internal and external feedback. The simultaneous appearance of objectives made me realise that FME was not a simple, linear, step-wise process. On the contrary, the expansions (six cases) featured ever-developing feedback loops, in both positive and negative directions. The three types - economic, socio-political and cognitive - are essentially connected to these objectives.

Managerial choices, which aimed at efficiency, effectiveness and profitability (cf. economic objectives), were guided by economic rationality within the firms. However, when economically preferred strategic choices were available, the company may still have been resistant to that strategic choice. According to Oliver (1997), cognitive "sunk costs" produce inertia when individuals find it difficult, for reasons of loyalty, fear, or habit, to replace or abandon routines. Motives of human behaviour extend beyond economic optimisation to social justification and social obligation. This was reflected in the identified *economic and socio-political objectives* (i.e., three types of feedback - economic, external and internal socio-political - helped in grouping the objectives in meta-theoretical terms, see Chapter 4.4). Indeed, firms' behaviour cannot be only rationally and economically justified. As Oliver (1997) suggests, the behaviour of the individuals in the case companies was also compliant, habitual, unreflective and socially defined. This reflects the institutional view that approval seeking conforms to external forces that increase legitimacy, resources and survival capability (Meyer and Rowan 1977, North 1997, Oliver 1997).

Reputation, desired and achieved, was also related to the cumulative firm experience. The partnerships themselves could be considered legitimising mechanisms. In this sense, my results are in agreement with Danis and Parkhe (2002), also pointed to the attempt of managers in gaining legitimacy for something by demonstrating a fit within existing values, practices and systems. This characterised the managers in both the A- and B-cases. Furthermore, it is possible to prove that coming out of the domestic market and achieving a long-term presence in the Visegrád markets increased the reputation of the Finnish companies in other Western European markets. Indeed, both companies were selling more to Western Europe in the late nineties than ever before. Other managers attempt to gain legitimacy through mimetic logic, by using as illustrations exemplary others who have adopted and achieved a superior business outcome. In as far as, the cases were pioneer operations, there was little evidence of applying mimetic logic.

Another finding of Danis and Parkhe (2002) was that Western managers were not always very open to learning from their CEE partners, which may create friction in the integration process. The result of this analysis showed that learning was an objective. However, it was not the main one for the relationship dyads. In this respect, I could say that the managers in the larger Company B did not have learning from the partners in the Visegrád countries in focus.

It could be compared how balanced the *learning objective* was between the two sides of each case-relationship dyad. The result of such comparison could be related to dependencies. The host partners had learning focus because it was critical for their survival in the liberalising local and competitive global environment. On the other hand, the use of local knowledge was limited to the Visegrád context in the eyes of the Finnish companies. Learning objective, and its eventual realisation through the mechanisms applied, can be seen as a factor that moderated the relationship between the control and integration outcomes, however. In this sense, the use of expatriates, formal training programmes, company visits, technology-transfer agreements and the transfer of personnel (e.g., the rotation of people within the organisation) could be elaborated on. These mechanisms were all applied in the A- and B-cases with connection to the learning objectives.

Certain aspects of diversity may lead to competitive advantage if managed properly (e.g., case 1). It could be said that learning as one of the objectives was on a satisfactory level in both sides of the partnership in Case 1 and thus, it was a moderator between diversity and integration, which otherwise would have been in negative relation (cf. Danis and Parkhe 2002).

An example from the B cases illustrates Danis and Parkhe's (2002) finding with respect to local property integration. Political pressure resulted from

shifts in interests and underlying power distribution, which supported and legitimated the existing structure. The shift arose from perceived problems in performance levels perceived utility associated with the Hungarian joint venture's practices (Case 4).

From the teleological perspective, the driving system of the FME process incorporated the temporarily fulfilled expectations (although never perfectly fulfilled). This summarising remark of the section will be sharpened in section 7.2.2, which elaborate on the core process of maintaining the organisational momentum.

7.2.1.2 External forces

The idea of macro environmental changes as a key force was incorporated into my emergent theoretical framework. In my view, the *progress of transition* was a significant force in terms of its major effect on the moves of the customers and competitors. The Hungarian business environment might have been the one that more closely reflected Western managerial practice and systems in the early nineties. This may have been specific to certain industries, however, which were privatised early. Moreover, foreign investors entered Poland and the Czech Republic later because of their different privatisation strategies. My original statements in agreement with Meyer and Münschen (1999) still hold i.e., the progress of transition was a key pull factor and caused differences in the six expansion processes analysed. As the results showed, the most important external forces were the behaviour of the customers and of the competitors, notwithstanding the influence of the transitional changes on them too.

It may often be that government-bargaining power and control increase in joint ventures after they formation. In CEE context, Danis and Parkhe's (2002) found contrasting evidence and discussed the loss of governmental control in CEE-Western joint ventures. Case 4 in this study, is also an evidence of decrease in host-government bargaining power. In agreement with the reason discussed by Danis and Parkhe (2002), the Finnish company exercised control over the privatised venture since the Hungarian State did not want to match the foreign partner's contributions of critical resources.

How different were the operations in fact? Price competition became a daily reality for companies A and B in the Czech Republic and Poland, although the situation was somewhat different in Hungary. In the case of Company B, the new foreign owners were still at the end of the nineties, willing to pay a higher price for reliable quality, while Company A's customers in Hungary demanded larger geographical coverage (i.e. capacity). They settled the payment when

the product was installed on their site. The company was able to fuel the supply from its high-standard new factory - built in Hungary in 1998 - and by having a reliable partner in the installation. The bridgehead relationship led to strong buyer-seller relationships in Hungary, and thus actually placed itself into a favourable position in terms of competition barriers.

Researchers with a resource-based view argue that variations across firms selecting and deploying resources depends on factors of market imperfection, such as barriers to acquisition, imitation and the substitution of key resource inputs (Oliver 1997). This is in accordance with my findings concerning foreign competitors that approached these markets later than companies A and B did. The limits on imitation resulted from the characteristics of the resources or commitments underpinning the competitive advantage. This could explain why the local competitors did not surface immediately. Resources were not instantly acquirable through the strategic factor market owing to "time compression diseconomies" and "temporal interconnectedness" in resource accumulation (Noda and Collis 2001). These types of competition barriers prevented imitation and substitution. In terms of variation, if competition barriers were in place in one market, but not in the same way in another, then the competitors would work differently. Thus, differences between operations were enforced. Probably the reason why Company B had still potential in the Czech market lay in the slower start of business in general. Thus, competitors did not occupy the market either. Company A's operations on the Czech and Slovak markets did not bring success because, first of all, it did not find a reliable customer and partner, and second time could not break the established buyer-seller relationships.

Since the mid-1990s, however, the sustainability conditions have become relatively loose in the relevant industries in the Visegrád countries. The key resources - customers - were limited in number, but they could readily be acquired if the firm was willing to lower its prices, be local, and adopt to the customers more.

In this study, as well as in the one conducted by Danis and Parkhe (2002), it was found that legacies of central planning seemed to exert a strong pull on management, values practices and systems (cf. the property of cultural differences in the theoretical framework). Reconciling central planning legacies with Western managerial methods was how Company B introduced majority ownership in Hungary, for instance. A large part of the integration processes, and the guiding rules behind strategy-in-making, could be seen as the reconciliation of central planning legacies with Western managerial methods. The appropriateness of Western managerial concepts in the Visegrád context was not always agreed upon between the bridgehead partners, however.

All in all, the Finnish companies are producers of customised products and the customers and the industry's competitive structure determined their choice among the markets entered (i.e. among the Visegrád markets and beyond). It also happened that the customer chose its traditional supplier (cf. Case 2) in which case the customer-following strategy was most evident (Cf. Bell 1995, Zettinig and Jokela 2002). I am confident that concerning the external environment the most powerful explanatory factors were the customers and the competitors. The managers made the entry and expansion decision primarily on the basis of the future economic attractiveness of the markets and not the psychic distance!

7.2.1.3 Internal forces

The differences I saw were quite consistent with entrepreneurial and strategic-management behaviour, as discussed in the literature (e.g., Weick 1983, Julien et al 1997, Kirzner 1997, Casson 1994 and 1998). The mechanisms differed to a considerable degree between the two Finnish companies, since Company A realised the expansion more as an entrepreneurial process, while for Company B it was a strategic-management process. This conclusion I make based on that the A-cases pursued objectives simultaneously, focused more on adaptation to the external environment and seemed to have more negative feedback to their operation (cf. case 3). In contrast, the B-cases aligned their actions with single objective, had significantly more focus on strategy-making and less negative feedback could be calculated concerning their FME. In sum, one key force that determined the variations between the two groups of cases was entrepreneurial versus managerial behaviour (cf. leadership property).

Entrepreneurship relates to organisational characteristics, and leaders' personality characteristics, organisational structure and strategy orientation influence the innovative potential of a firm (Miller 1983). Company A was a less complex firm, which was smaller and had centralised decision-making, with the power concerning resource allocation concentrated on the leader. The entrepreneurial characteristics of the leader determined the innovation potential (Miller 1983). Company B, which had a larger organisation behind it, extensively used formal controls, and made plans - based on up-front analysis - to ensure efficient operation. Here, the strategic planning was the major determinant of innovation (Miller 1983, cf. Weick 1983, 'run-of-the-mill' management).

The organisational structure among the internal forces referred to issues such as top-management control over the means of doing business. In other

words, it had the monopoly on resource allocation. The purpose of structure was not to fix the operational mode, but rather to achieve strategic flexibility (cf. structural changes in both case-groups). Furthermore, the extended organisations (i.e., bridgehead-relationship cases) had to achieve a delicate balance in respect of the diversity of perspectives and the unity of purpose (Hamel 1996). Hamel's (1996) argument is that unity alone leads to dogma to which argument the cases 4 and 5 may give some examples. Diversity alone leads to the fragmentation of resources (cf. A-cases), while the external environment forced a greater unification of purpose (e.g. tender applications in Case 1, or common meetings with Czech and Slovak customers in Case 6). The highly dissimilar cultures (societal/corporate) were traceable in the bridgehead relationships, and sometimes these multilevel differences reduced their effectiveness and longevity (cf. case 3). In other times, middle-level managers, often locals who were the strategy activists (see sales managers and the Hungarian partner in case 1), gained the confidence of the senior managers, thus enabled them to decrease tension between the parties regardless of cultural differences.

Understandably, the competencies of the two Finnish companies changed during the ten-year time span. In particular, their sales/marketing competence developed - partially by integrating the local partners. This was a competitive weapon in terms of the network businesses (i.e. the customers built networks with the products bought from Companies A and B). The fixed costs in these businesses were more or less constant. Thus, the companies had to sell more in order to realise their earnings.

In the context of the forces discussed above (i.e. stimulus and organism), the answers (cf. responses) enabled me to build up the main processes. As a result of the grounded-theory analysis, three sense-making processes were distinguishable in the six cases in question.

7.2.1.4 The integration sense-making process

The sense-making process I discuss first is the integration. I found the study of Danis and Parkhe (2002) a very elaborate one on this process in the context given by the emerging markets of the CEE. They made methodological choices similar to mine. This is why I compare my findings concerning this process to theirs.

According to Danis and Parkhe (2002), and reflecting my own definition, integration refers to the effective management of differences among partners' attitudes, goals and perspectives, as well as the reconciliation of heterogeneous operations. It suggests mutual adaptation or the lack thereof, with respect to

managerial values, practices and systems within the boundaries of a joint venture. Indeed, their study focus was on joint ventures, whereas mine was broader, incorporating bridgehead relationships in any form of operations (i.e. joint ventures were included).

Danis and Parkhe (2002) also argue that the joint-venture form does not necessarily mean an equal mix of the partners' practices and systems. This seemed to apply in the six cases analysed here, but to a different degree in each case. In Danis and Parkhe, I found support for the vital relevance of bridgehead relationship, and for how integration in that sense is decisive to success.

Managers appear to have different approaches to integration, which Danis and Parkhe (2002) characterised as evangelical (i.e. fully implementing Western ideology). The approaches could be operation driven (i.e. more to do with procedures and systems and less about managerial philosophies) and also laissez-fair (i.e. focused on a narrow range of issues important to the Western partner such as financial control). In my opinion, Company A tended to be operation driven, whereas Company B focused on a narrow range of issues and at the same time took an evangelical approach. The evaluation of the CEE counterparts and the expressions used by the managers at Company B pointed to this. Nevertheless, other strong comments on how detached the top management of Company B was while implementing a strong auditing system suggested a laissez fair approach.

Companies A and B tended to rely on their experience, mainly with the relationship and not on their own market experience. This could be a strong explanation of why shifting the experience of success and the strategies involved between those countries did not really succeed. The success of each FME process depended on the actual bridgehead relationships (cf. Noda and Collis 2001).

Certain cases experienced smoother development because of alliance champions, or promotor, who could be on either side of the partnership. The best result in terms of smooth development was in the cases in which the promoters matched on both sides (i.e. the Finnish and the counterpart). The promoters who participated in and carried out the early entry established good customer relations early on, and gained recognition and power within the extended organisations. Therefore, they could influence resource-allocation decisions. The best indicator of this mechanism was probably the healthy competition between local partners that the researcher could sense during her discussions with the respondents.

With the help of their bridgehead relations, the Finns tapped into time-compression diseconomies, which are difficult to trade on factor markets (Oliver 1997). Furthermore, the two companies could not have seen these

crucial changes in time if their operations had just been based on export. The Finnish case companies realised learning objectives with incorporating locals' knowledge.

The bridgehead relationships became influential internal forces. In the case of Company A, the joint interest and shared goals came into force, while for Company B, the locals were integrated in such a way that the actual corporate values strongly applied to them. In the later phase of its presence on the Polish market, this was the driving force also in Company A's case 2.

One could certainly agree with Danis and Parkhe (2002), and with many others (e.g. Inkpen and Beamish 1997, Brouthers and Bamossy 1997) studying international negotiations and outcomes, that the partner with more critical resources exerts bargaining power in negotiations and subsequently determines the balance of management control. The general argument is that the local partner may be unable to match their partner injections of capital, which seemed to be the key reason for ownership realignment. I would specifically point to the cases 1 and 5, in which I believe the situation was different. Both counterparts, the Hungarian one of Company A and the Polish one of Company B, were very capable of injecting financial resources. They did have bargaining power because they had extremely valuable knowledge of the local markets. Given the long and successful development of these cases, this may show, that partners with strong bargaining power on both sides are probably the most successful. The local employees in the subsidiaries had significantly less bargaining power, which could be seen as one reason for the less successful (shorter-term) development in those cases. I agree with Eisenhardt and Galunic (2000) that competition within a partnership also gives the competitive edge externally.

Bargaining power is a function of key resource contribution (Parkhe 2002). Partners may maintain dynamic equilibrium of bargaining power and control over time, or the partnership may destabilise as the foreign partner acquires experience and reduces its dependency on the local partner. Destabilisation may also be caused by increased dependence on the part of the host country partner.

The six cases show considerable variation here. The counterparts in case 1 definitely maintained a dynamic equilibrium of bargaining power and control, while the Hungarian counterpart's dependence on the foreign partner decreased. I believe Case 2 destabilised because the bargaining power between the owner and other key managers in the HQ was not in balance. That was the time when the owner decided to invest in Hungary and subordinate the operation in Poland. The Slovak customer held the bargaining power in Case 3, and control was not in equilibrium either. While Company A would have

depended on the Slovak partner, but by imitating the product this partner decreased its dependence on the Finnish company.

Case 4 came closest to Danis and Parkhe's (2002) observation in the sense that the Hungarian state as owner decreased its influence, as well as its bargaining power, in that joint-venture operation. Case 5 showed signs of partnership destabilisation as the bargaining power shifted towards Company B. With Case 6 Company B did not depend on any partner for a long time, since customers did not buy on that market.

Indeed, relationship ties among the people in the extended organisations had effects on and were affected by the firm's resource-allocation process. Personal ties carried the bargaining power of the members. This bargaining power was partly achieved within the bridgehead relations by means of early recognition. The managers who had the authority to make resource-allocation decisions at the HQs were not always able to evaluate the soundness of the investment proposals. The specific information about customers and competitors remained with the locals and the frequently travelling sales managers. In any case, there was an apparent asymmetry of authority distribution and information. In this situation, top-level decision-makers relied on their successful early business experiences, which increased the reputation and bargaining power of the local managers. As Noda and Collis (2001) argued, positive socio-political feedback depends upon interpersonal relations within an organisation, particularly between the top and the lower-level managers (i.e. local managers). Case 1 was very specific in this sense, since the owner himself gathered the information on the Hungarian market to a considerable extent. This might have negatively affected what he was interested in knowing about in the other markets.

Meetings, both formal and informal, were important mechanisms in the establishment of bridgehead relationships. In terms of the operational elements, they were important in making the top management acquainted with the business, given the fact that it needs to stay close enough to it (cf. Hamel 1996). In terms of the behavioural elements, meetings helped in the building up of the social fabric and trust (cf. Eisenhardt and Galunic 2000). Company A admittedly had more informal meetings, while Company B had formal ones. Trust and the functional social fabric did not fall into place overnight, except in Company A's Hungarian case 1. The roles emerged during the meetings and relations were clarified. The actors could communicate more clearly and collaborate more effectively, thus lessening political tension and clarifying opportunities. This characterised most of the B cases, specifically the Polish case 5. In all of the cases, the task was to identify revolutionary opportunities through the process of seeking discontinuities, core competencies and new

rules. Except in the Czech and Slovak cases, the bridgehead relationships well fulfilled these tasks.

Establishing bridgehead relations was originally a *guiding rule* for both Finnish companies. As Eisenhardt and Galunic (2000) argued, when business is complicated by turbulence and unpredictability, the strategy must be simple. The partnering strategy was quite simple in these cases. However, the collaborative links had to be updated according to how businesses and markets emerged in the turbulent situation.

Re-organisation of the internal structure, both in the Finnish headquarters and in the relationship dyads prevailed, and I saw that structural changes covered more than only operation modes.

Changes in the top-management teams occurred in both Finnish companies. Nevertheless, these changes did not directly guarantee that the companies could change their evolutionary paths in certain markets, which was a long and complex process. It was probably the fact that efficiency was the focus of organisational change that lessened the flexibility of the operations (Eisenhardt and Sull 2001). Another reason may have been that, whether or not the managers' mental maps were made explicit (Noda and Collis 2001), they created a bias in favour of some investments over others. Past successful business experiences reinforce existing mental maps and favour previous patterns of investment.

Company B (and the group behind it) reorganised itself in terms of environmental adaptation by decentralising decision-making and implementing more open communications. This more flexible organisational structure was meant to be the basis of achieving a more entrepreneurial orientation. In Miller's (1983) words, the group that included Company B aimed at an organic structure. The results of this large-scale organisational change may not yet be visible in the analysis results. It is a long, on-going process and its implementation started in the second half of the nineties. Indeed, the analysis results, which incorporate the whole decade, show that Company B's focus was definitely on integration. These processes are evident in Figure 20, which refers more to earlier developments focusing on planning, and top-management structure in a hierarchical organisation. Major structural changes have been introduced at Company A, too. However, these changes were clearly aimed more at planning and formal control in the interest of efficient operation. As Figure 19 shows, given the narrow share of strategy-in-making, the results of the on-going changes are not visible either. Nevertheless, Miller's categorisations and the empirical evidence of this study fit Greiner's (1972 reprinted 1998) theory of organisational change (cf. Van de Ven and Poole 1995).

The integration of bridgehead relations was achieved through several mechanisms, one of, which was the actual operational mode used by the Finnish companies. It was clearly different in each market, and changes were made over the ten-year period. *Structural changes*, including operational modes on each local market, were essentially connected to the control mechanisms.

In terms of the *control mechanisms*, my results echoed the findings of Oliver (1997). The Finnish companies possessed both resource and institutional capital, which were complementary and thus both needed to be enhanced in order to sustain competitive advantage. Resource-capital protection and the procurement of rare non-imitable assets and competencies required effective management in the resource-decision context, concerning distribution channels, a lean cost structure, patented core competencies, talents and customer loyalty (e.g., Company A and the currency devaluation in Hungary). Institutional capital comprised the training programmes and information-technology systems that were implemented in order to diffuse information, management-development programmes, decision-support systems and inter-firm alliances. These, as mechanisms supported the realisation of learning aside of the other objectives. In terms of both resource and institutional-capital protection and procurement, the two Finnish companies employed a uniquely combined selection from the above methods. This combination changed over time in the different markets. Certainly, a comparison of Figure 19 and Figure 20 shows that Company B had a stronger focus on integration. Since the control mechanisms belonged to the integration sense-making process the differences in the level and sophistication of control that the two companies applied, were as expected.

7.2.1.5 The adaptation sense-making process

Adaptation means adjustment to the environmental conditions. In this study, it meant achieving correspondence between the focus of the companies and the chosen environment. What I elaborated on was the external determinants that released the adaptation process. This was not to say that the companies avoided uncertainty, but rather that they took risks in the light of perceived external determinants. Simply, the moves of the potential customers and competitors, as well as the macro-level changes, required responses from the company. Furthermore, the adaptation processes needed adequate, and at the same time unique, mechanisms. The properties were *market information, relating to customers, fighting competition and positioning*.

During the second half of the nineties, up-front analysis still could not be a substitute for the companies being actively present²²⁵ on the market. In Poland, for instance, there emerged a need for Company B to move away from head-to-head competition (cf. localisation pressure, Mascarenhas 1992) for market share, towards exploiting other, group-based resources (Barney 1995). Furthermore, Company A's less successful trial in the Czech Republic, and the voices of the Polish counterparts of both companies, indicated that it was becoming critical to measure performance externally against competitors rather than against plans, performance in preceding years, or any other division of the same organisation. The important question was which source gave the relevant information/knowledge.

Companies A and B redefined their customer base (Govindarajan and Gupta 2001) by uncovering a hidden customer segment in the CEE markets. They both realised - with good timing - that the same type of customers as were in the domestic Finnish market would invest steadily in the Visegrád markets. At the same time, combined entry barriers, mostly well-established supply chains, prevailed in other Western European markets. In Hungary, and to some extent in Poland, the Finnish case companies, as pioneers, were able to create entry barriers. They were the first ones to establish strong customer relations with good references from home, and with the help of bridgehead partners, they provided good offers for which the customers were willing to pay. For some time, they enjoyed a monopoly - at least at the time when they were exploring the markets, enforced by the KEVSOS agreement. This bilateral free-trade agreement lowered their prices relative to those of other Western competitors.

All in all, sustainable competitive advantage referred to the implementation of a value-creating strategy that was not susceptible to duplication, and not currently implemented by competitors. Forming bridgehead relationships created part of the sustainability condition favouring the two Finnish companies. They created value for their customers on the Visegrád markets at a time when local competitors could not duplicate and foreign competitors were not there with substitute products.

According to my interpretation, *positioning* was a core process in adaptation sense-making on a market with an oligopolistic structure. This structure could be either presumed, or it already existed. Positioning was successful in cases in which the company started operations when this oligopoly did not exist. Thus, successful positioning required appropriate

²²⁵ I.e. The Finnish companies could not be detached from the operations of the local partners, rather they had to act on those market together with the bridgehead partners. In the words of Eisenhardt and Galunic (2000) this could mean real-time learning. In contrast, this study accepts that in FME learning cannot be seen as a process separate from other actions. Rather it is one of the objectives.

timing. The two Finnish companies pursued positioning at the very moment of entry into the Visegrád market (specifically Company A in Hungary and Company B in Poland), not just when the markets were oligopolistic. The managers could assume that others would come to sell similar or substituting products. The companies acted on this assumption and chose to be pioneers on the Visegrád markets as a region. Clearly, one could see positioning as the sum total of the processes of *gathering market information, relating to customers* and *fighting competition*, in all of which the good bridgehead partner had a major role. Nevertheless, as witnessed in the developments in all of the six cases, the timing determined how customer relations and competition succeeded.

All in all, as the Visegrád markets were indeed dynamic markets during the nineties. In this respect, the strategies, which centre more on processes (sales, promotion, installation, production) rather than position (structural elements such as operational mode), may be right (Eisenhardt and Sull 2001). Company A pursued the above processes more in relation to its sense-making adaptation process. Company B, probably because their customers were relatively more predictable, pursued them with embedding into the integration sense-making process (cf. control, and integration of the locals in the B-cases).

7.2.1.6 The strategy-in-making sense-making process

The third sense-making process was strategy-in-making. My definition (in section 6.2.2) of strategy-in-making is a processual definition from a teleological-process perspective, based on the data of the six cases - hence the name of this element in the emergent theoretical framework is not strategy or strategy making. According to Chandler (1962, cf. Drucker 1999), the concept of strategy means the determination of the basic long-term goals and objectives of the company. He continued that adaptive courses of action and the allocation of resources are necessary for achieving these goals. Strategy making could be seen as embracing integration and adaptation. It could also be about matching companies' resources and competencies to market opportunities and defining clear organisational missions and visions (cf. Hansén 1981, Malaska and Holstius 1999). In this study, the definition is given by the properties rendered to the categories, and its place in the theoretical framework is also incorporated the actual focuses (cf. teleology). Strategy-in-making is almost equal in the framework to the other two sense-making process categories, neither of which process categories could be incorporated into the other. The data analysis also showed that each has relevance, although the extent of that relevance is unique and momentary in

each and every company's ongoing operation (see Figures 20 and 22). I interpret next the properties defined the strategy-in-making sense-making process category.

According to Mitra and Golden (2002) and Danis and Parkhe (2002), the order of entry of firms into a market is an important determinant of competitive advantage. Such findings are in accordance with my pre-assumptions of the role of being a pioneer, and largely explain on what basis the six cases differed. The Finnish companies probably originally chose co-operation instead of greenfield investment because they saw benefits specific to the context, which were related to large-scale privatisation and market liberalisation. For example, this was the fastest way to gain access to an exclusive distribution channel, supplier, or subcontracted partner, or to become part owner of customers that enjoyed a monopoly or near-monopoly position in the Visegrád or even regional markets (cf. the customers of both Finnish companies in Hungary). This overall understanding is reflected in the four properties of strategy-in-making sense-making process.

Timing was found to be an important processual category in its own right. It became a key determinant of success as it qualified many of the actions. In my opinion, this category deserves its own place among strategy-in-making mechanisms. It should be seen together with the action to which it refers. This resembles Weick's (1983) notion of thinking embedded in action.

Resource allocation, which broadly covered all types of resources as a means of doing business, was the other core process creating an important link between the internal and external forces. By elaborating on all types of resources, including knowledge, reputation, customers, finance, HR (human resources), skills, competencies and time, it became clear that knowledge is not always the decisive factor in achieving success or in poor performance. Sustained competitive advantage also depended on other resources and capabilities that the Finnish companies brought into play in the host environment (Barney 1995). It was not possible to acquire revenue-creating resources instantly on the factor market (Oliver 1997, Noda - Collis 2001). Rather, they had to be developed and accumulated by the Finnish companies over long periods. Both of them had been acquiring R&D expertise and technological capabilities on the domestic factor markets since their establishment, including the ten years of FME on the Visegrád markets. In order to create new buyer-seller relationships (also resources) on these markets, they could, to some extent, apply their cumulative experience. Nevertheless, the bridgehead partners had a key role in establishing these new buyer-seller relationships. In this respect, I agree with the findings of network studies (Johanson and Mattson 1988). The long period for accumulating

resources (e.g., buyer-seller relationships) was lessened by the bridgehead relationships.

The CEE environments could be characterised in many ways. Nevertheless, nobody could deny that the markets were fast-moving during the nineties. Company B actually had more focused opportunities, knowing the actual customers in advance, whereas Company A went in search of and followed their customers. Its potential success was thus possibly less predictable. How well did Companies A and B manage? They established bridgehead relations (as simple rules) because they did not like the chaos. The connection here to external forces²²⁶ was clearly supported by Eisenhardt and Sull (2001) when they wrote that, in times of predictability and focused opportunities, a company should have more rules in order to increase its efficiency. Less predictable, more diffuse opportunities require fewer rules in order to increase flexibility (that is not uncertainty avoidance). The edge of chaos was how Eisenhardt and Sull (2001) described the situation in which simple rules should provide just enough structure to allow the best opportunities to be discovered.

According to Eisenhardt and Sull (2001), having few rules probably gives more scope for manoeuvre, which suits an entrepreneurial culture. This applies to engineers, too, and affected both sides of Company A's businesses in Hungary and Poland at first. More rules, on the other hand, give less scope for manoeuvre, and is often characterised by having more planning managers making business calculations. This turned out every now and then to be a mismatch in the case of the bridgehead relations of Company B. The locals voted for having few rules, which suited their ideology. Company B nevertheless continued to offer quite a narrow scope for manoeuvre, and in particular the locals had to wait for decisions resulting from calculations and plans.

Part of the guiding rules applied in the A-cases emerged as a response to unforeseen external forces²²⁷. The emergent nature of the strategies was more prevalent in Company A. Part of the explanation for this certainly lies in the company's already acknowledged entrepreneurial behaviour. There was evident opposition between planning and *emergent strategy in Company B*, which could be explained by its strategic management behaviour. Some of the developments could be assumed to have been based on the emerging strategies of Company A but it could have been the ready-made steps of the bridgehead partner that were decisive.

²²⁶ I.e., macro-environmental changes and the moves of customers and competitors in the Visegrád countries.

²²⁷ In other words, that involved trial-and-error *learning*.

The overall picture of the successful cases analysed in this study was that simply evaluating environmental opportunities and threats - and then conducting business only in high-opportunity and low-threat environments (i.e. entering only Hungary) would not have created sustained competitive advantage for the two Finnish companies.

The six categories and their properties had relevance for both groups of cases. My aim in this section was to introduce selected discussions and findings from related fields of research, which helped to confirm the relevance of the elements, ultimately the emergent theoretical framework as it was presented in section 6.2.

It was not only the framework, but also the core process of maintaining organisational momentum that emerged during the analysis of the A- and B-cases. In the following three sections, I interpret this finding.

7.2.2 The maintenance of organisational momentum

Most of the studies in the IB tradition hypothesise about what should happen while focusing on the planning behind what happened in the past. In my opinion, this way we cannot fully explain how managers deal with imperfect knowledge or bounded rationality. Bounded rationality do not in itself explain business situations, and managers do not accept that failure is overlooked because of bounded rationality. If that were the case, how would they see the possibilities for corrections and the avoidance of failure?

Throughout the analysis, it became clearer that the companies' constant effort was to obtain positive feedback. They focused primarily on economic, but also worked for positive socio-political and cognitive feedback. This effort seemed to have explanatory power to variation in the mechanisms and processes the cases pursued. I incorporate it in the framework (cf. Figure 18), as it seemed to be the basic social process and name it maintenance of organisational momentum. In terms of the methodology and the teleological-process perspective taken in this study, too, it was natural to search for a core process that might account for most of the variation seen in the six FME cases analysed²²⁸. This **core category** seemed to fit the FME process of both case groups. Indeed, it emerged in parallel with the main elements of the substantive theory. It emerged while I was studying what had happened and what the business actors I interviewed perceived would happen.

Suggesting that this core category was actually a basic social process only seemed sensible after this finding was related to previous research results.

²²⁸ Cf. Glaser and Strauss 1967, Strauss and Corbin 1990, Parker and Roffey 1997, and in accordance with these references the basic social process in section 3.3.4

As for interpreting this finding, I present further indicators in the analysed case FME processes, discuss its connection to the elements of the theoretical framework and elaborate on its relevance by drawing on selected literature.

7.2.2.1 Maintenance of organisational momentum in the case FME processes

Before discussing this core category's fit in the overall picture gained on the analysed cases, I explain why actually it was possible to see.

It may be that the concept of maintaining organisational momentum ultimately accounts for the subjective set of mental maps. Organisational momentum may reflect the rich reality of the business world in which managers' mental models compete for survival against other actors. Managers use inductive reasoning, induce a variety of working hypotheses, act upon the most credible and replace old ones with new ones if they cease to work (Arthur 1994). Their constant concern is whether they can find a profitable balance between environmental influence and management choice. This behaviour may be better understood from a teleological process perspective. In other words, managers probably manage company growth from a teleological perspective. This perspective may actually be closer to their daily reality than the life-cycle perspective since a company is not a pre-programmed organism (i.e. it has no genes). This observation does not exclude the possibility that managers also try to reduce complex processes to linear solutions. However, linearity may not be always achieved. Managers of one company do not make decisions in a vacuum, and other managers of other companies are also involved. Seeing managers trying to achieve different objectives simultaneously may prove the appropriateness of this process perspective.

As far as the overall picture goes, Companies A and B targeted themselves at a specific segment of customers. They had been developing their resources for 30 years and leveraged them across markets, domestic and Nordic. However, this process could not continue after the early 1990's. The Finnish companies had to turn outwards in order to sustain growth. The new millennium may bring with it similar conditions in the Visegrád markets as were experienced in the late 1980s on the domestic market. The Finnish companies would probably then go further to the next European transition markets, or to other emergent markets on the globe, yet undiscovered. In any case, it is not possible to predict when that will happen.

The indicators pointing to this core, the basic social process appeared frequently in the data, suggesting that it connected other elements of the FME on a higher abstraction level. During the period of this study, because of the case companies' lack of information and the high velocity that characterised

the Visegrád markets, the bridgehead relationships with locals and timing mattered. It was also clear to the Finnish companies, following their *initial experience*, that the four markets had crucial differences. Accordingly, given the sense-making processes, the companies performed differently on each market. Concurrently, to the simultaneous objectives pursued and realised or not, the six cases did polarise in respect of performance. The overall picture was that success bred success and failure bred failure²²⁹.

No doubt, the analyst could see the planning exercises in those cases in as far as planning may be the way to avoid uncertainties. However, in the real world, despite the planning, developments do not necessarily go as expected. The companies had to deal with a multitude of forces, opportunities and problems in the turbulent environments. Businesses growing on a market need resources, i.e. the means of doing business. Those engaged in international expansion in the different markets at the same time often need resources to be in place simultaneously. None of the case-company managers, however, could predict exactly which resources would be the determinant of overall success, and when.

Foreign-market expansion, like any other strategic action, requires profit-oriented companies to operate in terms of generic market processes (Eisenhardt and Sull 2001). Such processes include product innovation/development, resource allocation and market positioning, and last but not least, the sales processes that focus on earning money and ultimately control the fate of the business. In my opinion, these generic market processes were indeed interwoven with the three sense-making processes identified during the analysis (section 6.2). At any rate, it was impossible to describe any of them in terms of pre-determined steps. This issue is discussed in the analysis sections and referred to in Appendices 8, 9 and 10.

As the business grew in volume and complexity, the objectives changed. As it became more complex, Company A, for example, wanted closer control over how the business was run on the local markets. Thus, it changed its relations with its customers seemingly 'gradually'. The stimulus here was the increasing importance of the new businesses to the total revenues. However, no one planned the importance level that merited direct customer relations. Changes made based on intuition and were circumstantial.

The Finnish companies did not predict precisely what they would learn from each partner, when or how, and each bridgehead partner was different. Undoubtedly they gained local knowledge and developed new capabilities by

²²⁹ To which extent the organisational momentum is positive or negative is directly measurable with the economic indicators included in the objectives of *organisational (F-1)* and *business growth (F-2)* and it is indirectly measurable by evaluating how far other objectives (F-3, F-4 and F-5) were realised.

operating on the Visegrád markets. There was, however, no attempt to assess whether or not they had enough experience, and in-house knowledge to justify forming direct relationships with customers.

The bridgehead partners had to be competent and therefore acted (in order to survive and grow) by proving themselves in competition and being adaptable to the environment created by others. These others included customers, competitors and bureaucrats, but the most significant were the entering Finnish companies. Their business models had to co-evolve.

Activity within certain bridgehead relationships produced action and energy at different times, as I described earlier (Chapters 5.2 and 5.3). This energy could be harnessed to produce movement, i.e. commitment to generating action plans, in proportion to the number of people who were engaged and depending on how they were engaged (see cases 1, 2, and 5). However, unless action was taken to further energise the members of a bridgehead relationship, organisational friction caused by the nature of the businesses, e.g., numerous projects competing for the attention of the management, eventually halted the improvement effort (case 2). Cultural factors, i.e. management reputation (a new vice president in case 2) and employee upgrading (the B cases) motivated the friction. The extent of friction was also affected by perceptions of the organisational history, i.e. previous success in case 3 and the fact that numerous projects competed for attention in case 6. The formal assessment of progress and communication of urgency would have been useful in all cases. Improved momentum for organisational change was vital in terms of the ongoing organisational improvement.

In this section, I presented my opinion that the teleological process perspective enabled me to extract the basic social process. Further, I presented indicators of maintenance of organisational momentum, considering it is the basic social process in the cases in question. I continue by elaborating of the connections between maintenance of organisational momentum and the other elements of FME comprise the theoretical framework.

7.2.2.2 Maintenance of organisational momentum in relation to the other properties of FME

The maintenance of organisational momentum as an underlying process would not be possible without acknowledging the connection to the sense-making processes and mechanisms. Let me show first the connections to the sense-making processes, i.e. through the properties of the **integration, adaptation and strategy-in-making**.

The differences among the six cases emerged partially from the different *initial experiences* gained in the local markets. These differences were intensified through the integration, as well as by the strategy-in-making sense-making actions. The strategy-in-making actions were those that shaped the long-term balance between the environment (external) and the companies' (internal) forces. Local market conditions were a necessary, but not sufficient, condition for favourable initial experiences. Moreover, favourable environmental conditions did not automatically lead to subsequent strategic actions. This is why timing, resource allocation, guiding rules and emergent strategies had to be included in the strategy-in-making category.

Control in terms of two or three different aims, i.e. control of investment, of customer relationships, and of the bridgehead partner, also pointed towards the maintenance of organisational momentum. In this respect, the Finnish companies re-organised both the HQ and the bridgehead relationships. For example, Company A introduced a streamlined, more customer-focused organisation, with exports and domestic operations as separate functions. Consequently, the export managers' responsibilities became clearer and, at the same time, more synchronised. This *structural reorganisation* started in the mid-nineties, and it is a long-term process that is still going on. Structural change does not happen overnight, which explains the difficulties Company A faced in disrupting the internal momentum (i.e. the one-man-show of the owner/entrepreneur). However, in the judgement of all members - including the owner - there was a need for that disruption. Company A was doing business on an entirely different level of complexity in the nineties than in the thirty years, since its establishment.

As the structural changes were going on and guided by its strategic commitment, Company A began to *allocate resources* to new business development almost exclusively in Hungary. The build up of this bias towards one market, which was formulated in strategic plans and vision statements (e.g., a Finnish weekly technology and business magazine ran an article about Company A's Greenfield investment in Hungary), hindered the *allocation of resources* to businesses on the other markets. The Czech operation became subordinate, on hold until the factory in Hungary was productive. The investment in Hungary even hindered expansion in Poland, although that was not directly planned.

The connection of maintaining organisational momentum to the actual focuses may be seen in the examples below. Company A favoured business that went well, and made little effort where things did not go so well. The rational explanation, of course, lies in the scarcity of resources, which was easy to see in the case of Company A, a medium-sized company. Resources were the means of prioritising markets. A more intuitive explanation is that, by

the late 1990s, the top management of Company A remained sceptical about the Czech business because of earlier negative experience. After the first attempt, the business in Slovakia did not gain further momentum. Neither the Slovak partner, nor the first Slovak customer was similar to those in Hungary. In fact, negative signals were constantly coming from the Slovak (and Czech) markets, which Company A did not have enough resources to evaluate. It took three years for it to admit that there were problems with its Slovak operations. Its struggles on this market ended in actual financial losses and it moved out. The market structure became unfavourable during the time in which the company allocating capital to the other businesses and was hesitating about entering the Czech and Slovak markets. Competition barriers grew and solidified.

The full integration of partners in the B-case companies never lost its focus. It may also have been a customer requirement. Nevertheless, Company B could not integrate its partners as it planned to do by introducing 100% ownership. It had to negotiate with each local partner, and to reach a majority but not 100% ownership for the time being. It had to give away ownership control to the potential bridgehead partner, who was suitable in many respects (cf. Case 5). The necessary modification made in the guiding rule concerning control by ownership come under the concept of managing organisational momentum.

Indeed, the flow of actions in the complexity described here could only be understood in a study with a multiple-case design (i.e., more than one context) from a teleological-process perspective. The intensive analysis conducted on the extracted mechanisms further supported the idea that maintaining the organisational momentum was the relevant core process. While my perspective was holistic, the maintenance of organisational momentum seemed to explain the variation in the six FME and bridgehead relationship development processes.

First, the mechanisms could not be extracted in the way that one objective was incorporated into each. These objectives comprised the four or five types of focus of which the economic were the primary ones. It is not only that the objectives were simultaneous, but it was usually not just one action (i.e. one well-defined step) that was taken to achieve certain objectives or to respond to active stimuli. Task delegation, change in operational mode and other structural changes were applied with the intention of obtaining positive economic and other feedback and not receiving negative feedback. Nevertheless, companies that were preoccupied with the good momentum at one point did not always notice if operations elsewhere were going wrong.

Secondly, the potential for certain mechanisms resulting in positive or negative performance could be seen. According to my estimation the

proportion of these bi-variate mechanisms of all mechanisms in the A cases was well over one third, and close to one fourth in the B cases. The FME processes were not managed in a vacuum as far as the internal and external forces were concerned.

Third, the analysis identified these main objectives²³⁰. Thus, it was understandable that the respondents could not always speak about linear developments and direct consequences. They could not give the direction of the causes and effects (cf. both retrospective and real-time data was analysed). Such complex mechanisms seemed to comprise a quarter of all mechanisms in the A-cases, and well over one-third in the B cases. Thus, the complex feedback loops did not only indicate that the process might not be so linear. Since such a comparison could be made, it seemed that the proportion of complex mechanisms might be relatively high if the company consciously maintained a positive momentum, and relatively low if it not.

The links between the maintenance of organisational momentum and other elements of the emergent framework were presented here in order to show its significance in the case FME processes. The next section aims at further supporting my argument about the need of understanding this core concept in analysing FME process in emerging markets by introducing similar findings in related fields.

7.2.2.3 The relevance of the concept

I concluded earlier that there might be a unique balance that could determine the success of each and every company in coping with loop-type complex, less complex and indeed linear developments. Concurrently, understanding only the linear developments cannot be enough, in respect of FME.

Support for this argument could not be found in IB literature, with the exception of the concluding remarks of Welch and Luostarinen in their 1988 article. They suggested that the internationalisation process might not be as step-wise as they described it but that a company during internationalisation may follow its organisational momentum by taking less structured steps. However, it is clear to me now that they could not go along with this concept as long as they saw internationalisation from a life-cycle-process perspective. One could consider the companies' objectives, the achieved consequences and the feedback together, and at the same time how they try to achieve those objectives simultaneously, by applying a teleological perspective, as I did. The step-wise development did not accord with what happened in the six cases.

²³⁰ Two economic, F-1 and F-2, two socio-political, F-3, F-5, and one cognitive, F-4.

The conceptualisation of organisational momentum could be considered less deterministic than implicating linearly unfolding stages. Concurrently, planning, which is ultimately implied in stages models, may contradict the concept of organisational momentum. It may be that planning does not facilitate riding on the positive momentum or avoiding the negative one. Planning is for programming not for discovering (Mintzberg 1993 and 1994, Hamel 1996, Kirzner 1997). One could say that the maintenance of organisational momentum means continuous discovery.

Studies on strategic management and inter-organisational heterogeneity in terms of international or domestic expansion provide some samples of organisational momentum that might be the key concern of managers (Miller and Friesen 1980, Mintzberg and Waters 1982, Weick 1988, Eisenhardt and Galunic 2000).

What is most interesting is that the maintenance of organisational momentum, as the basic social process as found in the case examples of this study closely resembled Noda and Collis' (2001) findings in their work on inter-organisational heterogeneity. This supported my insight that variation can be explained in terms of this concept.

Noda and Collis (2001) attributed increasing heterogeneity in firms' performance to organisational momentum. They differentiated three types of positive feedback: economic, socio-political and cognitive. For them, positive/negative feedback magnified any differences among firms that resulted from varying initial experiences. They explained the extent of path dependence in terms of the ultimate tension between organisational momentum that builds on initial business experiences and the potential for senior management to benchmark other firm's successful strategies. By way of implication, they suggest that it is possible for a firm to switch paths if competition barriers in the industry are weak, i.e. sustainability conditions, and internal organisational momentum are not too strong to be disrupted by new management (Greiner 1972 reprinted 1998, Noda and Collis 2001). For the record, this could accurately describe Case 6 at present.

The maintenance of organisational momentum is a broad concept, and is probably not well defined in this study. Like other broad notions, different researchers interpret it in various ways. In the light of my results compared with those of other researchers, it may be useful to seek further evidence and elaborate on this concept in terms of FME.

The maintenance of organisational momentum is a concept that has been developed on the higher abstraction level and it was not directly visible in the raw data. Managers never said directly that they were actually maintaining momentum, and particularly not when there were mistakes involved. The social process of 'maintaining organisational momentum' became evident

when I saw how success bred success and, conversely, failure led to failure. Thus, the 'maintenance of organisational momentum' underlined the complex, non-linear organisational-growth process. Comparing this result of the data analysis with the findings of others could prove the relevance of this concept. Through this basic social process, it was possible to explain variations in performance resulting from uniquely applied mechanisms within the sense-making processes. Such mechanisms had logical connections to the differences in internal forces at the two companies, and in the actual relationship dyads as the external forces were revealed country by country.

I believe the concept may help in incorporating the human actor into explanations²³¹ of how people in the organisation shape and change the company's evolutionary path. The basic social process of maintaining organisational momentum could throw light on the internal and external discontinuities²³² that could interrupt it at any point of time. It may be not only the core process that emerged from the theoretical framework, it may also provide common platform for contributors to grounded-theory methodology and their ultimate audience of managers.

7.2.3 The reconstructed case histories

How did the case bridgehead relationships actually achieve what they did during the 1990's?

Being medium-sized manufacturing companies, they had products²³³, which they had to sell in order to earn money. In order to earn money efficiently, they had to allocate resources continuously. Meanwhile, they started to position themselves on the Visegrád markets. This basically involved building and sustaining a customer base in a market in which competitors were doing the same. Even in situations in which the competitors were not yet active²³⁴, generating revenues by sales meant positioning, too. Early-established and sustained customer relationships prepared the two companies for the time when the competitors emerged. They came, apparently, because significant revenue could be generated on the Visegrád markets. The deeper the analysis went, the more one could see that the four generic market processes (Eisenhardt and Galunic 2000, Eisenhardt and Sull 2001) were not sequential, but that the focus changed over time in a circular fashion underlined by the

²³¹ In terms of both rational and intuitive behaviour.

²³² Sometimes evaluated simply as luck.

²³³ Product innovation happened earlier, mainly on the domestic market.

²³⁴ This was the situation desired and achieved in most of the cases analysed here. See the theoretical discussion about true pioneers in earlier chapters, and the case descriptions.

desire for overall growth. More precisely, when the companies entered the Visegrád markets, which was clearly about selling, they could not put aside further product development²³⁵, resource allocation and positioning.

All in all, going into new markets with an established product was a relevant strategy for the two Finnish companies. That strategy sprang from their strategic objective, namely that they had the capacity to produce products that could be sold profitably on other markets than at home. With respect to this strategic vision, the elements of strategy-in-making immediately appeared. Both Finnish companies chose the market region and the actual timing of their entry, which marked their early strategy-in-making. These were the essential implementations they made in order to translate strategic vision into a running business. Concurrently, as the strategy-in-making started in order to realise the objective of implementing the business idea in the new markets - and in order to make sense out of internal and external forces - they both had to manage the following tasks. They had to be open to further strategy-in-making, to continuous adaptation to the external environment and to the integration of the new businesses into the established ones as well as into the old organisational structure.

Thus, I identified these sense-making processes - **integration, adaptation** and **strategy-in-making** - as the pillars of the substantive theory. I argue that the foreign-market expansion unfolded through distinct mechanisms incorporated in these three sense-making processes. I understood that managing expansion on the Visegrád markets required all three to be going on simultaneously. Apparently, they were interdependent in a very complex way. In particular, they all featured positive and negative feedback loops, discontinuities and linear developments. Given the results of the analysis, I suggest that the companies' performance in their foreign-market expansion was related to how they pulled together and handled interdependencies among those mechanisms, i.e. how they made sense. They exist for any medium-sized manufacturing company selling on business markets²³⁶. However, what constitutes these three processes answers the how and when questions posed to company managers. Since the **external and internal** circumstances²³⁷ (i.e. the **context**) were unique for each case company, the mechanisms, including the answers, had to be unique too.

²³⁵ At least to the extent of the adaptation of the product and marketing to the new customers.

²³⁶ The three characteristics (medium-sized, manufacturing, B-to-B) mentioned here are the most *obvious limitations* of this study - as I stated earlier. This means that I do not seek explanations outside of this borderline.

²³⁷ There are the product, the customer base, and the companies' internal structure, just to mention the most visible differences. Nevertheless, through the analysis I identified and discussed other circumstances that are unique to these particular cases. Thus, I render significance to those.

In spite of the suggestion of clustering of the four countries into the Visegrád group²³⁸, the conditions on those markets (the progress of transition, customer demand and competition barriers) differed enough to broaden the differences in the later development of the foreign-market-expansion process. In any case, the customers had to be seen as the key resources.

The differences in the six cases were also attributable to intrinsic differences in the initial endowments of the Finnish companies, notably in their organisational capabilities (cf. Teece, Pisano, & Shuen, 1997). Indeed, the two differed in their organisational capabilities. Company A had a one-product line and was an individual entrepreneurial company in comparison to Company B, which was also a medium-sized company, but with a large organisation behind it. The other member companies of the group produced related goods, albeit independently. In any case, this study focused on abilities related to the execution of alliance formation and other processes of foreign-market expansion in Company B, and not directly on the group. The differences in the six cases were attributable not only to the initial endowment of the Finnish companies, but also to the organisational capabilities of the actual bridgehead partners.

The two Finnish companies did not differ in every way. My deliberate decision to invite them to join the research project was also based on my initial understanding that their new-product development, for instance, did not differ significantly. Both companies produced a reasonably high-quality engineered product, but not a high-tech one. However, as the analysis revealed innovation²³⁹ in the two Finnish companies differed to the extent of the differences in leadership. The issue is central in understanding how people in the organisation shape and change the company's evolutionary path. Concurrently, it helped to incorporate the human actors into explanations of FME in the cases in question (cf. 3.3.4).

In agreement with Hamel (1996), the top management might have had the least diversity²⁴⁰ of experience, the largest investment in the past and the greatest reference to industrial dogma. Still, the managers on the top are responsible for creating the strategy. This is why top manager positions are not always for life. Hamel (1996) stressed that experiences are valuable to the extent that the future is like the past. Especially in the Visegrád context, this could be one reason why the managers were replaced by representatives of the younger generation (Case 4), and why the Finnish companies partnered with entrepreneurs who were capable of abandoning the past (Cases 1 and 5). Newcomers (young) who had not been steeped in the industry dogma had to

²³⁸ In the underlining economic sense.

²³⁹ It is understood here in its broad meaning of introducing something new

²⁴⁰ There were only a few people at the top

be recruited. The business experience in the planned economy was largely outdated.

Middle managers could very well be the revolutionaries further down in the hierarchy. To generate success, navigating challenging ideas from the bottom up was crucial (Hamel 1996). If the top managers did not like the challenge from the inside, the revolutionary sooner or later challenged from outside in the marketplace. That was the case when Company A's vice-president and the Polish managing director left (Case 2). Top management's task (Hamel 1996) was not just to "sell" the planned strategy, but also to ensure that the organisation acted on the convictions that emerged. It had to develop the capabilities for synthesising unconventional options into views in the company strategy direction. This was done by inviting new voices to be heard, encouraging new perspectives and starting up new conversations.

The top management of Companies A and B developed an increasing commitment to the business over the ten years. However, it was not always that they deliberately and proactively chose this path for their enterprise. It was rather that, to a greater or lesser extent, they confirmed the path on which they were already set²⁴¹. In abstract words, sense-making worked according to the description of Weick (1983). It was important to move the managers into a setting that stimulated action. Those actions consolidated the setting in an orderly manner. Concurrently, the managers got confirmation (or sometimes they let unconfirmed) to their initial presumptions. Initial business experiences, driven by the local market conditions, determined the outcomes. The two Finnish firms' early experiences in each market influenced their choices and actions in subsequent periods. All in all, initial experience was crucial in changing or amplifying the causal loops, and thus came to be considered as a property of the integration sense-making-process category. However, these developments could not be detached from the past expansion behaviour of the companies, which had effects that were seen particularly in the integration processes.

On the new markets, the potential partner had to have the ability to connect the Finnish company to the customers, as well as to collect and give reliable market information. However, when the inter-organisational relationships²⁴² were formed for reason of expansion, the bridgehead partner needed resources to raise its capacity, to learn new technology and to network. The local managers in the majority-owned subsidiaries had similar tasks with regard to market information and customer connections. Their job was designed for cost

²⁴¹ Company B allowed for warehousing the product in Poland at a time when the Polish partner had already made the storage capacity functional.

²⁴² Positive examples include Company A in Hungary and Company B in Hungary and Poland, while a negative case was Company A on the Slovak market in the early 1990s

efficiency rather than directly to come up with resources for capacity and technology development. These majority-owned subsidiaries could function as bridgehead partners by employing local management in some of the cases. However, the locals, had to be seen as pioneers in any form of operation established. Because it was they and not only the Finnish companies who faced the changing external context of the Visegrád markets.

In terms of strategy making, it was necessary to allow in fresh perspectives²⁴³, which often came from the locals. Since revenues were generated in those markets, the international voices had to be listened to. It may go beyond the focus of this study, however by nature, younger people are closer to the future. What is more, they have the bigger stake in it.

Acquiring valuable, rare and socially complex resources and capabilities is the easiest way to achieve competitive advantage. This has to be continuously re-evaluated in terms of questioning the value, rareness, imitability and organising capabilities of internal and internalised resources (Barney 1995). Here, the critical points for management intervention may be identified. The first of these intervention points arose during the initial development phase of a new business when managerial discretion appeared to be greatest (cf. Noda and Collis 2001). Monitoring competitive behaviour and understanding the rationale behind it (i.e. of the competitors on the traditional markets) freed the companies from path dependence to navigate the enterprise into new waters (on the Visegrád markets). At the same time as business was growing on the new market, the expanding Finnish companies had to re-organise their structure for reasons of cost efficiency, and develop more professional ways of doing business in order to be able to fight the competition. The re-organisation became especially urgent when the local partner could not allocate more resources. Mutually enforcing and hard to imitate the system of interconnected activities (cf. Porter 1996) was what made the bridgehead relationship competitive. In other words, the unique set of scarce, valuable and difficult-to-imitate resources (Barney 1995) were the key factors in fighting the competition. Timing was a determinant of success in coping simultaneously with linear, discontinuous and complex developments in the light of perceived feedback. The identified basic social process helped to clarify the significance of timing²⁴⁴ in the emerging markets.

²⁴³ E.g., team working at Company B within SBU system.

²⁴⁴ E.g., being a pioneer. The strategic vision was to be a pioneer - to harvest the forecasted demand is sufficient if the company is first in the market, despite the probable disadvantages. Disadvantages were considered avoidable with the help of the local partner. Here the companies answered for themselves the question of how to be a pioneer.

What was not possible to predict was how long the advantage would last. The most salient feature of competitive advantage in these turbulent markets was probably unpredictability rather than sustainability.

"In this part of Europe you have to make very quick decisions. Because this is the time and this is the place of opportunities. But opportunities come very quickly but they also leave very quickly" BP98/01

To illustrate broadly the basic social process of maintaining organisational momentum, the transformation of strategic vision into revenue-creating business certainly had time constraints²⁴⁵. The two Finnish case companies internalised local knowledge by forming the bridgehead relations. In the 'best' cases, they achieved the desired results, in other words they gained time and avoided dissemination risks in terms of their competencies. I concluded from the analysis and the theory development that within strategy-in-making processes the timing and integration processes the bridgehead relations were the keys to understand success and failure on the Visegrád markets. Indeed, the two were central in maintaining momentum, and this explains the observed variations in the case operations. Given the fact that the establishment of bridgehead relationships influenced the strategy making of the Finnish companies, one could say that organisational momentum had two sources: what the expanding company took along from its domestic market and what the partner added to it. Undoubtedly, the expanding company had as a start its product, its technology and the capacity to produce. It also had the managerial know-how for entering a new market area. The Finnish case companies set off on slightly different paths in the three (four) markets. Feedback came and filtered through inter and intra-organisational dynamics, thus fuelling 'organisational momentum'. Network businesses such as those in which the two Finnish companies were involved are subject to economies of scale and the pressure to attract positive economic feedback must be high (Noda and Collis 2001). Indeed, positive economic feedback was one of the main fuels for maintaining organisational momentum. The differences between the two companies reflected in the entrepreneurial orientation of Company A and the strategic-management orientation of Company B. Company A more consistently relied on external socio-political and cognitive feedback for example.

Maintaining organisational momentum prepared the company for taking opportunities and avoiding pitfalls. The local partners were busy collecting market information, connecting to customers and allocating resources, thus

²⁴⁵ Time constraints certainly drove the acting managers.

they had the role of maintaining the organisational momentum that the Finnish companies set off. In the most successful cases, the momentum for further expansion was maintained in such a way that the essential role played by the involvement of the committed, capable and reliable host-country business partner was undeniable.

The sense-making processes were relevant in terms of the three specific research questions²⁴⁶ posed at the beginning of this study, yet only partially. They were fuelled by the maintenance of organisational momentum, which is a basic social process. Its deliberate and spontaneous creation was unique to each and every company, and its maintenance thus involved a unique blend of small decisions and tactical steps. It could be rather difficult for competitors to imitate so many steps, and often it was only the consequences that were visible. This could make the sources of the consequences difficult to establish. In my opinion, this abstract concept reflects what Barney (1995) said: doing lots of things right over time enabled the companies to survive and grow. After all, given the competitive selection process (Hannan and Freeman 1989), the role of management in every business is to influence the evolution of its enterprise. According to this study, this role was prominent in the maintenance of organisational momentum, which nevertheless was sometimes difficult to detect.

The maintenance of organisational momentum may have feature in integrative theories on other substantive areas of organisational processes apart from foreign-market expansion. In other words, it was one of strong points that my research findings could be compared with those of similar studies in related disciplines.

The contextual mode of analysis also seemed to increase the chances of creating a modifiable theory. The 'theory'²⁴⁷ I developed here may well be applicable to different content areas. Further research within the same content area (i.e. FME) could and should involve changing the case companies, or changing the markets²⁴⁸ in which the real cases operate. This would conceivably mean differences in the internal and external contexts, and we might thus expect differences in the mechanisms applied within the three sense-making processes. While the boundaries of new cases are clearly defined, the theoretical framework may explain many "new" mechanisms.

²⁴⁶ How did the Finnish case companies expand their businesses in the Visegrád markets during 1990-2000?

How did they develop their strategies in the various country markets?

What was the role of long-term business relationships with local partners in the expansion of business operations?

²⁴⁷ A theory that stipulates what should be considered in analysis of the foreign-market-expansion process, i.e. a fresh way of analysing FME.

²⁴⁸ Markets and companies change all the time. Consequently, we might assume that follow-up studies on the same cases would need to deal with other mechanisms

Understanding how and why the Finnish companies were able to identify and accumulate their revenue-generating resources should be seen as a valuable contribution of this study. It was precisely those dynamic processes and mechanisms through which they established a favourable (sometimes unfavourable) resource position that were uncovered in this study.

7.3 Reflection on the theoretical departure

7.3.1 The preliminary arguments in the light of grounded-theory analysis

The theoretical pre-understanding for the research project was based on studies focusing on the process of internationalisation, and claiming to be processual, dynamic, and more holistic than others in the field. The authors described, or attempted to explain, internationalisation by developing stages models from a process (e.g., Johanson and Vahlne 1977, 1990, Luostarinen and Welch 1988), or a network perspective (e.g., Johanson and Mattsson 1988). Some critics suggested more of a contingency approach (e.g., Reid 1981, Turnbull 1987). The studies were mainly Northern European. All in all, the authors based their models on the life-cycle process. Thus, they resulted in a linear sequential order in describing foreign-market expansion, while the inherent learning process primarily explained increasing involvement in international operations.

The third chapter of this study considered pros and cons of the results of studies of the Nordic School in the IB tradition. The underlying questions addressed concerned how well IB theories could explain foreign-market expansion on emerging markets. What deeper elaboration of the explanatory capacity of the Nordic School could be usefully explored with a view to carefully combining their studies with other IB theories? The above arguments were presented primarily as responses to these questions. Table 13 below summarises the probable sources and natures of the problems concerning the stages models and the network perspective on internationalisation. The fourth column (Table 13) gives my best estimates for solving these problems at this phase of the study.

Analysing the mechanisms (Chapter 6) gave me a better understanding of the FME process in the six case dyads in terms of the extent, to which the process was linear and similar across the cases (3.3.6). How significant were the cognitive aspects of the FME process (3.3.4)? Did risk taking or uncertainty avoidance feature in the six cases (3.3.3)? I offer my responses in the following sections in the light of the original arguments.

Table 13 The five points of theoretical departure

No.	THE SOURCE OF THE PROBLEM Stages models (SM) Network perspective (NP)	NATURE OF THE PROBLEM	SOLUTION
1.	Linear, step-wise (SM), incremental stages (SM,NP) aggregation of independent variables, Dependent variable: entry mode (SM), market position (NP)	Missing relevant variables	Variation needs to be explained, Reconsider variables
2.	Primary behaviour of managers; uncertainty avoidance (SM),	Adequacy of relationship among concepts (problem with formulation)	Primary behaviour of managers; risk taking, opportunity seeking
3.	Core processes; experiential knowledge (SM), Maintenance of BR (NP)	Adequacy of relationships among concepts (problem with understanding)	Other core process?
4.	Focus on isolated market entries	Adequacy of relationships among concepts (problem with understanding)	FME is part of the complexity of organisational growth strategies. Timing and decision-making pattern are relevant.
5.	Life-cycle process perspective	Adequacy of relationships among concepts (problem with understanding and formulation)	Teleology-process perspective

7.3.2 The six cases pursued FME uniquely

I argued that insufficiencies are inherent because stage models cannot explain variability. Today, the external environment - including the CEE markets - is hospitable to industry forerunners in respect of globalisation, deregulation, technological development and social changes. This is why we are witnessing the limits of incrementalism, and as Hamel (1996) suggested, the danger is that applying incremental improvement in the face of rivals may even reinvent industries.

The core external forces identified in this study were *progress of transition, customer demand, competition barriers and cultural differences*. Together with the internal variables of strategy, structure and decision-making methods, the environmental variables were integral complementarities (cf. Miller 1987,

1980). The variables differed depending on the type of organisation (i.e. Companies A and B and the form of their bridgehead relationships), their goals and the environment within which the bridgehead relationships operated (Czech, Polish, Hungarian or Slovak).

The Visegrád markets became more accessible to the two Finnish medium-sized companies when the competitive structure and the growth of the target industry in the traditional market (i.e. the push factors) turned out to be rather unfavourable. From the point of view of the two Finnish case companies, these were the insurmountable barriers to their growth. Indeed, the macro changes enabled them to predict that they would be able to sell on the Visegrád markets. The political changes there since the early 1990's immediately motivated their decision to establish a rapid market presence and, if they succeeded, to pre-empt the competitors. The central governmental role was in creating conditions favourable to foreign entries. The state priorities affected the two Finnish companies in that they determined how the customers moved in each Visegrád country. During the ten-years period, legislation and performance in the Visegrád economies were favourable, and thus the most relevant²⁴⁹ factors were on the industry level (see section 3.3.2), in terms of how the industry in which the customers operated related to the state priorities (e.g. privatisation in each market, the local customer profile and the type of competitors who followed the two pioneer Finnish Companies).

The sustainability of competitive advantage was also depended on the unique resources and capabilities that the Finnish companies brought into the arena (Barney 1995). Its creation was enhanced by the establishment of bridgehead relationships, and thus did not stop on the domestic market.

Process models of internationalisation have been criticised, on account of the explanatory concept of perceived psychic distance (see section 3.3.2), which was not, in fact, transparent in these cases. Indeed, the two Finnish companies entered the CEE at a time when the region was full of discontinuities (i.e. opportunities and threats). Their core competencies²⁵⁰ were also significant in the light of the immediate investments pursued by the Visegrád states in upgrading their infrastructure.

After the Soviet system collapsed, the management of Company A perceived Hungary to be the easiest market - which did not refer to psychic distance. The perception was much more intuitive, and was based on less systematic evaluation. What easiness really meant was the size of the immediate demand in the light of Company A's internal resources.

²⁴⁹ Relevant because it may change unpredictably, or because the changes, even if predictable, have a significant effect on the case operations.

²⁵⁰ The customer segments in both cases included sub-contracting, sales and marketing, design and product development.

It was not a question of untenable psychic distance for the Finnish companies in question - but rather that they saw the markets in terms of customers (Bell 1995, Zettining and Jokela 2002). Together, the domestic and the new host environments created forces of which customers and competitors comprised the key external elements as far as these profit-oriented companies were concerned (3.3.2)²⁵¹.

I would agree with critics (O'Grady and Lane 1996, Julien 1996, Marshall et al 1998, Petersen and Pedersen 2002) who suggest that psychic distance does not necessarily positively correlate with the cost of doing business. Cost of doing business was relatively low with a bridgehead partner (this applies also for Company A in the Slovak market on which it counted losses). The cases in the Czech Republic fit this insight. For both Finnish companies, the actual bridgehead and customer relations in the Czech and Slovak markets were decisive, and not what the countries looked like in terms of psychic distance.

The results of the analysis also supported the idea that relationships are one of the contingencies of the FME process. With Company A's expansion in Hungary, affectionate commitment characterised the very first meeting of the partners, which refuted thinking in terms of psychic distance. Nevertheless, other similar types of relationships did not turn out so well. One could not ignore the managers' evaluation about the role of pure luck in view of the fact that the relationship formulation was based on vague planning.

Another example was the way in which Company B arrived at its bridgehead relationship. The owner of the group (Company B) had personal contacts in Hungary, which provided a basis for establishing the joint venture as early as in 1989. Actual operations began a year later.

How this bridgehead relationship further developed was an example of how series of changes made internally and externally could be seen afterwards as step-by-step development on that market. In real time, the development could not be seen as such because neither of the two Finnish companies could control the changes in the environment. Turbulence was the main characteristic of the relevant industry²⁵² there and the companies did not have the organisational structure to cope. For example, Company B became heavily involved in restructuring the joint venture in Hungary at the very beginning. The objective of Company B was the integration of the local partner rather than short-term profit on the host markets. At this time, Western-type competition in the industry was the new reality by the mid-1990s, and the privatisation process affected the case dyad through the customers. Thus, the re-structured joint venture faced new challenges. Furthermore, it was not clear,

²⁵¹ Determinants of internationalization are discussed in section 3.3.1 according to the literature.

²⁵² Relevant here means where the customers were.

how the process would unfold in the different countries. However, the fact that two processes - one external and one internal - were going on simultaneously did not imply immediate direct connection between them (i.e., straightforward stimulus-response connection).

As for the external determinants that have been discussed as barriers to entry - the cost of foreignness and differences in customer requirements - managers always have to think them through. Indeed the very reason for entering into a bridgehead relationship²⁵³ was to lower them. However, the connections were more complex between the simultaneously pursued other objectives and consequences to bridgehead relationship developments. Its establishment involved task delegation and sharing. Having the partnerships with locals saved the resources of the Finnish companies and dealt with differences in customer demand (see Cases 1 and 5). It also helped in dealing with the different bureaucratic systems, and other informal practices such as corruption. The cultural differences between the Finnish companies and the actors on the Visegrád markets probably did not diminish over the ten years, and it was rather that the established bridgehead relations played an intermediating role. The Finnish companies in question were active in the foreign networks through the established bridgehead relationships²⁵⁴, rather than directly. Their bridgehead partners saved them from having to acquire excellence in networking with parties other than customers. Here, again, it needs to be stressed that the bridgehead relations fulfilled their tasks only if both sides made appropriate investments (according to shared goals). The less dynamic developments on the Czech market were also attributed to the lower level of investment by the Finnish companies. As a consequence, the potential local partner could not or did not wish to invest either.

It is not my intention to deny the cumulative nature of network participation, but I felt the need to show that the priority in a B-to-B operation is to sustain a profitable customer base. The two companies expanded in terms of sales volume, turnover growth and profitability in the region only because they succeeded in fostering long-term customer relations in Hungary and Poland. The key issue for the two Finnish companies was and still is promoting long-term relationships with customers. Company B always approached them directly, while Company A adopted the direct approach as a strategic goal during the second half of the studied time-period.

In terms of differences, which occurred among the FME of the cases in the different Visegrád markets, the critical dimension was time. The emergent

²⁵³ Cf. first, bridgehead relationship is a *guiding rule* in **strategy-in-making** then it became a property to **integration**.

²⁵⁴ These were in the form of an export agency, a majority- or wholly-owned subsidiary, a joint venture or a subcontracted partner, and in all cases local people were employed.

theoretical framework could include timing on its own right, it was thus not missed (cf. Butler 1995, Greiner 1972 reprinted 1998, Hurmerinta-Peltomäki 2001).

7.3.3 Managers as opportunity seekers and risks takers

To some extent, going into the CEE markets was going against convention. Chaos, risk and uncertainty did not stop the case dyads. It could have been the case that the Finnish companies, early move towards the Visegrád countries was about seeing where the industry was going and then moving as forerunners. Thus, as Hamel (1996) argued, it was a way to create a revolutionary strategy. Nevertheless, deregulation and social change in those markets had created a hospitable external environment by the early nineties.

The Finnish companies in question gained time by proceeding with the bridgehead relationship, as a guiding rule. They decided on a higher-level entry mode immediately and specifically invested in the partnership. Thus the cost of entry was relatively small. In this sense, there was no financial risk relative to what would have been involved in entering Western markets. On the other hand, it was foreseeable that the Visegrád markets would be attractive for competitors. It was more important to establish a name and thus achieve a position on the market. Timing was decisive in relation to the actual cost of the investment.

My assumption is that the outcomes are easier to forecast in more linear developments. All of the mechanisms described in terms of complex or loop-type cause and effects reveal more about risk taking than about uncertainty avoidance. They proceeded even though the outcome was not known. The analysis results showed that more than half of them that were applied in the A cases were such that the outcome could have been positive or negative. One reason for this may have been that the market was indeed turbulent. With or without good bridgehead relationships, the Finnish company could not exert real control over the other actors (see also the low-level linearity in the mechanisms in which external socio-political objectives were identified, Appendix 9, Table 5). Another reason may have been that it was indeed an entrepreneurial process on all sides of the case partnerships, and the charismatic owner-entrepreneur decided on everything.

Given the loop-type of feedback occurrences (everything other than linear), I believe there was risk taking in all of the cases (cf. 3.3.3). If we only consider the less complex loops, there were chances of a vicious or victorious circle occur. Moreover, as the case development showed, these circles were indeed detectable. Specifically, the mechanisms in which the operation ended

in a definite negative circle showed that the companies took the risk, albeit that they did not deliberately fail. Mistakes happen with the best-planned strategy, too. External forces may steer the process uncontrollably in the wrong direction. Whenever there was no clear-cut forecast of outcomes, the companies still took risks, and still searched for opportunities. This occurred to a higher degree in the A cases (around 80 percent) than in the B cases (around 70 percent). The difference could probably be attributed to the better standard of forecasting in Company B, or to the fact that the managers planned and analysed more carefully before making decisions.

The two Finnish companies identified the unconventional strategic option. Although uncertainty (in terms of outcomes) was prevalent in the Visegrád markets, they went there²⁵⁵. Their perspective changed in terms of dealing with uncertainty. According to Hamel (1996), competitiveness is achieved by identifying an unshakeable belief, and by searching for discontinuities in technology, lifestyle, working habits and geopolitics. I have suggested that the two Finnish companies did not follow conventional wisdom - applied in the stages models - in that uncertainty should be avoided, or at least actively minimised. The logic of opportunity dictates that companies should seek out uncertainty rather than avoid it (Kirzner 1997, Eisenhardt and Sull 2001). If the two Finnish companies had moved after Finland became full-member of the EU and the KEVSOS agreement was cancelled, they probably would not have been able to turn their strategic approach²⁵⁶ into expansive performance. If they had delayed their entry, they would probably have found more actors on the market, even some to imitate, but they might well have earned less profit. Seeking opportunities required simple rules (cf. involving locals), not step-by-step recipes.

To conclude this section, understanding opportunity seeking and risk taking of the managers tell us more about FME in emerging markets, in my opinion, than how they avoid uncertainty.

7.3.4 FME and the overall strategic-growth process

Objectives appeared simultaneously in the mechanisms the case operations applied. This may support my argument that FME is a complex process within the overall growth process. Nevertheless, I realise that there were fewer, simultaneous processes in the B cases, which I discussed in the sections 6.4

²⁵⁵ E.g., Company B succeeded in plunging into the privatised energy industry in Hungary, and it still has the possibility to do that in Poland, where privatisation has not yet happened. Following its ten-year presence in Poland, Company B is the strongest name in the industry.

²⁵⁶ Which evidently was to seek opportunities in the turbulence.

and 6.5 in the context of linearity and loops, and in the cross-case analysis (6.5).

Furthermore, how Company B could stay for so long on the Czech market without real revenue (Case 6) was an interesting question. The probable answer is that, although the initial experience was not extremely favourable, the company had good business in other markets. This shows what matters. It is the overall growth rather than the business in one market alone.

The underlying key issue was to manage organisational growth, i.e. to keep the company on a stable continuous growth path, and prevent slow-down or at least reverse a potential downward spiral. This also means that any move in a particular market should be seen as part of the overall growth process, given the scarcity of resources²⁵⁷.

The key resources in this sense were the customers. However direct the relationship with them became, the supplier (i.e. the cases in this study) could not fully control them. At the same time, neither the number of customers nor the sales to one particular one can be assumed to grow linearly, thus the theory of the linear growth of the customer base did not apply. Keeping the growth stable in the face of constantly changing conditions required constant adjustments. The adjustments are the actual action/interaction strategies, which bring process into the management of company growth. This type of process description should show that the subject - here company growth - is influenced by highly variable and changeable conditions. Even established routines are affected by unforeseen contingencies.

When the process is conceptualised as a non-linear movement is when action/interaction strategies are flexible, in flux, responsive, and changeable in response to changing conditions (Pinder and Moore 1979). The managers applied a unique way of thinking about these challenges, and consequently the principles of strategy making through carrying out step-by-step instructions did not always apply. Understanding this helped to incorporate the human actors, and the explanations turned to both the rational and intuitive choices the managers made. In turn, the emergent theoretical framework became less deterministic.

It is not only in studies on internationalisation, but also in other, related fields of organisational analysis that more and more researchers are questioning the applicability of life-cycle process models. Those process models usually assume the linear progression of defined phases leading to definite outcomes (Mintzberg and Waters 1982, Van de Ven 1992, Hamel 1996). This steady progression is undermined in multi-layered and changing contexts in which causalities and feedback loops are multi-directional. These

²⁵⁷ Note that the customer base was also a resource.

established theories assume that actions are orderly and sequential, and achieve rationally declared ends. Actors are seen to behave mechanistically. Attempts are made to explain change processes according to rational, linear theories of planning, decision-making and change. However, changes emerge and are pursued in much more complex, haphazard and contradictory ways (Pettigrew 1990). There was a need to penetrate the logic behind the observed temporal progression.

In my opinion, the process of implementing and expanding on a business idea in a new market could be step-wise, i.e. featuring the linear accumulation of complexity including network participation, if and only if the companies possessed perfect knowledge about a perfect market with total control of resources at any point of time. This situation is highly unlikely to occur.

7.3.5 The maintenance of organisational momentum as a basic social process

Expansion on the Visegrád markets involved many mechanisms, which could not be seen as learning mechanisms/processes. This is because resources other than organisational knowledge had to be exploited. Anyone might have had a major effect on the business without acquiring knowledge in the company. This does not exclude learning objective to be also there in companies' FME. What I am trying to say is that businesses and business environments are in constant motion, move even if the individuals do not learn. Gaining adequate knowledge is an important element in the larger social process of maintaining the organisational momentum, ultimately for successfully conducting operations (including the fight against competition) on emerging markets.

The results of the data analysis illustrate this point. Learning objectives were significantly less than economic ones in the FME of the A- and B-cases (almost no learning objectives in the B-cases). This supports arguments against linear stage models of explaining FME as a learning process, because learning was not a stand-alone process within FME rather it could be evaluated as one among other objectives. If that were the case, that would probably reflect postponed action or longer thinking time. In turn, it would also mean that people are more rational, but rationality does not necessarily improve the outcome because it may be over-determined (Weick 1983). Further, in seeing it as objective it still could not be singled out as the main one.

While this study did not accept the creation of experiential knowledge as a basic social process (rather that is an objective), it did put forward the maintenance of organisational momentum (7.2.2) as a substitute. The

mechanisms were seen as attributes of the processual phenomena. The maintenance of organisational momentum seemed to be a very dynamic core category in explaining the variation in these mechanisms. A multitude of properties and dimensions emerged that could be incorporated into the six categories, and it was in this system that the core processual category (OM) then emerged. Thus, foreign-market expansion on emergent markets today could be more realistically explained.

7.3.6 The teleological-process perspective on FME

This study consciously applied the teleological-process perspective. The analysis worked reasonably well in this context. My interest was in finding out just what were those mechanisms (i.e. stimulus-organism-response), and how the Finnish companies in question chose from them in their bids to succeed and grow on the Visegrád markets. Indeed, given the simplicity of the life-cycle perspective, conducting research from teleological perspective is not easy. On the other hand, I truly believe that managers who need to pursue several objectives simultaneously would see that it reflected their reality (everyday life).

According to the fifth argument, a deeper understanding of the foreign-market-expansion process would be gained by choosing teleological process theory as a basis of the investigation (Van de Ven 1992, Van de Ven and Poole 1995). First, conquering these markets by taking linear, sequential and predetermined steps did not fit the unpredictability of the opportunities, and problems come and, go. Furthermore, the desired end, or what the companies were striving for was known. The goal was to create wealth and thus to grow and/or survive in the business. The other objectives, socio-political and cognitive, I could also identify. These together could be achieved in many different ways. Cuervo-Cazurra and Ramos (2002) recently argued that studies of the transformation of firms' activities via strategies should adopt teleological-process view. In their view, which was based on the resource-based theory of corporate growth, the firm extends into foreign markets in order to achieve an objective, value creation, through the development of resources, and selects the methods and modes that facilitate this.

Furthermore, stage models only reveal the similarities (Pinder & Moore 1979, Weick 1983, Van de Ven 1992). *In contrast, I was more interested in what makes the variety in similar cases. I searched for the extent of uniqueness.* The foreign-market expansion process could be broken down into phases in the operation-mode context. A linear step-wise process would undoubtedly emerge in these six cases too. However, change in operation

mode (a structural element) is one of the dependent variables. The companies - in reality - did not move between them in an orderly, linear, progressive fashion. Clearly, for Companies A and B and their partners the expansion process in each market was complex. Even in hindsight, I found it difficult to describe the process in linearly unfolding steps. In real time, both in the FME process and the bridgehead-relationship developments were more haphazard, and steps were taken in more than one direction (cf. the five focuses).

7.4 The methodological choices

7.4.1 Validity, reliability and replicability criteria in this study

Validity is the extent to which a piece of research gives the correct answer (Perry 1998). More precisely, it refers to the best available approximation to the truth of propositions. Reliability refers to replicability, and the criteria for both are closely related in positivist evaluation. Validity and reliability issues are raised in discussion on the strengths and weaknesses of qualitative vs. quantitative research. However, not all objectivist and positivist criteria apply in grounded-theory methodology (Strauss & Corbin 1990, Parry 1998).

Full replication is impossible in grounded theory research. Given the varied social construction of knowledge, I had to accurately describe the study context and the techniques I used, so that subsequent follow-up studies may match them as closely as possible (Pettigrew 1990, Goulding 1998). Indeed, the more detailed the grounded-theory approach, the more it allows the researcher to explain and understand if applied to a similar phenomenon. In this case, research with this approach can claim reliability (Parry 1998).

Undeniably, the requirement for accuracy, consistency, extensibility, simplicity and fruitfulness should be widely employed within all scientific disciplines, with any applied paradigm and methodological consequences. With a view to discussing the strengths and weaknesses of GT methodology, both the researcher and the audience should understand what the theory can do and what it cannot. What use are the results, and when is the theory not suitable? What grounded theory can provide is a way of thinking about a phenomenon. I illustrated the complex relationship between the relevant concepts. These relationships were embedded in the particular context, which set out socio-structural conditions that supported interactions, their consequences and how they change over time. On the one hand, this investigation produced radical implications, and on the other, it does not offer direct solutions to individuals (Goulding 1998). It is not predictive of the treatment of individual cases and it is provisional in the light of the fluidity of

the social phenomena under investigation. Nevertheless, the cases were "not simply a somewhat useful secondary tool for the serious work of scientific hypothesis testing (Edwards 1998), but a substantial strategy for advancing knowledge". Indeed, even a strong theory-building study may (and should) have a good but not necessarily perfect fit with the data.

Indeed, grounded-theory methodology in general, and in this study in particular, depends on the *constant comparative method* it involves. Its application can be evaluated in terms of how the result, the theoretical output, fits the real world. How will my theoretical framework work across a range of contexts? If necessary, does it offer modification possibilities? Last but not least, are the new framework and the concept of the maintenance of organisational momentum relevant to the people concerned? The degree of fit with antecedent literature is also a serious issue. Whatever part of the generated theory does not fit or support the existing literature has to be explained in terms of substantive differences. Thus, this theoretical framework meets the reliability criterion.

In the following, I discuss relevant evaluative criteria of the research process and the findings - i.e. the interpretive theoretical output. At the same time, I explain what has been done in this research project to meet those criteria.

7.4.2 The relevance of the grounded-theory approach

Indeed, a key question in conducting this type of research - from a case study towards theory building - is why apply GT research strategy? How can one combine the techniques that have evolved in different disciplines, and evaluate the results - ultimately the theory itself (Eisenhardt 1989, Dyer and Wilkins 1991)? As a scientist, how did I incorporate appropriate purposefully collected evidence, and systematic analysis and synthesis of the facts that both made sense and were true to the evidence (Ragin 1994)?

In management sciences, knowledge is created in the context of application (Weick 1983, Partington 2000). Research demand arises more from the concerns of society than from the desire for academic progress. In the field of management, the knowledge-production system should aim to bring together the supply side (i.e. research institutions and universities) and the demand side (i.e. businesses). That is to say, effectiveness depends on the rapid interplay between management theory and practice. Academics learn from managers, processing actions and words into normative benchmarks and blueprints for management practice. At the same time, managers learn from what researchers develop, such as applied and practically derived theories. Valuable knowledge

should be characterised by its trans-disciplinarity. Management researchers should apply a broad set of skills and experiences in a variety of university and non-university settings, while the research is conducted within a non-hierarchical, transient structure. This interdependence between knowledge supply and knowledge demand leads to the call for more bottom-up and theory-building studies. In other words, using empirical data to build theories that are useful and up-to-date should be the aim. Porter (1991), for example, called for the inductive building of frameworks that are based on in-depth empirical research. Inductively derived, in-depth empirical studies highlight omitted variables in models (cf. sections 3.3.2 and 7.3.2), the diversity of competitive situations, the range of actual strategy choices, and the extent to which important parameters are not fixed but are continually in flux. These types of study can capture much of the complexity and can "... identify the relevant variables and the questions that the user of the framework must answer in order to develop conclusions tailored to a particular industry and company". As in the past, current circumstances demand the best practices.

Qualitative strategies pursue research on commonalities, unlike comparative research that focuses on diversity and quantitative research that concerns relationships between variables (Ragin 1994). The best ways of fitting research goals to a qualitative research strategy involving the interpretation of significance, the advancement of new theories and voice giving. In this research, the main goal was to advance a new theoretical framework for analysing FME. Concurrently, the study aimed at searching for explanations of variation. This connotes the interpretation of significance. Given the possibilities that the original setting gave, voice giving got also significance during the research process. In respect of all these aims, using the grounded-theory approach with its systematic analytical tools helped to establish a common platform, as it was not necessarily evident on all sides, West and East or to academics and practitioners.

As far as this study is concerned, there were well-formulated theories, and major research issues were clearly defined. On the other hand, I could argue that there was no readily applicable case law of foreign-market expansion in newly-emerging markets (e.g., Nasierowsky 1996, Meyer and Münschen 1999, Liuhto 2000). The underlying assumption was the need to determine whether the theories provided good explanations, or whether alternative explanations needed to be developed. This gave good reason to select the 'critical cases' (Ryan-Scapens-Theobald 1992).

GT methodology is relevant in studying any social phenomenon that is processual by nature because it generates theories about social processes (e.g., Pettigrew 1990, 1997, Langley 1999). Foreign-market expansion is a social process. The FME process is concerned with people and their relations with

each other. On the social level, it is not concentrated on any level or rank in an organisation, but is present throughout. It is a process that involves changes and the changes occur over time. There is thus a need to understand and include history and culture (Greiner 1972 reprinted 1998) as an elementary influence on business practitioners. All in all, structural social and psychological elements of internationalisation complement each other. GT methodology has the capacity to cope with that complementarity.

The goal in this study was to find a theory that provided good explanations of the FME processes of the six cases selected. In general, GT methodology is open to new concepts. On the one hand, I was confident that there are many concepts in the research field of internationalisation and that they could be considered saturated. Nevertheless, I did not exclude the possibility of finding new ones, although I could not expect to find entirely new ones throughout the analysis. On the other hand, I found support for the idea that the immediate field inadequately establishes relationships between concepts. At the same time, I needed to grasp the basic social process as a concept (Glaser 1992), which was missing. By using GT methodology, I was able to do that.

I investigated the strategic behaviour, i.e. the actions and experiences, of managers in newly emerging markets. The variety of variables that affect foreign-market expansion had to be incorporated. Grounded-theory methodology helped me to utilise the breadth and depth of the data, and hence to incorporate the variety and range of variables. The companies' expansion on the Visegrád markets gave the content of this research. I had to select from the mass of presented qualities those that shed light on that content. These qualities were tentative until they were linked to an explanation and confirmed by further data. Better clues might have been neglected in the initial data collection. Thus, only by continually going back (iteration) to the raw empirical material was I able to discover and modify a less adequate explanation. For me, the theory generation rather than theory testing that prevailed was more relevant. It was enough to apply grounded-theory methodology because it enabled me to search for theoretical explanations of the data based on the data itself. Indeed, it explicitly offered useful tools²⁵⁸ in the necessary iterative process.

The results of this study gave new insights into step-wise internationalisation vs. organisational momentum for instance. Through GT analysis, this study built up a theory that incorporated integration, adaptation and strategy-in-making as sense-making processes. It gave me a better hold on the so-far superficially understood elements of strategy-in-making (e.g., timing, and guiding rules). With respect to the mechanisms I identified, I quote

²⁵⁸ I.e. coding, constant comparison and the paradigm model.

Elster (1989). "*There are the mechanisms which we can explain, but that does not mean that we are able to predict when and which mechanism will come into force. The social sciences can identify tendencies, inclinations and mechanisms through their effects on human behaviour. However, social sciences are less able to give minimum but enough dependencies in order to predict the start of a particular mechanism.*" All in all, the mechanisms did not need to be general, but still we have to believe that our knowledge grows as we learn more about the many different ways in which things can happen. The results of this study best illustrate the working mechanisms within the dyads, and less the mechanisms related more specifically to the organisational capabilities of the Finnish companies, for instance, because the analysis was not systematic enough for that. I believe the theoretical framework is general enough to cover a range of situations in any bridgehead type of business relationship, but not abstract enough to lose its relevance to any one situation. Indeed, grounded-theory results are difficult to generalise. The approach is rather substantive to the setting from which it has been generated (Strauss and Corbin 1990, Parry 1998).

Furthermore, a precondition for identifying the basic social process was to apply teleological-process theory. Because this theory lay behind the investigation, the *findings should be seen as an alternative solution to rather than a direct criticism* of findings focused on the process of internationalisation from the perspective of life-cycle-process theory. I hope, my results will provide a stimulus for sorting out problems that have remained below the surface. Case studies should provide a basis for thinking about problems. The goal here was no less than to achieve a deeper and richer understanding of the social processes involved in the FME pursued by the cases in question. The theoretical framework should help the actors to become more aware of the problems, of the possibilities and of the solutions.

Despite obvious methodological limitations, I believe this study provides a valuable contribution to the development of an empirically validated, integrative dynamic framework from which the field of internationalisation could still benefit. I found the combination of GT methodology and the contextualist mode of analysis especially fruitful in achieving theoretical integration and dynamism.

The very findings also justify the applied theory-development process. The sense-making process of strategy-in-making glued the other processes together in the light of the identified forces. Strategy making, as is commonly understood, always means making something new.

A new theory (paradigm) that has relevance either accords with reality as people see it, or it comes close enough for people who do not accept it to have to attack it (Huntington 1993, Wells 1995). Experience shows that it takes

time for theories to be credited or discredited. In the meantime, perhaps the vigour and extensiveness of the debate about its adequacy will judge the utility of this grounded theory.

I have presented my major arguments for applying the grounded-theory approach in the light of the subject matter and the theoretical pre-understanding. In terms of the technical advantages and disadvantages, it is more a question of how the methods were really applied. Thus, I outline the benefits and pitfalls I found in the next section.

7.4.3 Evaluating the Research Process

The evaluative criteria of any grounded theory should be how plausible an explanation of the phenomenon under study it offered (Glaser & Strauss 1967). In terms of trustworthiness, this concerns the vividness of the informant's social world, and whether the research process is detailed enough and conforms to the requirement of constant comparison i.e. rigorousness.

The theory was developed on the basis of the six cases. It was able to link diverse facts in a coherent, useful and pragmatic way and had the capacity to reveal the unrecognised or unknown. Indeed, the theorising here involved a process of constructing alternative explanations until the best fit was achieved with the data. In this sense, the links to established theories must have been acceptable. 'Verification' came through the process of category saturation (include here the saturation of mechanisms, too) by staying close to the data.

Some phenomena had to be defined in advance so that I could be sure that what I observed was the real phenomenon under study. In this respect, I defined the actual content early i.e. FME as part of the overall growth process of the bridgehead relationships in question. I defined the external context as the Visegrád markets as emerging markets. I also incorporated the given definition of bridgehead relationships (Eriksson and Chetty 1998) and applied the definition of 'true pioneer' (Ansoff 1957, Baker and Becker 1997).

Theoretical sensitivity is necessary in this type of research. I understood this in two ways, in respect of my personal and temperamental bent, and of my ability to have a theoretical insight in order to make something out of it. A pre-understanding of the immediate field of research was necessary before I embarked upon my project (Kvale 1996, Creswell 1998). This I displayed in Chapter 3, at the same time as identifying significant shortfalls in research within the IB tradition. From this it follows that the general risk that the preliminary theoretical understanding might force the development of the theory generation was not great. *However, the ultimate challenge was to*

integrate emergent analytic thinking (Parry 1998). Thus, I could not stop searching in the diverse field of business sciences during this study.

The aim in my interview-based theory building was to build a causal theory while acknowledging the lack of absolute causal certainty. Indeed, social processes are rarely reducible to absolute laws. Reality is socially constructed and consists of an individual's interpretations. The actions of managers were not always observable in an objective way. In short, the researcher could reveal some of the elements as observable events, and some were accessible through the subjective accounts of the managers. There were other elements that were uncovered through comparisons, and some by speculation over apparent causal tendencies. The cause itself was not enough of an explanation (Elster 1989); I needed the causal mechanisms too. This concentration on the mechanisms enabled the scientific explanation to achieve its dynamism. While adequacy improved, the research activity accelerated and became more focused. This very focus imposed more self-validating constraints on the research, thereby proving the adequacy of the explanation.

Linking data to propositions within the case-study research strategy can be done in a number of ways (Campbell 1975, Wilson and Woodside 1999, Langley 1999), and not only using the grounded-theory methodology applied here. Grounded theory is admittedly a considerable challenge for the reader because of its density. It is criticised especially because it is time-consuming, there are obvious traps and the boundaries are difficult to establish. Indeed, its application in managerial sciences is quite rare. When it has been applied, it has more often been unsuccessful. Successful conclusions can be achieved if methodological implications are addressed to the actual study, to the purpose and the assumptions according to which the data were collected.

This study - like many other qualitative studies in the field of international business - analysed the recollection of past, present and probable future events. The main sources of data were retrospective and real-time interviews. Some of the outcomes were not seen during the investigation. I attempted to explain the interrelated processes, foreign-market expansion and the development of bridgehead relationships. Thus, an empirical study was set up as a longitudinal multiple-case study. I analysed the business relationships on both the company and the personal level and collected data from parties on both sides. My selection of medium-sized companies that had entered the newly emerging markets early (i.e. these were critical cases) turned out to be a fruitful approach. All in all, the choices I made at the outset and during the research process were motivated by the desire to increase the capacity for creating new understanding in the form of interpretive theoretical output.

I was aware that, the emphasis of the classic case study approach is to highlight a construct by showing its operation in an ongoing social context (cf.

Dyer and Wilkins 1991). Admittedly, there may be a trade off - the study at hand stands between the deep understanding of a particular setting and the benefit of comparative insight. The very setting of this study with the multiple cases is indicative of my purpose - to gain comparative insight.

I did not plan to have polar types of cases. However, it was certainly to be expected that of the simultaneously pursued expansion processes in three different countries by two independent Finnish companies I would find some polarisation in terms of performance. The selected cases could nevertheless replicate the theoretical explanations of this study to a sufficient degree. At the same time, the above-mentioned polarisation enabled me to prove/disprove particular propositions and to evaluate the emergent pieces of the theoretical framework.

The use of multiple sources of data certainly increased the complexity of the analysis. In as far as processes are generally not easy to observe, that justified the use of multiple sources of data. Quantitative evidence, mainly obtained from archival sources, was important in indicating relationships that may not have been salient otherwise²⁵⁹ (Yin 1989). That and the observations kept the study on track, and preventing the researcher from being carried away by qualitative data that was too vivid and which could have produced unrealistic results. A large amount of quantitative data was collected through the actual interviews. The managers elaborated on this quantitative evidence during the later interviews. Nevertheless, the key source of data was the semi-structured in-depth interviews with the managers, which produced largely qualitative, process data. All in all, the grounded-theory methods (i.e. coding, constant comparison) offered ways of handling multiple sources of data.

During the data collection, I had to ensure that the raw data were genuine and free from bias and selection effect. I had to avoid asking leading questions, activating response sets, setting up situations with strong demand characteristics and selectively recording responses. In my opinion, these requirements were sufficiently covered with the two 'old' frameworks I used for the data collection, the Dwyer Oh and Schurr model (1987) and the Young et al (1989) entry-mode characterisation (see Appendix 2).

The data included collateral reports from the counterparts within the same business. That required me to take steps to assess the extent to which the information could be relied upon. My concern was that the case histories and synopses, and the interview summaries would faithfully portray the experience and behaviour of the participants and that they would be free from selection bias (i.e. in omitting aspects of the material that might be problematic in terms of the researcher's favoured assumptions). First, an appropriate form of control

²⁵⁹ In other words, supporting the search for the processes.

was to have the participants read the raw data after I had completed the first data-reduction process. They had the chance to say whether or not their experiences were faithfully portrayed. Secondly, all of the participants knew about the interviews with the counterparts, but each of them had full control only over their own responses.

As far as the extensive case descriptions were concerned, I took seriously the notion that the clarity of constructs stems from a story that supports and demonstrates them (Dyer and Wilkins 1991, Lukka and Kasanen 1995). Listening to people talking in their own words about what has been significant in their lives may be more valuable than studying preconceived psychometric scales or contrived experiments (econometric). For example, Edwards (1998) cited Mintzberg (1979) thus: *"For while systematic data create the foundation of our theories, it is the anecdotal data that enable us to do the building. Theory building seems to require rich description, the richness that comes from anecdotes. We uncover all kinds of relationships in our hard data, but it is only through the use of soft data that we are able to explain them."*

Case studies are honest when the researcher does not push them into ready-made boxes. I agree with Huffman (2001) that each business situation is unique. Each case could be seen as a completely different game, although there are overlaps among those 'games' since they were part of the same overall growth process. This was the reason why the propositions were best secured as they were tested against all of the six cases (Edwards 1998). I aimed to present case descriptions that were good enough to make the reader understand the complexities involved and to support my explanations.

Whether the aim of the project is descriptive, theoretical-heuristic, or theory testing, case studies involve technical procedures for the collection, reduction and interpretation of the data (Miles & Huberman 1994). The case-based theory-building (i.e. theoretical-heuristic) project reported here employed iteration among the research 'steps', although the project had to be portrayed in a step-by-step manner. Furthermore, the freedom of theory-building case research lies in *making rigorously reported adjustments* during the data-collection and analysis processes. The quality of presentation and the dignity of the method were enhanced by cultivating (and making clear to the reader) awareness of the actual phase of the work²⁶⁰ in each part of the report²⁶¹ (Edwards 1998). As the framework expanded - i.e. I was able to create Tables 11 and 12 for the relevant forces and processes - my commitment to the emergent theoretical framework also increased. This allowed me to leave out categories away according to the boundaries of the emergent framework (in

²⁶⁰ For more detail, see Chapter 4.3.

²⁶¹ The descriptive phase is dealt with in Chapter 5, whereas the theoretical heuristic and theory-testing phases are covered in Chapters 6 and 7.

the form of that table). At the same time, a core category emerged around which all of the included categories (and their properties and dimensions) could be integrated. That was indeed an advantage of appropriately applied grounded-theory methodology, that it helps to bring out and understand what is happening in a social system rather than what should happen.

I believe I have made a contribution to the field in arriving at a parsimonious way of integrating the core elements²⁶² of FME, which were extracted from the six empirical cases. This was achieved not only by identifying the core elements, and the meta-theoretical framework that Pettigrew (1990) advocated for processual studies was also a significant helping device.

I was not inclined to invent new rules for judging the credibility of my product. However, I had to give references (e.g., Bashkar 1975, Pettigrew 1990, Partington 2000) regarding the version of the grounded-theory procedure I adopted in order to avoid confusion over terminology and procedures. Admittedly, I applied a more simple version²⁶³. In the context of management sciences, I believe this was appropriate in that the audience comprises managers. Moreover, as a later user of GT methods I am familiar with the seminal works of the originators (e.g., Glaser & Strauss 1967, Strauss and Corbin 1990, Glaser 1992). Therefore, I hoped to be able to avoid *generation erosion*, which would have been the case if I had inappropriately implemented the constant-comparative method, for example, or evaluated the research process against non-appropriate standards.

Problems with grounded-theory methodology arise when the research does not utilise the full method (*i.e. methodological muddling*), or has not progressed enough to pass the descriptive stage of analysis. The theoretical framework created in this study applied the grounded-theory methodology fully. Full and reflexive interrogation of the data was needed in order to allow the theory to emerge and avoid premature closure (Goulding 1998). Thus, I had to apply a systematic effort to check and refine my categories.

All in all, grounded theory is a bottom-up approach in that the results are derived from the study of the phenomenon it represents. It is discovered, developed and provisionally verified (Strauss and Corbin 1990) through systematic data collection and analysis. The levels of analysis are crucial in arriving at more refined integration of abstract concepts that cover behavioural variation. According to Parker - Roffey (1997), GT emphasises induction, deduction and verification as integral parts of its inquiry. Inductive thinking underpins the initial research propositions or questions, and deductive process

²⁶² These were the categories, properties, dimensions and mechanisms.

²⁶³ I.e. more simple than the original conditional-matrix and paradigm model.

is used to draw implications from propositions or larger systems of them for the purpose of verification (Machlup 1955, Arthur 1994).

In order to avoid serious mis-interpretation, it should be pointed out that the framework developed in this study fits best to the examined cases. I do not conclude that it fits any, even similar, cases without testing (i.e. running a similar research process on new cases). At this point, the theory provides understanding of the phenomenon, i.e. the FME of the six cases.

8 CONCLUSIONS

The aim of this research project was to explain foreign-market entry and expansion in six cases involving two Finnish medium-sized companies and their local partners. The study developed a substantive theory of the strategic process of foreign-market expansion. The purpose in embarking on the road of creating such a theory was to understand and intervene²⁶⁴ (Partington 2000). I aimed at developing explanations for management actions. How and why did the companies' overall strategic commitments to the business on the Visegrád markets, and the distinctive strategic position in that business, emerge and develop, and were sustained? The market, i.e. the dynamic interplay between competitive and organisational forces, shaped the internationalisation process. There was also a diversity among the cases, which was amplified across countries over time. Many of the causes had their origins further back in time. All in all, it was necessary to explore the causalities.

Throughout the long research process my plan was to build a useful, consensually valid, causal theory. At the same time, I had to acknowledge the lack of absolute causal certainty. Still, the theoretical framework had to be present in such a way that I can prove that it is in the form of a causal model that is open to assimilation.

The following four closing sub-chapters summarise my main findings and contain my suggestions for potential research routes.

8.1 A Summary of the Main Findings

The *phenomena* investigated were the foreign-market expansion of two Finnish companies on the Visegrád markets, and the development of bridgehead relationships in this research project. In other words, I predetermined the general subject of enquiry before I entered the research site.

The questions guiding this research were:

- How did the Finnish case companies expand their businesses in the Visegrád markets during 1990-2000?
- How did they develop their strategies in the various country markets?

²⁶⁴ This refers to managers' intervention in future developments of the analysed cases and to probable new cases to be analysed.

- What was the role of long-term business relationships with local partners in the expansion of business operations?

My answers to the three questions in the order of the questions are:

- The case dyads expanded on the Visegrád markets by pursuing simultaneous objectives while they tried to maintain the positive organisational momentum.
- The dyads implemented strategies through the three sense-making processes (defined in section 6.2.3), namely integration, adaptation and strategy-in-making.
- The role of bridgehead relationship was to create and support the positive momentum.

The results of the analysis made me confident that the FME of the case dyads was an economic *goal optimising and opportunity seeking organisational growth process pursued by the managers making not only rational but intuitive decisions* (cf. section 3.2.3). Beyond the concerns presented in the theoretical departure whether FME is a learning process, in the analysis I could measure the occurrences of learning objectives in the identified mechanisms (longitudinal study with teleological process perspective). The result shows that learning objectives were significantly less than the economic ones. This result should at least support the suggestion of rethinking to which extent we accept that FME is a learning process for an expanding Western company and its local partner on emerging markets.

Let me highlight in another way that this longitudinal comparative case-study analysis, based on grounded-theory methodology could conquer. It created the theoretical framework i.e., *explanans*, which shows that the companies in question integrated, adapted and made strategies (i.e. acted) according to the conditions created by the external and internal environments and the members' goals. The framework appeared to be powerful enough to deal simultaneously with environmental, strategic and operational issues. The conclusion suggested by the theoretical framework ('*explanans*')²⁶⁵ was that medium-sized (condition) companies choosing foreign-market expansion in emerging markets (condition) followed their organisational momentum i.e., *explanandum*. The maintenance of organisational momentum was the fundamental behaviour, which in the language of the applied methodology was the basic social process. This basic social process paved the way for charting a longer period of corporate behaviour in a foreign market. Therefore, I was able

²⁶⁵ Cf. intuitive and logical deduction (Machlup 1955). I found the *explanans* through empirical investigation of the facts. This part of the research process was empirical induction, and that was, by and large the strength of the framework. The simplified intuitive deduction inherently applied in this quasi-scientific adventure in order to arrive at the *explanandum*, certainly caused some weaknesses in it.

to explain the variations in the actions/interactions pursued by the case companies. In maintaining organisational momentum, the companies created options for the future in terms of taking advantage of the opportunities and avoiding the pitfalls that came and go without schedule. They tried to ride on the positive momentum, but that did not exclude the possibility of falling victim to negative developments in terms of performance.

The research endeavour was to explain the phenomenon of FME in emerging markets rather than to search for absolute truth. Indeed, the social environment is unstable and one cannot prove that a theory is true over a long period. Nevertheless, the desire to create a fresh way of analysing the FME phenomenon is valid. The challenge was to develop a theory that is general enough to explain business operations in newly-emerging markets. The data incorporated antecedent and consequent conditions. The new theoretical framework brought out the critical elements (cf. the properties) of FME and BR development, while the focus was on processes rather than were outcomes.

The emergent theoretical framework reflects the interplay between Pettigrew's meta-theoretical framework and the data. The six categories and the 24 properties in each case group needed to have enough conceptual linkages, which then gave enough reason to include the categories in the theoretical framework. It was in this way, through the development of the core concepts in the relationships I investigated, that I was able to generate an explanatory theoretical framework that emerged from the data collected (Parker - Roffey 1997). The iteration process meant that I remained sceptical about the propositions that appeared early, and I frequently attempted to validate them against the data. Further, unsubstantial concepts were discarded, and thus they are not included in the analysis presented here. I believe enough variation in conditions was built into the categories.

I trust now in the Glaserian rather than the systematised version of grounded methodology by Strauss-Corbin. Deterministic techniques allowed data reduction but forced the theory development. It did not allow the core category to emerge: it was there among the others, but it was not possible to pinpoint it.

The time-sensitive parameters were the interesting ones because organisational behaviour is attributed to change and to the rate of change (Pinder - Moore 1979). Meaningful variance existed within the organisations over time, in a process-oriented fashion. Parameters that did not vary over time - in other words that were constant - would have lead to structuralism bias.

This resulted in conceptual density, and the framework could thus be considered too complex because it was formulated through iterative data analysis. I believe the system makes sense. It worked for analysing the cases

on which it was based. The concepts were undoubtedly generated from the data, and thus the framework fits to it. I systematically related the identified concepts. However comprehensive the framework may seem, I am certain that in the details it is not free from error. On the other hand, errors in detail do not invalidate the whole system (i.e. my theoretical framework, including the challenges it poses to earlier theories). Consequently, the systemic effects of some errors in detail cannot be severe. I believe the framework, as a whole is acceptable, thus its quality is sufficient.

The theoretical findings appear to be significant in terms of offering a new way of analysing the FME phenomenon. The framework may be dense, but it is still simple, parsimonious, modifiable and, it is to be hoped, close to the managers' understanding.

8.2 Suggestions for further Research Routes

Grounded-theory analysis was what best served my research intent, and it led to a provable contribution. The theory thus proved to be open to the development of a new, more sophisticated understanding. Nevertheless, the framework remains open to modification. This type of hermeneutic work allows for the development of a coherent discourse within which theory refinement can proceed steadily through disciplined investigation and critical debate (Edwards 1998). Social researchers appropriate a theoretical body not as an absolute truth, but in the knowledge that it is historically and culturally constructed.

The general acceptability of the usefulness of any new theory, at least in the short term, is likely to be constrained by factors that include the lack of extensive empirical testing. In the long run, however, such testing and vigorous debate about its adequacy should determine its usefulness.

The 'hermeneutic lens' (the emergent theoretical framework) embodies distinctions and theoretical generalisations that can be empirically tested against new cases. This research project, which charted the process in detail, might offer a useful blueprint in terms of how to conduct GT analysis about phenomena (new or complex) that managers consider important.

The importance of the categories varied from case to case, which supports having ample research routes. The focus would be still on explanation and theoretical generalisation by following up on developments in the case companies and investigating new cases. In this sense, new cases may act as a stimulus for sorting out possible subsequent shortcomings in the theory that might have remained hidden during the theory-development process. The intensive analysis of a larger number of cases could be an efficient and

informative means of refining and testing the conceptual framework and the theoretical propositions derived from the cases in this study.

Firstly, such an exercise would allow us to look at the phenomenon in a new context, and if it is recognised and becomes necessary to make new distinctions or establish different relationships between phenomena based on new insights, i.e. formal theory extension.

Secondly, new cases could serve to validate the grounded nature of the theoretical frame that was developed here. However, in order to test chosen propositions thoroughly, it will usually be necessary to select a suitable case that provides the conditions under which crucial tests of theory can be made.

Last but not least, cases that describe and explain variation certainly increase our understanding of the process of internationalisation.

The research activities specified here could provide the basis for a continuous exercise in theory development, which new research projects may aim at. I have suggested that the created framework and the basic social process of maintaining organisational momentum discovered in this study could have a use and explanatory power in other complex processes in which the companies are involved - in today's fast-changing business world of fighting to survive and to maintain growth.

The original theoretical framework was developed without the help of powerful qualitative software (e.g., QSR NUD*IST 2000). Today it seems reasonable to recommend making use of a suitable program for coding and analysing the test cases, since this may give added value to the test itself. Researchers other than the first contributor could then conduct the case-study research on the basis of grounded-theory methodology in order to test the original framework without the problem of communicating with the first contributor.

As Partington (2000) pointed out, changes in the research environment are needed in this type of research. Major institutional changes are required to institute the teaching and implementation of grounded-theory investigation in schools of social science. There is a need for space in journals to allow lengthy grounded-theory manuscripts.

8.3 The Theoretical Contribution of the Study

It seemed right to take a definite departure from the traditional process theories of internationalisation and acknowledge that companies operating in newly emerging markets do not easily follow prescribed, step-wise foreign-market expansion. Rather, they have to prepare alternative responses to

unpredictable opportunities and problems in order to sustain organisational growth.

According to Oliver (1997), the field of international business could benefit from a framework that combines competitive (economic optimising) and internal organisational processes. The multilevel framework facilitated deeper understanding and promoted more precise operationalisation of the integration, adaptation and strategy-in-making processes by linking them to simultaneously pursued objectives, outcomes and influencing factors. Further, the study should be able to add to our knowledge by incorporating cross-cultural /cross-national differences. In every industry, and for every firm, the specific impact of each force is different, and the interactions, in every case, determine a unique path in the expansion process. The value of the proposed framework is that it identifies the factors and mechanisms that should be studied in order to explain the foreign-market expansion phenomenon. There is no absolute weight of importance on any one factor alone. Thus, the framework is readily modifiable.

One contribution of this study is that I could substantiate concepts, even if that is specific to the moment of analysis, which were previously empty. I refer here to the very core category, a concept that Welch and Luostarinen (1988) mentioned as being another alternative driver of the internationalisation process.

I could also mention the mechanism in the context of international expansion. Johanson and Vahlne (1990) applied this concept, but it is probable that it expanded in content in this study.

The creative application of the meta-theoretical framework as advised by Pettigrew (1990) for contextual analysis could also be evaluated as a contribution of this study.

The study explained the crucial role played by the host-country business partners in creating unique organisational momentum, and elaborated on the relevance of being pioneers and further considering timing decisions in entering emerging markets to the overall growth of the Finnish companies concerned. How unique were these moves? I am inclined to suggest that the timing made the operations unique. It was also clear that only in the cases in which the timing was right could the momentum be further maintained. It would be a mistake to forget that the internal conditions were as important as the external ones in terms of the right timing. Without sufficient resources, a company could not serve a market. Efficiently capturing the optimal combination of internal and external resources was a determinant, sometimes of the success and sometimes to the detriment of the operations.

Behind the stage models was the scientific idea that thoughts occur in sequence rather than simultaneously. In contrast, managers work in an

environment in which they have to process a flow of information rather than discrete, labelled or bounded problems. A realistic picture of decision making could be better drawn when one considers how people manage the flows through thoughtful action (Weick 1988). Under these circumstances, we should be aware that separate analytic activity makes little sense. The absence of bounded problems of management should suggest that models that presume bounded rationality have little value.

The study results run contrary to the traditional belief - that companies, especially small and medium-sized ones, tend to avoid uncertainty. Given simple rules, the managers picked up strategically significant processes. They established bridgehead relationships with the locals. Loss making was unacceptable. They placed themselves where the flows of opportunities were swiftest and deepest.

"It was a priority for Company A to leave the Scandinavian market. Otherwise it would not have been possible to compete with the large European producers.

There is no problem with the quality or even with the prices of Company A. It is the distance as well as the capacity of the factory in Finland. Now, Company A has brought its production into a far more dynamic market and also doubled its capacity." AH98/11

The identified core process - maintaining organisational momentum - was more focused on going after opportunities than on avoiding uncertainties. Using simple rules also incorporates the underlying logic of pursuing opportunities. Opportunities come and go without schedule. For this reason, imitating how a company pursues opportunities could be difficult. This is how the guiding-rules that were identified in the data analysis were connected to the conceptual category of maintaining organisational momentum.

Furthermore, this study applied the teleological-process perspective. Thus, internationalisation could be seen, both theoretically and empirically, as part of the overall growth of a company. The forces and conditions of the foreign-market expansion processes were rather similar to those discussed in the research field. While one sought to understand those that were pursued simultaneously on more than one market, findings from strategic management research on the evolution of intra-industry firm heterogeneity seemed to be supportive.

8.4 Managerial Implications

GT research was directed towards making sense of the collected data and giving them a structure. That structure was supported by the framework in terms of determining the meaning and significance of its elements for the actors (i.e., the managers), the researchers and the readers.

There was a genuine attempt to understand the world of the managers as they consciously or unconsciously constructed it, and to provide the foundation for developing a theory that will serve as a future explanatory basis (Parker - Roffey 1997). Managers also make sense of their world rather similarly. If, from their point of view, problems are ill defined, they are propelled into a world of induction (Arthur 1994). The researcher could not have significantly larger deductive capacity, and the managers whose actions were in focus would use the inductive mode in any case.

Focal models that are obvious, simple and easily dealt with mentally, allow managers to pick up on them (Arthur 1994, Partington 2000). The managers I interviewed did their work in leading their companies towards further prosperity, while the researcher might be able to offer some further insight into conquering new markets.

How can managers use the information embedded in the framework? It is the question of what to do with the new framework, or actually, with the results derived with the help of the emergent framework, that is presumably their direct concern. They may well start to wonder why their operations were seen as more adaptive or more integrative. Do they care enough about strategies? Do they need to follow linear steps? Are their business operations really so complex? They can provide their own answers, and this is where managerial implications arise.

I believe the theoretical framework offers quite a few reasonable explanations as to how and why FME unfolded in the two case groups. I also believe that when the managers see these explanations, they will understand. Undoubtedly, the organisational-momentum concept was a result of applying the teleological-process perspective at a time when the results were not yet known. It would be easy if we could see the end before the end (Van de Ven 1992, Hamel 1996). This is generally not the case in business situations. The opportunities for revolution are many and mostly unexplored (Kirtzner 1997). Thus, understanding and maintaining organisational momentum should be considered more sensible than trying to make detailed plans for the future. Planning backwards from the future indeed does not work, it only works from today forward. Planning is calendar driven and it is based on rules. Thus, it tends to be reductionist. Boundaries are taken as given, and the planning

process is generally elitist, harnessing only a small proportion of an organisation's creative potential.

Emphasis should be placed on evaluating strategies rather than on creating one ideal. Nevertheless, the importance of tactics should not be overlooked. Managers may learn from the six bridgehead-relationship dyads about the implementation tactics they applied. Marketing strategies are still very similar to wartime military strategy (Tomcsanyi 1988): In order to fight the competition, companies had to have clear objectives i.e., an offensive orientation. The competitive strategies required mass resources at decisive places and times²⁶⁶. Companies had to use forces economically and to call for manoeuvres that gave them the situational advantage²⁶⁷. Strategic and organisational fit may be less important in the context of transition economies because of the fundamental transformation going on in any case. The provision of critical resources may be more important in the context of relationship formation, integration and performance than historical similarities or differences between partners, buyer and sellers. At the same time, the companies had to institute unity of command, given the security of their resources, in order to surprise the enemy, and to be simple. After all, it is not newness that is required, but un-expectedness. This also means that top managers should focus and not be detached from the tactics.

Many might agree with Huffman (2001) in that there is no teachable formal method of strategy making. A brilliant strategy has the capacity for a holistic view, capability of synthesis and insight, and system thinking.

²⁶⁶ The Visegrád countries in the nineties for the two Finnish companies.

²⁶⁷ E.g., the Kevsos agreement until 1994-95

9 SUMMARY

"For two years Picasso worked on the eleven states of the work and changed the nature of the composition time after time, emphasising the contradiction that is present in each state's lights and shadows. Such a method is characteristic of an artist to whom the process of creation is at least as important as the final result. " (Evelyn Weiss, Museum Ludwig Köln, 2000)

The Central-Eastern European business environment, and the organisations involved have been going through revolutionary changes since the early 1990s. The initial assumption was that companies operating in those markets were not easily maintaining prescribed step-wise foreign-market expansion and should prepare alternative responses to unpredictable opportunities and problems. *The aim of this research project was to explain foreign-market entry and expansion in the six cases considered*²⁶⁸. The two Finnish companies under investigation entered and expanded in the Visegrád countries - the Czech and Slovak Republics Hungary and Poland - during the last decade of the 20th century.

As soon as I had made my decision about what my research topic was, I started to collect the empirical data according to two old models. The specific relationships were preliminarily assumed to have a bridgehead role. This was proved in the later data analysis.

I collected the data mainly by conducting semi-structured interviews with the representatives from the selected companies, and then reduced it to manageable pieces by key-word searching, deleting unnecessary repetitions, and applying axial coding as advocated in grounded-theory-research methodology.

Hundreds of categories and properties emerged, which had to be sorted out in a meaningful way. Pettigrew's (1990) meta-theoretical framework gave way to a new theoretical framework. It was the continuous comparative analysis of the diverse kinds of substantive groups that made it necessary to use the

²⁶⁸ The questions guiding this research were:

How did the Finnish case companies expand their businesses in the Visegrád markets during 1990-2000?

How did they develop their strategies in the various country markets?

What was the role of long-term business relationships with local partners in the expansion of business operations?

existing meta-theoretical framework, which became a useful guide in integrating the categories. The theory should never just be put together, nor should a formal theory model be applied until one is sure that it fits and does not force the data. The potential use of a formal model of integration can be determined only after a substantive model has sufficiently emerged (Glaser and Strauss 1967). The meta-theoretical framework was applied only after the substantive model of implementing the business idea, adaptation and integration had emerged.

This emergence - the need for sorting out the categories with the help of the meta-theoretical framework - created an open-ended schema. The integrative theoretical output, which is based on the six cases analysed, is open-ended because new categories and properties, if generated, will find their place in the theoretical framework. Since this theoretical framework existed, the intention was to prove its relevance. I used the emergent theoretical framework in my search for the mechanisms used by the case bridgehead-relationship dyads in order to expand on the Visegrád markets. According to the emergent theoretical framework and the teleological perspective applied, the mechanisms were put together according to identified focuses, and internal and external conditions (i.e., stimuli and organism) and responses. I took all of the identified full mechanisms and made calculations about the incidence of objectives first within the two groups of cases, and then I compared the results. My calculations proved the relevance of all elements incorporated in the emergent theoretical framework.

The calculations revealed what sense-making processes were applied, and in what proportions, by the two groups of cases. I could then infer why that was so. The six cases I analysed featured loop-type rather than linear developments. The companies pursued many objectives simultaneously during their ten years of expansion on the Visegrád markets. One of the focuses, but far from the most important, was learning. Clearly, the A-cases pursued FME expansion as an entrepreneurial process, and the B cases more as a strategic-management process. Both the entrepreneurial and the managerial firms took considerable risks, since they were in constant search of opportunities while defending what they had brought in, or their newly created competitive advantage. The most important external determinants were the customers and the competitors.

It is still tentative, but a core category emerged, the maintenance of organisational momentum. I understood this category to have the power of explaining the significant variation in the FME processes of the six cases. It then assumed the character of a basic social process. This, rather than the creation of experiential knowledge, was the basic social process in the FME of the medium-sized manufacturing companies on the turbulent Visegrád markets

during the nineties. The pursuance of simultaneous objectives proved my preliminary assumption that FME should be seen as part of the overall strategic-growth process, and that it was advisable to apply the teleological-process perspective.

Added to all this, I had to have an extensive understanding of the context (Chapter 2), and a theoretical pre-understanding. The theoretical pre-understanding (Chapter 3) was developed for two reasons. One was to justify applying grounded-theory methodology in a well-researched field of inquiry, and the other was because it helped me to search for and evaluate concepts in terms of whether they were new or had already been studied. Since the internationalisation of firms had been a subject of research for many decades, most of the categories and properties I extracted from the interview material could be named with the help of this literature review.

The core contribution of the study was the integrative theory that was developed to explain the process of international market expansion. This theory suggests that companies grow in a manner that aims at achieving correspondence and harmony (sense-making) between the internal and external contexts and their focuses. I identified three sense-making processes, namely integration, strategy-in-making and adaptation, which were created by the unique variety of mechanisms that the companies employed. All in all, the FME of the case dyads was an economic *goal optimising and opportunity seeking organisational growth process pursued by the managers making rational as well as intuitive decisions*. The basic social process of maintaining organisational momentum underpinned the mechanisms. This process, which I describe as one propelled by the feedback loop, provided an additional conceptual tool with which to explain the variations in expansion processes and outcomes that occur among firms. Indeed, the concept of organisational momentum provided a useful tool for evaluating outcomes and selecting best-practice examples in today's business circumstances.

I could summarise the whole research process by pointing to its living nature: that the focuses really changed many times, as foreseen by the proponents of case-study research through grounded-theory analysis. Although the process was tedious, my belief is that the full advantages of the methodology could not have been realised otherwise.

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Appendix 1

Selected economic indicators

The Visegrád countries are compared (Figures 1-5 in this Appendix) based on the indicators presented in the marked rows of the Tables 1 - 4.

Table 1 Economic indicators of the Czech Republic

<i>The Czech Republic</i>	1992	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 proj.
GDP at constant price (% change)	-3.3	0.6	2.2	5.9	4.8	-1.0	-2.2	-0.8	2.5	3.0
Consumer prices (annual average, % change)	11.1	20.8	10.0	9.1	8.8	8.5	10.7	2.1	3.9	
Current account (USD millions)	na	456	-787	-1,369	-4,292	-3,211	-1,336	-1,058	-2,000	-2,300
General government balance (% of GDP)	-3.1	0.5	-1.1	-1.4	-0.9	-1.7	-2.0	-3.3	-4.8	-8.9
Trade balance (USD millions)	-1,902	-525	-1,381	-3,678	-5,877	-4,540	-2,554	-2,060	-2,400	-3,300
Total FDI (USD millions, cash receipts, net)	983	563	749	2,526	1,276	1,275	2,641	4,912	4,500	7,000
External debt stock (USD billions)	7.10	8.50	10.70	16.55	20.85	21.35	24.5	22.62	23.00	23.00
Unemployment (annual average, % of labour force)	2.6	3.5	3.2	2.9	3.5	5.2	7.5	9.4	8.8	8.5
Exchange rate (annual average, koruna per USD)	28.3	29.2	28.8	26.6	27.1	31.7	32.3	34.6	38.6	35.9

Source: EBRD (2001) Czech Republic Country Investment Profile
(online www.fifoost.org/EU/statistik, 12.09.2003)

Table 2 Economic indicators of Hungary

Hungary	1992	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 proj.
GDP at constant prices (% change)	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.4	5.0	5.0
Consumer prices (annual average, % change)	23.0	22.5	18.8	28.2	23.6	18.3	14.3	10.0	9.8	8.5
Current account (USD billions)	0.32	-3.45	-3.91	-2.48	-1.68	-0.98	-2.30	-2.08	-1.65	-2.60
General govern- ment balance (% of GDP)	-6.2	-6.6	-8.4	-6.4	-3.0	-4.8	-6.6*	-3.7	-3.4	-3.4
Trade balance (USD millions)	-49	-3,247	-3,635	-2,442	-2,645	-1,964	-2,353	-2,178	-2,170	-4,320
Total FDI (USD millions, cash receipts, net)		2,328	1,097	4,410	2,279	1,741	1,555	1,696	1,650	1,650
External debt stock (USD billions)	21.44	24.57	28.53	31.66	27.96	24.4	27.28	29.28	32.22	
Unemployment (annual average, % of labour force)	9.8	11.9	10.7	10.2	9.9	8.7	7.8	7.0	na	
Exchange rate (annual average, forint per USD)	79.0	92.0	105.1	125.7	152.6	186.8	214.5	237.3	282.2	

*Excluding financial bailout of Postabank Rt. and APV Rt.

Source: EBRD (2001) Hungary Country Investment Profile
(online www.fifoost.org/EU/statistik, 12.09.2003)

Table 3 Economic indicators of Poland

Poland	1992	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 proj.
GDP at constant prices (% change)	2.6	3.8	5.2	7.0	6.1	6.9	4.8	4.1	4.1	4.5
Consumer prices (annual average, % change)	43.0	35.2	32.2	27.8	19.9	14.9	11.8	7.3	10.1	6.8
Current account (USD millions)	900	-2,868	677	5,310	-1,371	-4,312	-6,858	-11,660	-9,978	-11,500
General govern- ment balance (% of GDP)	-6.7	-2.8	-2.7	-2.6	-3.1	-2.9	-2.6	-3.2	-3.3	-1.8
Trade balance (USD millions)	500	-2,482	-895	1,912	-8,179	-11,320	-13,720	-14,380	-13,165	-15,000
Total FDI (USD millions, cash receipts, net)	284	580	542	1,134	2,741	3,041	4,966	6,348	9,338	8,000
External debt stock (USD millions)	47,600	47,200	43,600	45,200	47,541	49,648	59,163	54,350	60,000	
Unemployment (annual average, % of labour force)	14.3	16.4	16.0	14.9	13.2	10.3	10.4	13.1	15.0	14.0
Exchange rate (annual average, zloty per USD)	1.4	1.8	2.3	2.4	2.7	3.3	3.5	4.0	4.3	4.6

Source: EBRD (2001) Poland Country Investment Profile
(online www.fifoost.org/EU/statistik, 12.09.2003)

Table 4 Economic indicators of the Slovak Republic

<i>The Slovak Republic</i>	1992	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 proj.
GDP at constant prices (% change)	-6.5	-3.7	4.9	6.7	6.2	6.2	4.1	1.9	2.1	3.2
Consumer prices (annual average, % change)	10.1	23.2	13.4	9.9	5.8	6.1	6.7	10.6	11.0	
Current account (USD millions)	na	-601	665	391	-2,098	-1,343	-2,059	-1,083	-453	
General government balance (% of GDP)	-11.9	-7.0	-1.3	0.2	-1.9	-4.4	-5.8	-3.2	3.3	
Trade balance (USD millions)	-714	-932	58.5	-227.5	-2,293	-1,472	-2,292	-1,103	-689.5	
Total FDI (USD millions, cash receipts, net)*	100	107	236	294	199	84	374	701	1,500	2,000
External debt stock (USD millions)	2,829	3,380	4,660	5,678	7,670	9,896	11,902	10,402	12,200	
Unemployment (annual average, % of labour force)	8.3	14.4	14.8	13.1	12.8	12.5	15.6	19.2	17.9	
Exchange rate (annual average, SKK per USD)		3.2	31.3	29.6	31.9	34.8	36.9	42.3	47.4	

*The figure for 1999 excludes the sum received for the sale of CSOB in December. According to some criteria the USD 400 million should be included as the equity transaction was for more than 10 per cent of the company's shares.

Source: EBRD (2001) Slovak Republic Country Investment Profile
(online www.fifost.org/EU/statistik, 12.09.2003)

Figure 1. Comparison of the Visegrád countries based on GDP at constant price (% change)

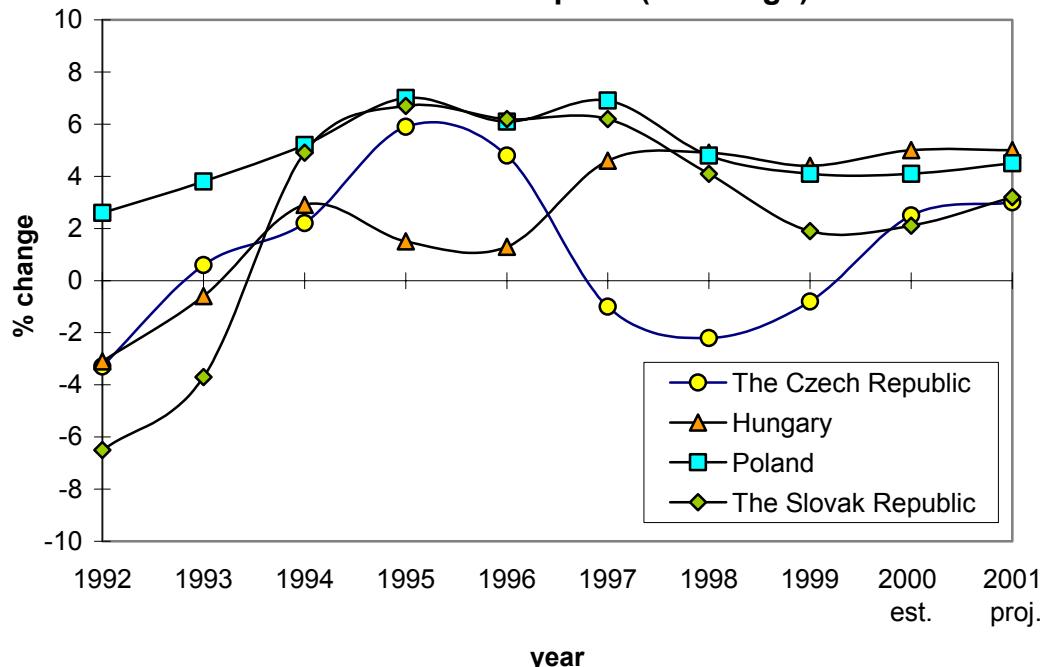


Figure 2. Comparison of the Visegrád countries based on consumer prices (annual average, % change)

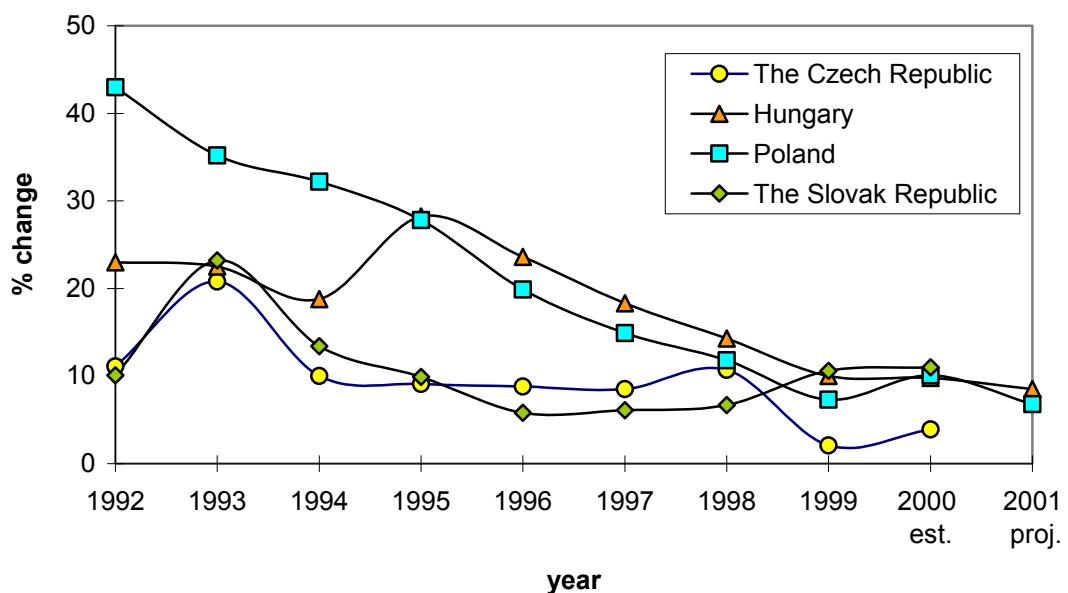


Figure 3. Comparison of the Visegrád countries based on trade balance (USD millions)

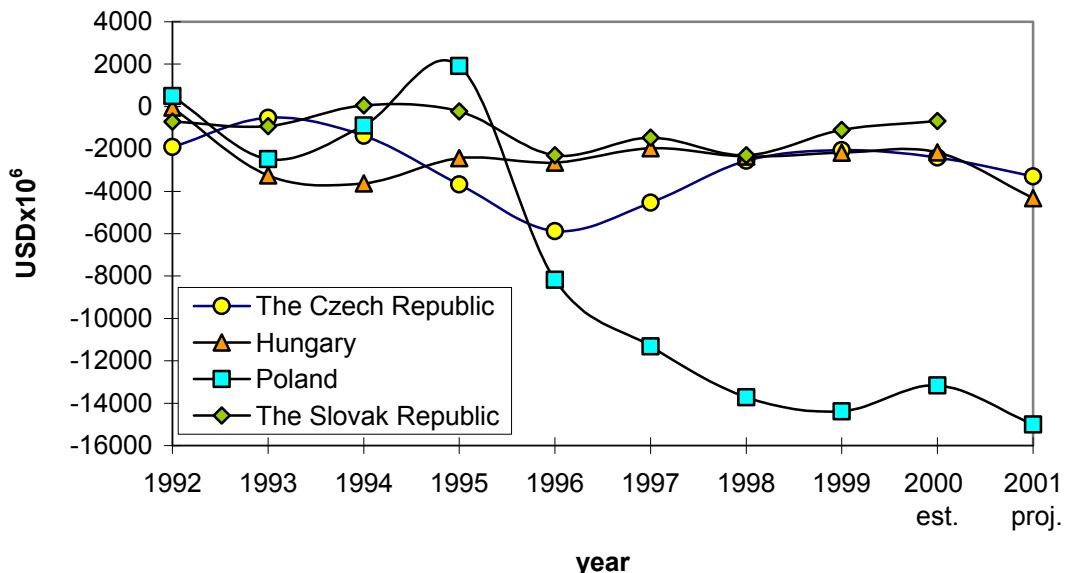


Figure 4. Comparison of the Visegrád countries based on total FDI (USD millions, cash receipts, net)

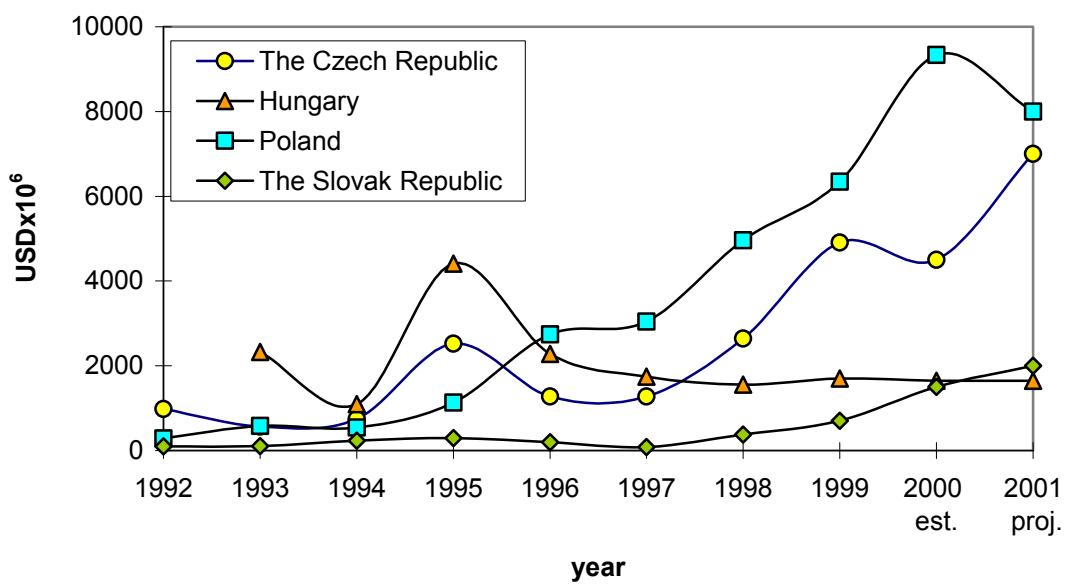
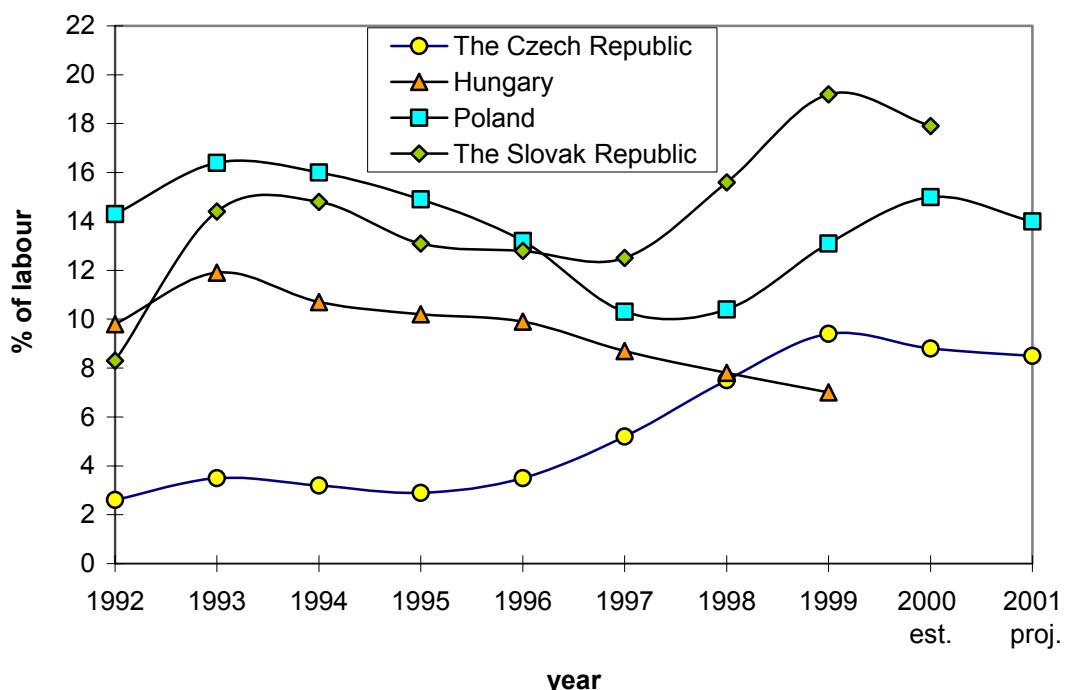


Figure 5. Comparison of the Visegrád countries based on unemployment (annual average, % of labour force)



Appendix 2
Frameworks used for data collection

- Export or import entry modes**

 - 1. Indirect
 - 2. Direct agent/distributor
 - 3. Direct branch subsidiary

Contractual entry modes

 - 1. Licensing
 - 2. Franchising
 - 3. Management contracts
 - 4. Turnkey contracts
 - 5. Contract manufacturing/international subcontracting
 - 6. Collaboration agreements

Investment entry modes

 - 1. Wholly-owned/majority owned new establishment
 - 2. Wholly owned/majority owned acquisition
 - 3. Joint venture: new establishment/acquisition

Corporate coalitions and strategic alliances

Source: Young, et al (1989)

Figure 1. Foreign market entry modes

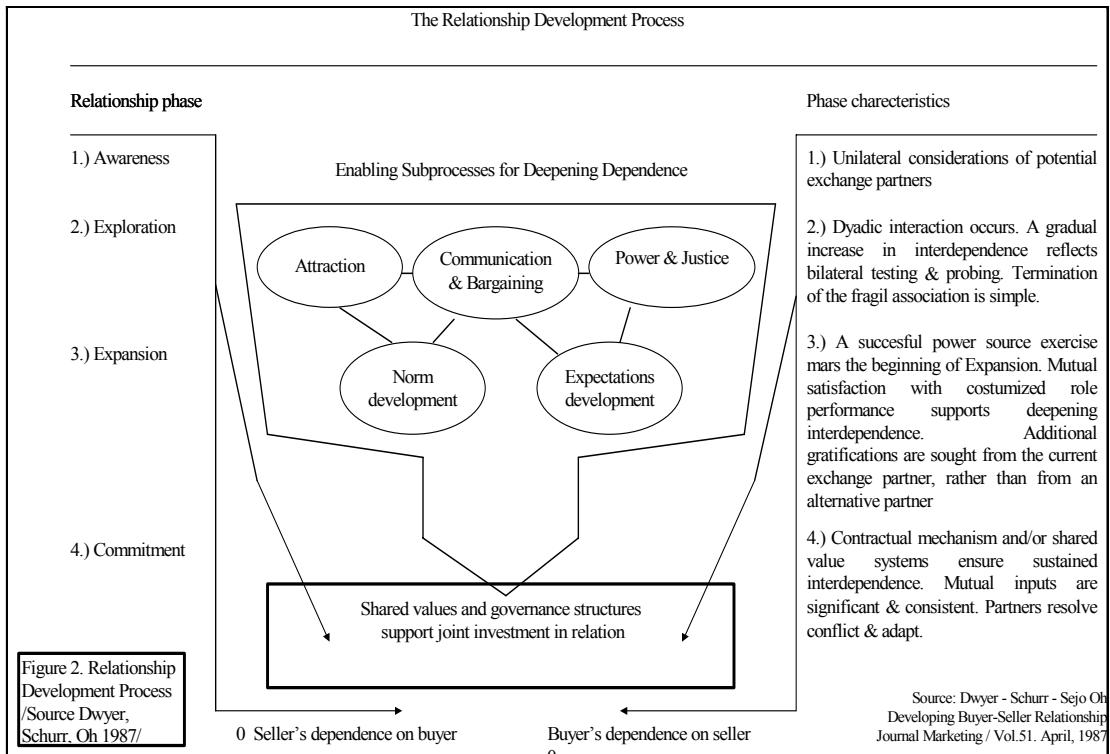


Figure 2. The model of relationship development process created by Dwyer-Schurr-Oh (1987).

Appendix 3

Roadmaps for theory building from case studies

Table 1. The "Roadmaps" of Theory Building from Case Study Research

Contributors	Steps	Activities
Glaser and Strauss (1967) Originators of the universal grounded theory approach (symbolic interactionism) Observations	<ol style="list-style-type: none"> 1. Incidents of phenomena in the data coded into categories 2. Comparing incident to incident within the same category 3. Develop theoretical properties of categories and dimensions of those properties 4. Comparing incidents with properties to the other incidents with properties within the same category 5. Theoretical saturation 6. Substantive theory 7. Formal theory 	<p>Theoretical sampling Constant comparison</p>
K.M.Eisenhardt (1989) (case study, retrospective interview data) Comparison of cases	<ol style="list-style-type: none"> 1. Getting started 2. Selecting cases 3. Crafting instruments and protocols 4. Entering the field 5. Analysing data 6. Shaping hypothesis 7. Enfolding literature 8. Reaching closure 	<p>Priory research question Priory constructs Theoretical sampling Multiple data collection methods Data collection and data analysis simultaneously Within-case analysis Cross-case pattern search Iteration between data and constructs Replication 'why?' behind relationships Comparisons to similar and conflicting literature Theoretical saturation when possible Analytic devise: Cross-case analysis</p>

<p>Strauss and Corbin (1990) Prescribed procedures of universal grounded theory approach</p> <p>Observation data</p>	<ol style="list-style-type: none"> 1. Open coding <ul style="list-style-type: none"> - segmenting information category - properties of category - dimensions of properties 2. Axial coding <ul style="list-style-type: none"> Assembling the data in new ways after open coding 3. Selective coding <ul style="list-style-type: none"> Identify the story line, which integrates the categories 4. Substantive theory as result 5. Formal theory 	<p><u>Analytical devices:</u></p> <p>Paradigm model Causal condition> Phenomenon>Context> Intervening condition> action/interaction strategies> consequences</p> <p>Conditional matrix International – National – Community - Organisational and Institutional – Sub-organisational and Sub-institutional - Group - Collective and Individual - Interaction/action</p>
<p>Glaser(1992) Back to origins (1967), Enhancing researchers latent creativity, rather than prescribed procedures for forcing the data!</p>		
<p>D.J.A.Edwards (1998) (Phenomenology)</p> <p>Observation-interview data</p>	<ol style="list-style-type: none"> 1. Descriptive work <ol style="list-style-type: none"> 1a. Exploratory-Descriptive work 1b. Focused- descriptive work 2. Theoretical-Heuristic work <ol style="list-style-type: none"> 2a. Grounded theory building <ul style="list-style-type: none"> - categorisation - correlating - relationships - structures - processes - causal relationships 2b. Hermeneutic work 3.Theory testing work <ol style="list-style-type: none"> 3a. Testing propositions within grounded theory (3b. Meta-theoretical deconstruction) 	<p>Phenomenon examined in its own terms Data reduction by systematic data analyses Building up of case law</p> <p>Link the data to existing theoretical discourse</p> <p>New cases to test the conceptual framework</p> <p>Radical reformulation of existing theoretical framework</p>

<p>D.Partington (2000)</p> <p>Building grounded theory of management action (critical realist ontology) (interview based, retrospective data)</p>	<ol style="list-style-type: none"> 1. Code instances of active environmental stimulus 2. Code each instances of action or intent 3. Graphical representations of all instances of stimulus and action 4. Find theoretical explanation 5. Develop the theory in contrasting context 6. Write the theory 	<p>Properties, dimensions, flexible working definitions - “ -</p> <p>Draw links between stimulus and actions or intent</p> <p>Speculate as to possible underlying mechanism which could offer of the cognitive process</p> <p>Testing, modifying</p> <p>Case narrative with illustrative data examples Summery within case and cross case tabulations Theoretical proposition, and summery of the process model</p> <p>Analytic devise: Simplified paradigm model: Environmental stimulus - cognition - management action Simplified conditional matrix: External organisational context, Internal organisational context, Individual and collective managerial cognition, Action</p>
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Appendix 4

Introductory questionnaire to companies A and B

Background questionnaire about Company A/Company B's businesses in the Czech Republic, Hungary, Poland and in the Slovak Republic

(Company A and B received the similar questionnaire in three copies, i.e. according to each Visegrád countries. Answers concerning the Czech and the Slovak markets were written into the same copy of the questionnaire)

1. Start of the market study (year):
2. Year of establishment (in the foreign location)
3. Place of the established activity:
4. Business sector you are operating in:
5. Business concept (short explanation):
6. Entry mode²⁶⁹
7. Ownership (%):
8. How was the partner selected? (Short explanation:)
9. Investment (Value and means):
10. Managing director (in foreign location):
11. Number of employees (in foreign location):
12. Training of the foreign staff, mode and place:
13. Other contacts - organisations, individuals - effected/effects the actual foreign operation (in Finland, in the foreign location):
14. Overall satisfaction with the operation in the foreign location (score 1-5):
15. Economic importance of the business in the actual foreign location in 1996
(% of the total turnover):

²⁶⁹ See enclosed entry mode characterization by Young et al (1989) in Appendix 2.

Appendix 5

List of interviews and codes of the data

Interviews in Company A and with its bridgehead-relationship partners

Company	Date	Length (hours)	Place	Respondent's status
A/FIN	21- 23.10.1997	1+2	Finland, Headquarters	Marketing Manager of Company A
A/POL	13.5.1998	2,5	Poland, Office	Manager of Company A
A/CZ	25.6.1998	1,5	Czech Republic, Car	Area Sales Manager of Company A
A/HUN	23.7.1998	2	Hungary, Office	General Director of the Partner Company
A/FIN	16.4.1999	2	Finland, Headquarters	Marketing Manager + Area Sales Manager of Company A

Total length 11 hours

Interviews in Company B and with its bridgehead-relationship partners

Company	Date	Length (hours)	Place	Respondent's status
B/FIN	3.11.1997	2	Finland, Headquarters	Managing Director
B/HUN	28.11.1997	1	Hungary, Headquarters	Managing Director of the JV
B/POL	14.5.1998	2,5	Poland, Headquarters	Managing Director of the JV and Sales Manager
B/FIN	21.4.1999	2,5	Finland, Headquarters	Export Manager

Total length 8 hours

CODES OF THE DATA IN COMPANY-A CASES

Place	Date of interview	Citations codes
A/FIN	21-23.10.1997	AF97/01-53
A/POL	13.5.1998	AP98/01-25
A/CZ	25.6.1998	AC98/01-11
A/HUN	23.7.1998	AH98/01-25
A/FIN	16.4.1999	AF99/01-14

CODES OF THE DATA IN COMPANY-B CASES

Place	Date of interview	Citations codes
B/FIN	3.11.1997	BF97/01-13
B/HUN	28.11.1997	BH97/01-03
B/POL	14.5.1998	BP98/01-22
B/FIN	21.4.1999	BP99/01-13

Appendix 6

Turnover growth of the Companies A and B and GDP growth of countries in question

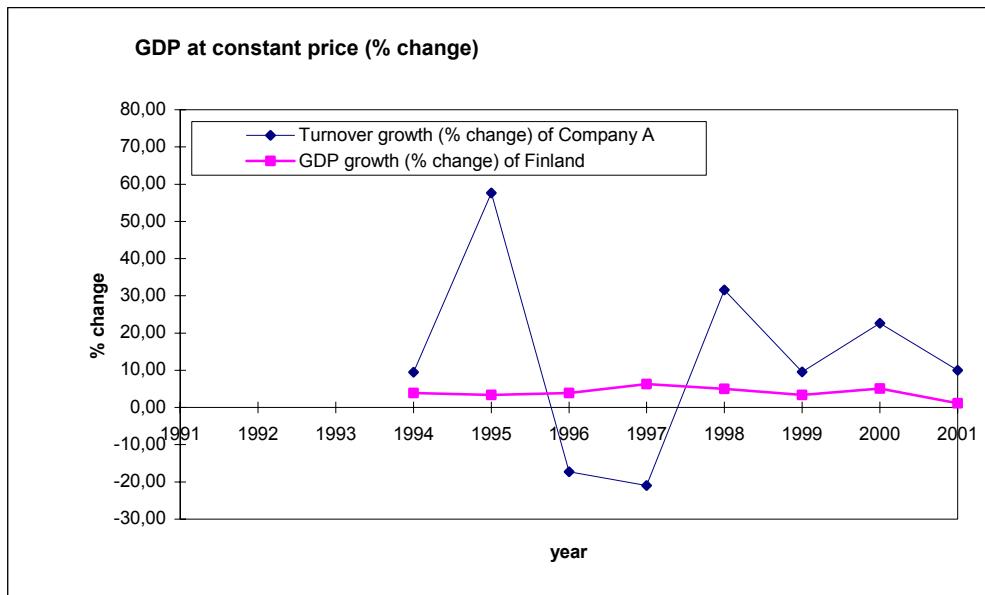


Figure 1. Total turnover of Company A and GDP growth in Finland

Source: Internet pages of Company A, and www.europa.eu.int/comm/eurostat
Eurostat Yearbook 2001, (last update 22.04.2002)

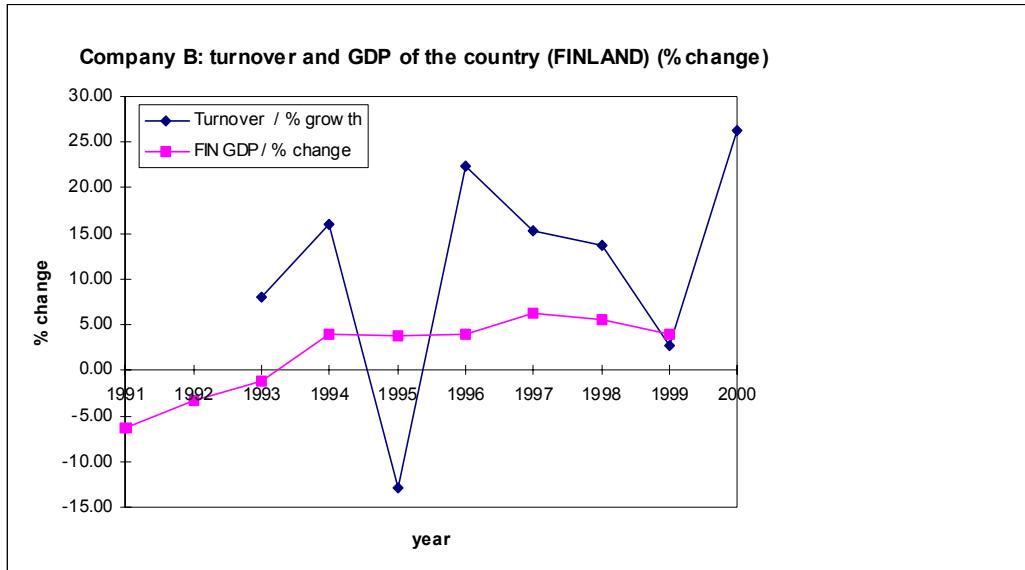


Figure 2. Total turnover of Company B and GDP growth in Finland

Source: Annual Reports of the Group and the Eurostat Yearbook 2001,
<http://www.europa.eu.int/comm/eurostat> (Last update 22.04.2002)

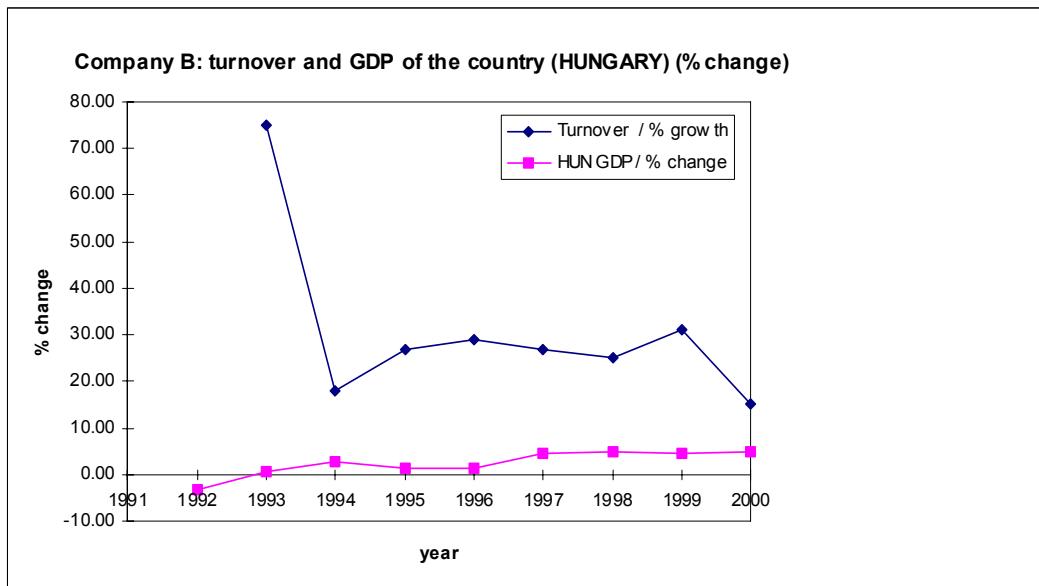


Figure 3. Company B's turnover in Hungary and GDP growth

Source: EU Progress Report on Hungary,
<http://www.europa.eu.int/comm/enlargement> (Last update 22.04.2002)

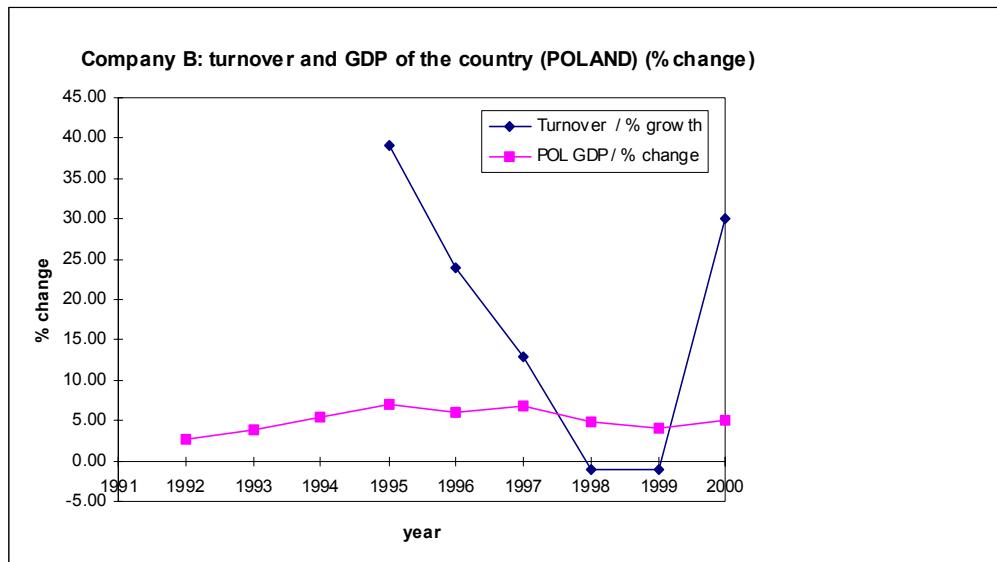


Figure 4. Company B's turnover in Poland and GDP growth

Source: EU Progress Report on Poland, <http://www.europa.eu.int/comm/enlargement>
(Last update 22.04.2002)

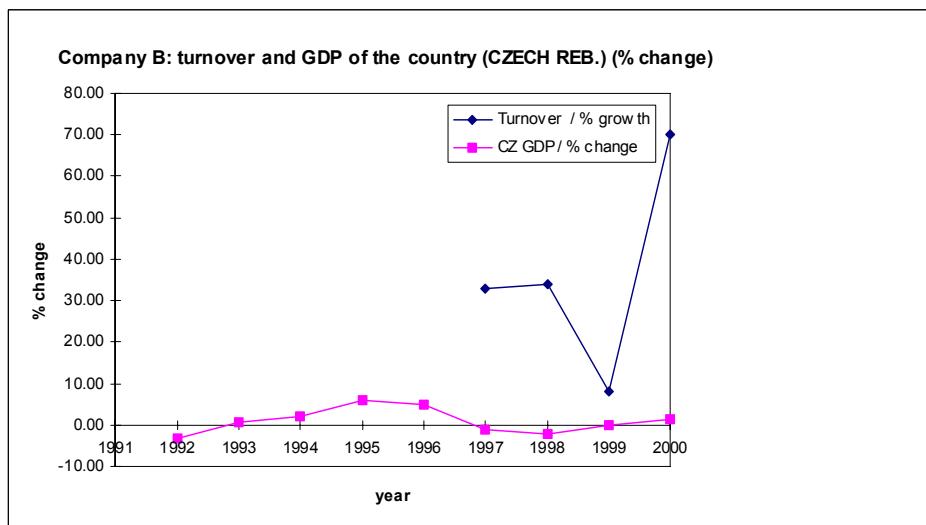


Figure 5. Company B's turnover in the Czech Republic and GDP growth

Source: EU Progress Report on the Czech Republic,
<http://www.europa.eu.int/comm/enlargement> (Last update 22.04.2002)

Appendix 7

Data analysis and theory building, the list of symbols

Categories:

(Tables 10, 11, and 12 in Chapter 6 in sections 6.3.1 and 6.4.1)

IC = Internal conditions (Column 1, Tables 10, 11 and 12)

EC = External Conditions (Column 5, Tables 10, 11 and 12)

SMI = Integration sense-making (Column 2, Tables 10, 11 and 12)

SMA = Adaptation sense-making (Column 4, Tables 10, 11 and 12)

SMS = Strategy-in-making (Column 3, Tables 10, 11 and 12)

F = Focus (Column 6, Tables 10, 11 and 12)

Properties:

(Tables 10, 11, and 12 in Chapter 6 in sections 6.3.1 and 6.4.1)

IC-1 = Leadership

IC-2 = Organisational culture

IC-3 = Organisational structure

IC-4 = Competencies

EC-1 = Progress of transition

EC-2 = Requirements of the customers

EC-3 = Competition barriers

EC-4 = Cultural differences

SMI-1 = Gaining initial experience

SMI-2 = Establishing and developing bridgehead relationship

SMI-3 = Changing structure

SMI-4 = Controlling

SMA-1 = Gathering market information

SMA-2 = Relating to customers

SMA-3 = Fighting competition

SMA-4 = Positioning

SMS-1 = Timing

SMS-2 = Allocating resources

SMS-3 = Guiding rules

SMS-4 = Emergent strategies

F-1 = Organisational growth

F-2 = Expectations of business growth

F-3 = Implementation of the business idea

F-4 = Learning

F-5 = Integration of the locals

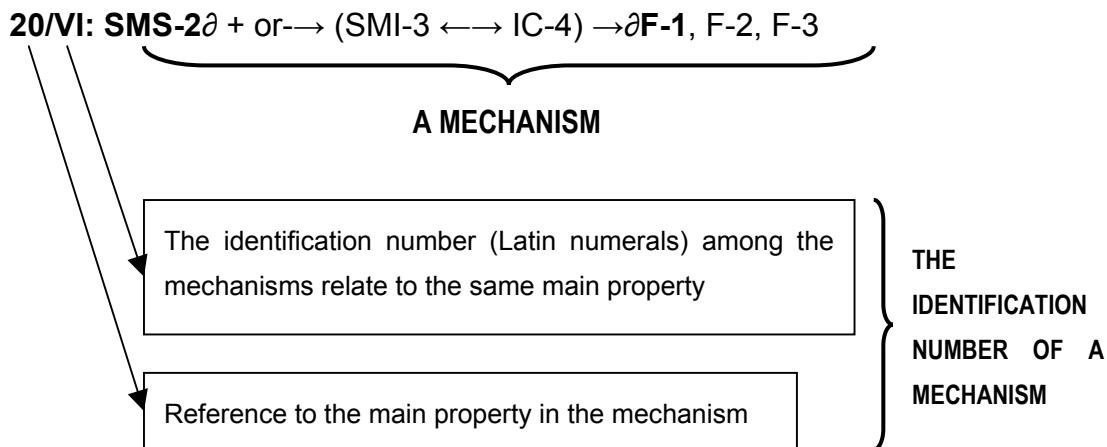


Figure 1. Identification of mechanisms that placed line-by-line in Appendix 8, Tables 1-4 A-cases, Tables 5-9 B-cases and Appendix 9: Tables 1 and 6, with an example.

Table 1. Analysis of the mechanisms (Appendix 8, Tables 1-4 A-cases, Tables 5-9 B-cases and Appendix 9: Tables 1 and 6):

Symbol	Meaning of the symbol
\rightarrow	Unilateral influence
+or \rightarrow	Unilateral, positive or negative influence
$\rightarrow\rightarrow$	Very strong influence
\longleftrightarrow	Interrelation, dependence, influence on each other
$\leftrightarrow+\rightarrow$	Positive or negative correlation
$\rightarrow\leftarrow$	Opposite effect
∂	Feedback loop
$+\partial$	Positive or negative feedback loop
\checkmark	Something missing (lack of)

Appendix 8

Mechanisms in the A and the B cases

All A-case Mechanisms

Tables 1-4 include all of the full mechanisms and fractions of mechanisms extracted by the data analysis.

Table 1. The mechanisms built around the focus of 'Organisational growth'

Property: 'Organisational growth' F-1
F-1 and external conditions
3/III. EC(domestic) → (F-1 and F-2) ← (IC-4) (I.e. opposites →←)
4/X. IC and F ←→ EC-2 ∂ SMS and SMA-2
F-1 and internal conditions
7/VI (IC-1-- SMS-2) → SMI-3 → IC-3 ∂ ← F ← EC-2
8/XI: SMI-2 → F → IC-2 =+ or - ∂
8/XII: SMI-1 → (SMI-2 ←+→ IC-2 and F) → SMA-4 =+ or-∂
8/XIII: IC-1→← IC-2 → SMI-3 =-∂ (F)
9/XVIII: SMI-2 and F →→ IC-3=+-∂
10/XIX: IC-4←→ F = + and- ∂
10/XXII: IC-4+→ SMA-3 = +∂F or IC-4 and SMS-2√→ SMA-3 = -∂F
F-1 and integration, i.e. feedback loops:
11/I: (SMS-1 and EC-2 and SMA-1) → SMI-1→→ SMI-2=∂ F
12/XVI: (SMI-2 and SMA-1)+→→ (SMA-2 and SMA-3) +→→ F-1 and F-2 (the same may create a negative loop)
13/XXII: EC-2→ SMI-3←← F-1 and F-2∂
13/XXV: EC →(F-1 and F-2)→ (SMI-3 and IC-3) ∂
F-1 and adaptation, i.e. feedback loops:
15/V: (SMA-1 and SMA-2) - → SMA-3 ∂- F-1 and F-2
16/IX: SMS-1→→ (SMA-2 ← +or- →SMA-3) + or-∂ F-1 and F-2
16/XI: (EC-2 and SMI-2) →→ SMI-3→ IC-4 ←→ SMA-2 ∂ (F-1, F-2, F-3)
18/XVI: SMI-1 →→(SMA-2 and SMA-3 i.e. SMA-4) ∂+ (or) - F-3 (F-2 and F-1)
F-1 and strategy-in-making, i.e. feedback loops
19/I: SMS-1 ←→(F-1, F-2, F-3, F-4)
19/III: SMS-1←+ or→ SMI-1+ or → ∂F-2, F-1
20/VI: SMS-2∂ + or→ (SMI-3 ←→ IC-4) →∂F-1, F-2, F-3
20/IX: SMS-2←← ∂ F-1 and F-2
21/XI: SMS-3→→ (SMI and SMA)∂F-1 and F-2
21/XVII: SMS-3←← SMA-3 and SMA-4 -∂F-1 and F-2
22/XX: F-1 and F-2 →→ SMS-4 → SMI-3

Legend in Appendix 7

Table 2. The mechanisms built around the focus of 'Expectations' (business growth)

Property: 'Expectations' F-2
F-2 and external conditions Feedback loops
3/III. EC(domestic) → (F-1 and F-2) ← (IC-4) (i.e. opposites ↔)
4/X. IC and F ↔ EC-2 ∂ SMS and SMA-2
F-2 and internal conditions Feedback loops
7/VI (IC-1-- SMS-2) → SMI-3 → IC-3 ∂← F ← EC-2
8/IX: IC-2←+→SMI-2∂→F-1 and F-2
8/XI: SMI-2 → F → IC-2 =+ or - ∂
8/XII: SMI-1 → (SMI-2 ←+→ IC-2 and F) → SMA-4 =+ or-∂
8/XIII: IC-1→-↔ IC-2 → SMI-3 =-∂ (F)
9/XV: F-2→ SMI-3 → IC-3∂
9/XVII: F-2 ←+→ IC-3←+→ EC-2
9/XVIII: SMI-2 and F →→ IC-3=+∂
10/XIX: IC-4←→ F = + and- ∂
10/XXII: IC-4+→ SMA-3 = +∂F or IC-4 and SMS-2√→ SMA-3 = -∂F
F-2 and integration, i.e. feedback loops: Feedback loops
11/I: (SMS-1 and EC-2 and SMA-1) → SMI-1 →→ SMI-2=∂ F
12/VIII: SMI-2 ←+ or → IC-2 (IC-1) ∂+ or-F-2
12/XI: (SMI-2 ←+ or → SMS-2) →+ or - F-2
12/XVI: (SMI-2 and SMA-1)+→→ (SMA-2 and SMA-3) +→→ F-1 and F-2 (the same may create a negative loop)
13/XXII: EC-2→ SMI-3←→ F-1 and F-2∂
13/XXV: EC →(F-1 and F-2)→ (SMI-3 and IC-3) ∂
13/XXVI: IC-1→-↔ or +→ SMI-3 + or ∂F-2
14/XXVII: (SMI-2 ←+→ SMI-4)+→ SMS-2 F-2
F-2 and adaptation, i.e. feedback loops:
15/V: (SMA-1 and SMA-2) -→ SMA-3 ∂- F-1 and F-2
16/VII: IC-4→ (SMA-2 ←+→ EC-2 or SMA-2 →→ EC-2) + or- ∂F-2
16/VIII: (SMA-1+ or - SMS-2) →(EC-2 ←→ or →→ SMA-2)∂(F-3, F-2 →F-1)
16/IX: SMS-1→→ (SMA-2 ← +or- →SMA-3) + or-∂ F-1 and F-2
16/X: SMI-1→ F-4→ ∂(IC-4 IC-2 →SMI-4) ←→ (SMI-2 and EC-2) ∂ SMA-2 and SMA-3 ∂ F-3 and F-2
16/XI: (EC-2 and SMI-2) →→ SMI-3→ IC-4 ←→ SMA-2 ∂ (F-1, F-2, F-3)
17/XII: SMI-2→ IC-4 →SMA-2 ←→ SMA-3 ∂F-2
18/XV: EC-1 ←+ or →(SMS-1 SMS-3 and SMS-4) → SMA-4∂F
18/XVI: SMI-1 →→(SMA-2 and SMA-3 i.e. SMA-4) ∂+ (or) - F-3 (F-2 and F-1)
F-2 and strategy-in-making, i.e. feedback loops
19/I: SMS-1 ←→(F-1, F-2, F-3, F-4)
19/III: SMS-1←+ or → SMI-1+ or → ∂F-2, F-1
20/VI: SMS-2∂ + or → (SMI-3 ←→ IC-4) →∂F-1, F-2, F-3
20/IX: SMS-2←→ ∂ F-1 and F-2
20/X: (F-2 →→ IC-2) → SMS-2 ←→ EC-3
21/XI: SMS-3→→ (SMI and SMA)∂F-1 and F-2
21/XVII: SMS-3←→ SMA-3 and SMA-4 -∂F-1 and F-2
22/XX: F-1 and F-2 →→ SMS-4 → SMI-3

Legend in Appendix 7

Table 3. The mechanisms built around the focus of 'Implementing the business idea'

<i>Property:</i> 'Implementing the business idea' F-3
Feedback loops from other tables:
F-3 and external conditions Feedback loops
4/X. IC and F \longleftrightarrow EC-2 ∂ SMS and SMA-2
F-3 and internal conditions Feedback loops
7/VI (IC-1-- SMS-2) \rightarrow SMI-3 \rightarrow IC-3 $\partial \leftarrow$ F \leftarrow EC-2
8/XI: SMI-2 \rightarrow F \rightarrow IC-2 =+ or - ∂
8/XII: SMI-1 \rightarrow (SMI-2 \leftrightarrow IC-2 and F) \rightarrow SMA-4 =+ or - ∂
8/XIII: IC-1 \rightarrow IC-2 \rightarrow SMI-3 =- ∂ (F)
10/XIX: IC-4 \longleftrightarrow F = + and - ∂
10/XXII: IC-4 \rightarrow SMA-3 = + ∂ F or IC-4 and SMS-2 $\sqrt{\rightarrow}$ SMA-3 = - ∂ F
F-3 and integration, i.e. feedback loops
11/I: (SMS-1 and EC-2 and SMA-1) \rightarrow SMI-1 \rightarrow SMI-2 = ∂ F
12/VII: SMI-2(SMA-1 and SMA-2 and IC-4) ∂ F-3
12/XIII: F-3 and IC-4 \rightarrow SMI-2 and SMI-4
13/XXIII: EC-2 \rightarrow SMI-3 \longleftrightarrow SMI-4 ∂ F-3
13/XXIV: SMI-3 \rightarrow F-3 SMS-1
F-3 and adaptation, i.e. feedback loops:
16/VIII: (SMA-1+ or - SMS-2) \rightarrow (EC-2 \longleftrightarrow or \rightarrow SMA-2) ∂(F-3, F-2 \rightarrow F-1)
16/XI: (EC-2 and SMI-2) \rightarrow SMI-3 \rightarrow IC-4 \longleftrightarrow SMA-2 ∂ (F-1, F-2, F-3)
17/XIV: (IC-4 \longleftrightarrow SMS-3) and EC-3 \rightarrow SMA-3 ∂ F-3
18/XV: EC-1 \leftarrow + or \rightarrow (SMS-1 SMS-3 and SMS-4) \rightarrow SMA-4 ∂ F
F-3 and strategy-in-making, i.e. feedback loops
19/I: SMS-1 \longleftrightarrow (F-1, F-2, F-3, F-4)
19/V: (EC-2 and EC-3) \rightarrow SMS-1 \rightarrow SMI-3 \leftarrow SMS-1 \leftarrow SMS-2 ∂ F-3
20/VI: SMS-2 ∂ + or \rightarrow (SMI-3 \longleftrightarrow IC-4) \rightarrow ∂ F-1, F-2, F-3

Legend in Appendix 7

Table 4. The mechanisms built around the focus of 'Learning'

Property: 'Learning' F-4
Feedback loops from other tables:
F-4 and external conditions i.e. feedback loops
4/X. IC and F \longleftrightarrow EC-2 ∂ SMS and SMA-2
F-4 and internal conditions i.e. feedback loops
7/VI (IC-1-- SMS-2) \rightarrow SMI-3 \rightarrow IC-3 $\partial \leftarrow$ F \leftarrow EC-2
8/XI: SMI-2 \rightarrow F \rightarrow IC-2 =+ or - ∂
8/XII: SMI-1 \rightarrow (SMI-2 \longleftrightarrow IC-2 and F) \rightarrow SMA-4 =+ or - ∂
8/XIII: IC-1 \rightarrow IC-2 \rightarrow SMI-3 =- ∂ (F)
9/XVIII: SMI-2 and F \rightarrow IC-3 =+ ∂
10/XIX: IC-4 \longleftrightarrow F = + and - ∂
10/XXII: IC-4+ \rightarrow SMA-3 = +∂F or IC-4 and SMS-2 $\sqrt{\rightarrow}$ SMA-3 = -∂F
F-4 and integration, i.e. feedback loops:
11/I: (SMS-1 and EC-2 and SMA-1) \rightarrow SMI-1 \rightarrow SMI-2 = ∂ F
11/VI: IC-1 \rightarrow SMS-3 \rightarrow (SMI-1 and SMI-2) \rightarrow ∂ (F-4 and SMS-2)
12/IX: -∂ SMI-1 \rightarrow F-4 = SMI-2 \rightarrow IC-2 and $\sqrt{\rightarrow}$ SMI-4
12/X: F-4 and $\sqrt{\rightarrow}$ SMA-1 (EC-2 and EC-3) \rightarrow Case 3
14/XXIX: -∂F-4 \rightarrow SMI-4
F-4 and adaptation, i.e. feedback loops:
15/I: F-4 ∂ + or - SMA-1
15/II: SMS-3 \rightarrow SMI-2+ \rightarrow SMA-1+∂ F-4
15/III: SMS-3 \rightarrow (IC-4 + SMA-2 +SMI-2) \rightarrow SMA-1∂ F-4
15/IV: (IC-2 \rightarrow - \leftarrow SMI-2) - \rightarrow (SMA-2 and SMA-1 and IC-4) -∂ F
16/X: SMI-1 \rightarrow F-4 \rightarrow ∂(IC-4 IC-2 \rightarrow SMI-4) \longleftrightarrow (SMI-2 and EC-2) ∂ SMA-2 and SMA-3 ∂ F-3 and F-2
18/XV: EC-1 \leftarrow + or \rightarrow (SMS-1 SMS-3 and SMS-4) \rightarrow SMA-4∂F
F-4 and strategy-in-making, i.e. feedback loops
19/I: SMS-1 \longleftrightarrow (F-1, F-2, F-3, F-4)
21/XV: F-4 \dashrightarrow SMS-3(H) \rightarrow SMS-3(SI)

Legend in Appendix 7

All Mechanisms of the B cases

Tables 5-9 include all of the full mechanisms and fractions of mechanisms extracted by the data analysis.

Table 5. The mechanisms built around the focus of Organisational growth'

<i>Property: 'Organisational growth' F-1</i>
Feedback loops:
F-1 and external conditions
28/I: (EC-1 EC-2) - → SMA-2(domestic) -∂F-1
28/IV: EC-1 → → (EC-2 and EC-3) → → (F-1 and F-2)B
F-1 and internal conditions
F-1 and integration, i.e. feedback loops
F-1 and adaptation, i.e. feedback loops
F-1 and strategy-in-making, i.e. feedback loops
46/XIII: (IC-1 → F-5) → SMS-3 → SMS-2 → ∂F
46/XVI: IC-3 → ← EC ∂F → (SMS-3 and SMI-3)

Legend in Appendix 7

Table 6. The mechanisms built around the focus of 'Expectations'

Property: 'Expectations' F-2
Feedback loops:
F-2 and external conditions
28/II: EC-1- → EC-3 ++ → ∂ F-2 (KEVSOS)
28/III: EC-1+ → EC-3 → ∂ F-2 (after KEVSOS)
28/IV: EC-1 → → (EC-2 and EC-3) → → (F-1 and F-2)B
30/VII: EC-3 → (EC-2 ← + or → SMA-2) + or → F-2
F-2 and internal conditions
F-2 and integration, i.e. feedback loops
36/I: (F-2 and F-5) → → SMI
36/II: EC-2 √(IC-4 ← → SMI-1) ∂(F-2 and F-5)
36/IV: (IC and SMI-1) → → SMI-3 ← EC-1) ∂F-2 and F-5
37/IV: (SMI-2 ← → SMI-3) ∂F-5 → EC-2 ∂ F-2
37/VI: (IC-2 and F-5) ← → SMI-2 ← +F-2 ← (EC-2 and EC-3)
37/VII: EC-1 → EC-2 → (∂ F-2 → SMS-1) → → (SMI-2 ← → SMI-3)
38/XVI: (IC-2 → IC-3) ← → SMI-4 (F-2) → → SMI-3 → ∂F-5
38/XVIII: (SMI-1 → → SMI-3 ← SMI-2) ← → SMS-1 or SMI-2 → SMI-3 + ∂ F-2 → IC-4
38/XX: F-2 → SMI-3 ← → IC-1 ← F-3
39/XXIII: SMI-4 ← → IC-4) → SMA-2 → ∂ F-2 ← → EC-3
F-2 and adaptation, i.e. feedback loops
40/I: (EC-1 ← → EC-2) → SMA-1 ∂F-2 and F-3
40/II: SMI-2+ → SMA-1 → IC-1(F-2) → (SMS-3 and SMS-1)
41/IV: (IC-4 ← + or → EC-2) → (SMI-1 and SMI-2) → SMS-1 → SMA-2 ∂F-2
41/IV: SMS-3 → (IC-4 group ← → EC-2) + → or √SMA-2+ or ∂ F-2
42/VII: (SMA-2 ∂ F-3 and F-2) + → EC-3
42/VIII: EC-1+ → SMI-1(SMS-1) + → ∂F-2 and F-3
42/IX: (IC-4 ← + → SMA-2) → (- EC-3) + ∂F-2
42/X: EC-3- → (IC-4 ← → SMA-2) - ∂F-3 and + ∂F-2
43/XII: SMA-1 → (SMS-1 ← → SMA-4) + → (∂F-2 ∂ ← - EC-3) → SMS-3
F-2 and strategy-in-making, i.e. feedback loops
44/I: EC-2 → (SMS-1 and SMS-2) ∂F-2 and F-3
44/II: +SMS-1 + → SMA-3 + ∂F-2
44/IV: F-2 → (IC-1 and IC-2) → (SMS-2 and SMS-1)
44/V: (SMI-2 ← → SMS-2) + → SMS-1 + → F-2 and F-3
45/VII: F-2 → → SMS-2
45/IX: EC-2 - ∂ F-2 → → SMS-2 → SMI-2
46/X: IC (group) → → F-2 → → SMS-3
46/XI: (IC-3 and IC-4) → F-5 → (SMI-4 ← → SMS-3) ∂F-2
46/XII: F-2 → SMS-3 → SMI-3 ← → SMI-2 ← EC
46/XIII: (IC-1 → F-5) → SMS-3 → SMS-2 → ∂F
46/XVI: IC-3 ← → EC ∂F → (SMS-3 and SMI-3)

Legend in Appendix 7

Table 7. The mechanisms built around the focus of 'Implementing the business idea'

<i>Property:</i> 'Implementing the business idea' F-3
Feedback loops:
F-3 and external conditions
30/ EC-3 (one market) and F-3 (in other market)
F-3 and internal conditions
35/X: IC-1 and IC-2 → SMI-2 +,-∂F-3 and F-5
F-3 and integration, i.e. feedback loops
37/IX: F-3 → SMI-2 ← SMS-2.
37/XIV: SMI-2 → (SMS-2 and IC-2 and IC-4) → SMS-1 F-3
38/XX: F-2 → SMI-3 → IC-1 ← F-3
39/XII: SMS-4 ←→ (SMI-3 (IC-3) → SMI-2 ∂F-2 and F-3 and IC-4 → F-5
F-3 and adaptation, i.e. feedback loops
40/I: (EC-1 ←→ EC-2) → SMA-1 ∂F-2 and F-3
41/VI: EC-3 → SMA-2 → IC-1 ← F-3(domestic)
42/VII: (SMA-2 ∂F-3 and F-2) +→ EC-3
42/VIII: EC-1 +→ SMI-1(SMS-1) +→ ∂F-2 and F-3
42/X: EC-3 -→ (IC-4 ←→ SMA-2) -∂F-3 and +∂F-2
F-3 and strategy-in-making, i.e. feedback loops
44/V: (SMI-2 ←→ SMS-2) +→ SMS-1 +→ F-2 and F-3
46/XIII: (IC-1 → F-5) → SMS-3 → SMS-2 → ∂F
46/XVI: IC-3 →↔ EC ∂F → (SMS-3 and SMI-3)

Legend in Appendix 7

Table 8. The mechanisms built around the focus of 'Learning'

<i>Property:</i> 'Learning' F-4
Feedback loops:
F-4 and external conditions
F-4 and internal conditions
F-4 and integration, i.e. feedback loops
39/XXIV: SMI-4 ←→ SMA-1 → SMI-3 ∂F-5 and F-4
F-4 and adaptation, i.e. feedback loops
F-4 and strategy-in-making, i.e. feedback loops
46/XIII: (IC-1 → F-5) → SMS-3 → SMS-2 → ∂F
46/XVI: IC-3 →↔ EC ∂F → (SMS-3 and SMI-3)

Legend in Appendix 7

Table 9. The mechanisms built around the focus of 'Integrating the local partner'

<i>Property:</i> 'Integrating the local partner' F-5	
Feedback loops:	
F-5 and external conditions	
F-5 and internal conditions	
35/X: IC-1 and IC-2 → SMI-2 +,-∂F-3 and F-5	
F-5 and integration, i.e. feedback loops	
36/I: (F-2 and F-5) →→ SMI	
36/II: EC-2 √(IC-4 ↔ SMI-1) ∂(F-2 and F-5)	
36/IV: (IC and SMI-1 →→ SMI-3 ← EC-1) ∂F-2 and F-5	
37/V: (SMI-2 ↔ SMI-3) ∂F-5 → EC-2 ∂ F-2	
37/VI: (IC-2 and F-5) →↔ SMI-2 ←+F-2 ←(EC-2 and EC-3)	
38/XV: (IC-3 and F-5) →→ SMI-3	
38/XVI: (IC-2 → IC-3) ←→ SMI-4 (F-2) →→ SMI-3 → ∂F-5	
38/XIX: (EC-1 and SMI-2) →↔ F-5 → SMI-3	
39/XII: SMI-4 ←→ (SMI-3 (IC-3) →→ SMI-2 ∂F-2 and F-3 and IC-4 → F-5	
39/XXIV: SMI-4 ←→ SMA-1 → SMI-3 ∂ F-5 and F-4	
F-5 and adaptation, i.e. feedback loops	
F-5 and strategy-in-making, i.e. feedback loops	
46/XI: (IC-3 and IC-4) → F-5 → (SMI-4 ↔ SMS-3) ∂F-2	
46/XIII: (IC-1 → F-5) → SMS-3 → SMS-2 → ∂F	
46/XVI: IC-3 →↔ EC ∂F → (SMS-3 and SMI-3)	

Legend in Appendix 7

Appendix 9

Analysis of the mechanisms in the A- and B-cases

Table 1. A-case Full Mechanisms

external conditions
4/X: IC and $\mathbf{F} \longleftrightarrow EC-2 \partial SMS$ and $SMA-2$
internal conditions
7/VI: $(IC-1 \leftrightarrow SMS-2) \rightarrow SMI-3 \rightarrow IC-3 \partial \leftarrow \mathbf{F} \leftarrow EC-2$
8/IX: $IC-2 \leftarrow + \rightarrow SMI-2 \partial \rightarrow F-1$ and F-2
8/XI: $SMI-2 \rightarrow \mathbf{F} \rightarrow IC-2 = +$ or $- \partial$
8/XII: $SMI-1 \rightarrow (SMI-2 \leftarrow + \rightarrow IC-2 \text{ and } \mathbf{F}) \rightarrow SMA-4 = +$ or $- \partial$
8/XIII: $IC-1 \leftarrow - \rightarrow IC-2 \rightarrow SMI-3 = - \partial (\mathbf{F})$
9/XV: $\mathbf{F}-2 \rightarrow SMI-3 \rightarrow IC-3 \partial$
9/XVII: $\mathbf{F}-2 \leftarrow + \rightarrow IC-3 \leftarrow + \rightarrow EC-2 (SMI-3)$
9/XVIII: $SMI-2 \text{ and } \mathbf{F} \rightarrow - \rightarrow IC-3 = + \partial$
10/XXII: $IC-4 \rightarrow SMA-3 = + \partial \mathbf{F}$ or $IC-4 \text{ and } SMS-2 \sqrt{\rightarrow} SMA-3 = - \partial \mathbf{F}$
integration, i.e. feedback loops:
11/I: $(SMS-1 \text{ and } EC-2 \text{ and } SMA-1) \rightarrow SMI-1 \rightarrow SMI-2 = \partial \mathbf{F}$
11/VI: $IC-1 \rightarrow SMS-3 \rightarrow (SMI-1 \text{ and } SMI-2) \rightarrow \partial (\mathbf{F}-4 \text{ and } SMS-2)$
12/VII: $SMI-2(SMA-1 \text{ and } SMA-2 \text{ and } IC-4) \partial \mathbf{F}-3$
12/VIII: $SMI-2 \leftarrow + \text{ or } - \rightarrow IC-2 (IC-1) \partial + \text{ or } \mathbf{F}-2$
12/XIII: $\mathbf{F}-3 \text{ and } IC-4 \rightarrow SMI-2 \text{ and } SMI-4$
12/IX: $- \partial SMI-1 \rightarrow \mathbf{F}-4 = SMI-2 \leftarrow - \rightarrow IC-2 \text{ and } \sqrt{SMI-4}$
12/X: $\mathbf{F}-4 \text{ and } \sqrt{SMA-1} (EC-2 \text{ and } EC-3) \rightarrow - \rightarrow$ Case 3
12/XI: $(SMI-2 \leftarrow + \text{ or } - \rightarrow SMS-2) \rightarrow + \text{ or } - \mathbf{F}-2$
12/XVI: $(SMI-2 \text{ and } SMA-1) + \rightarrow (SMA-2 \text{ and } SMA-3) (EC) + \rightarrow \mathbf{F}-1 \text{ and } \mathbf{F}-2$ (the same may create a negative loop)
13/XXII: $EC-2 \rightarrow SMI-3 \leftarrow - \mathbf{F}-1 \text{ and } \mathbf{F}-2 \partial$
13/XXIII: $EC-2 \rightarrow SMI-3 \leftarrow SMI-4 \partial \mathbf{F}-3$
13/XXIV: $SMI-3 \rightarrow \mathbf{F}-3$ $SMS-1 \leftarrow (IC-1, IC-2)$
13/XXV: $EC \rightarrow (\mathbf{F}-1 \text{ and } \mathbf{F}-2) \rightarrow (SMI-3 \text{ and } IC-3) \partial$
13/XXVI: $IC-1 \leftarrow - \rightarrow \text{ or } + \rightarrow SMI-3 + \text{ or } \partial \mathbf{F}-2$
14/XXVII: $(SMI-2 \leftarrow + \rightarrow SMI-4) + \rightarrow SMS-2 \mathbf{F}-2 \leftarrow (IC-1, IC-2)$
14/XXIX: $- \partial \mathbf{F}-4 \rightarrow SMI-4$
adaptation, i.e. feedback loops:
15/I: $\mathbf{F}-4 \partial + \text{ or } - \rightarrow SMA-1 \rightarrow IC-4$
15/II: $SMS-3 \rightarrow SMI-2 + \rightarrow SMA-1 + \partial \mathbf{F}-4 \rightarrow IC-4$
15/III: $SMS-3 \rightarrow (IC-4 + SMA-2 + SMI-2) \rightarrow SMA-1 \partial \mathbf{F}-4$
15/IV: $(IC-2 \rightarrow - \leftarrow SMI-2) - \rightarrow (SMA-2 \text{ and } SMA-1 \text{ and } IC-4) - \partial \mathbf{F}$
15/V: $(SMA-1 \text{ and } SMA-2) - \rightarrow SMA-3 \partial - \mathbf{F}-1 \text{ and } \mathbf{F}-2$ ($EC-2 \rightarrow - \rightarrow EC-3$)
16/VII: $IC-4 \rightarrow (SMA-2 \leftarrow + \rightarrow EC-2 \text{ or } SMA-2 \rightarrow - \rightarrow EC-2) + \text{ or } - \partial \mathbf{F}-2$
16/VIII: $(SMA-1 + \text{ or } - \rightarrow SMS-2) \rightarrow (EC-2 \leftarrow - \rightarrow \text{ or } - \rightarrow SMA-2) \partial (\mathbf{F}-3, \mathbf{F}-2 \rightarrow \mathbf{F}-1)$
16/IX: $SMS-1 \rightarrow (SMA-2 \leftarrow + \text{ or } - \rightarrow SMA-3) + \text{ or } - \partial \mathbf{F}-1 \text{ and } \mathbf{F}-2$ ($EC-2 \rightarrow - \rightarrow EC-3$)
16/X: $SMI-1 \rightarrow \mathbf{F}-4 \rightarrow \partial (IC-4 \text{ and } IC-2 \rightarrow SMI-4) \leftarrow (SMI-2 \text{ and } EC-2) \partial SMA-2 \text{ and } SMA-3 \partial \mathbf{F}-3 \text{ and } \mathbf{F}-2$

16/XI: (EC-2 and SMI-2) →→ SMI-3 → IC-4 ←→ SMA-2 ∂ (F-1, F-2, F-3)
17/XII: SMI-2 → IC-4 → SMA-2 ←→ SMA-3 ∂ F-2
17/XIV: (IC-4 ←→ SMS-3) and EC-3 → SMA-3 ∂ F-3
18/XV: EC-1 ←+ or → (SMS-1 SMS-3 and SMS-4) → SMA-4 ∂ F
18/XVI: SMI-1 →→ (SMA-2 and SMA-3 i.e. SMA-4) ∂+ (or) - F-3 (F-2 and F-1) (EC-2 →→ EC-3)SMS-1
strategy-in-making, i.e. feedback loops
19/III: SMS-1←+ or→ SMI-1+ or → ∂ F-2, F-1 (EC-2 →→ EC-3)
19/V: (EC-2 and EC-3) →→ SMS-1 → SMI-3←→SMS-1←→SMS-2∂ F-3
20/VI: SMS-2∂ + or→ (SMI-3 ←→ IC-4) → ∂ F-1, F-2, F-3
20/IX: SMS-2←→ ∂ F-1 and F-2 (IC)
20/X: (F-2 →→ IC-2) → SMS-2 ←→ EC-3
21/XI: SMS-3→→ (SMI and SMA) ∂ F-1 and F-2
21/XV: SMS-3(H) →→ SMS-3(SI) - → F-4 → IC-4
21/XVII: EC-3 (SMS-3←→ SMA-4) - ∂ F-1 and F-2
22/XX: F-1 and F-2 →→ (IC-1 and IC-2) → SMS-4 → SMI-3

Legend in Appendix 7

Table 2. The A-case full mechanisms and focuses

Focuses (A cases)	Number of mechanisms	Percentage of mechanisms identified
All focuses	11	22.4
F-1 and F-2	11	22.4
F-2	9	18.4
F-1, F-2 and F-3	4	8.2
F-3	6	12.4
F-4	8	16.3
Only one focus	23	46.9
Two focuses	11	22.4
Three focuses	4	8.2
Four focuses	11	22.4
All identified mechanisms	49	100
All identified mechanisms	49	48.5
All occurrences of focuses	101	100
Focuses (A-cases)		Percentage of total occurrences
All F-1	26	25.7
All F-2	35	36.6
Economic focuses (all)	61	60.4
All F-3/socio-political focuses	21	20.8
All F-4/cognitive focuses	19	18.8
All occurrences of focuses	101	100

Table 3. Focus properties with other properties

A-cases		%
F-1 and F-2 with EC	2	1.9
F-3 with EC	1	1
F-4 with EC	1	1
F-1 and F-2 with IC	16	15.8
F-3 with IC	6	5.9
F-4 with IC	6	5.9
F-1 and F-2 with SMI	12	11.8
F-3 with SMI	5	4.95
F-4 with SMI	5	4.95
F-1 and F-2 with SMA	18	17.8
F-3 with SMA	7	6.9
F-4 with SMA	6	5.9
F-1 and F-2 with SMS	13	12.9
F-3 with SMS	2	1.9
F-4 with SMS	1	1
Number of focus occurrences	101	100

Table 4. Focus properties with sense-making process properties

A-cases		%
F-1 and F-2 with SMI	12	17.4
F-3 with SMI	5	7.2
F-4 with SMI	5	7.2
SMI all	22	31.8
F-1 and F-2 with SMA	18	26.1
F-3 with SMA	7	10.1
F-4 with SMA	6	8.7
SMA all	31	45
F-1 and F-2 with SMS	13	18.8
F-3 with SMS	2	2.9
F-4 with SMS	1	1.45
SMS all	16	23.2
Number of focus occurrences in sense-making	69	100

Table 5. Positive and negative feedback loops

A-cases			Percentage
Complex mainly economic feedback loop	16		15.8
Less complex feedback loop + or - economic feedback loop Definitely - feedback	33	25 8	32.7
Linear relationship with economic objectives	12		11.8
Complex, mainly socio-political feedback loop	6		5.9
Less complex feedback loop + or - socio-political feedback loop Definitely – feedback	11	8 3	10.9
Linear relationship with socio-political objectives	4		4.0
Complex, mainly cognitive feedback loop	4		4.0
Less complex feedback loop + or - cognitive feedback loop Definitely – feedback	11	7 4	10.9
Linear relationship with cognitive objectives	4		4.0
Complex feedback loop + or - feedback loop	26 40		25.7 39.6
Definitely negative feedback loop	15		14.9
Less complex feedback loop (All)	55		54.45
Linear relationship	20		19.8
The number of focus occurrences	101		100

Table 6. B-case Full Mechanisms

External conditions
28/I: (EC-1 EC-2) - → SMA-2(domestic) - $\partial F-1$
28/II: EC-1- →EC-3+ →SMA-2++→ $\partial F-2$ (KEVSOS)
28/III: EC-1+→ EC-3 →SMA-2→ $\partial F-2$ (after KEVSOS)
30/VII: EC-3→ (EC-2 ←+ or→ SMA-2) + or → $F-2$
Internal conditions
35/X: IC-1 and IC-2→ SMI-2 +,- $\partial F-3$ and F-5
Integration, i.e. feedback loops
36/II: EC-2 √(IC-4←→ SMI-1) $\partial(F-2$ and F-5)
36/IV: (IC and SMI-1→→ SMI-3 ←EC-1) $\partial F-2$ and F-5
37/IV: (SMI-2←→ SMI-3) $\partial F-5$ →EC-2 $\partial F-2$
37/VI: (IC-2 and F-5)→↔ SMI-2 ←+ F-2 ←(EC-2 and EC-3)
37/VII: EC-1→ EC-2→($\partial F-2$ → SMS-1)→→ (SMI-2←→ SMI-3)
37/IX: F-3 → SMI-2← SMS-2 (IC-4 and IC-2).
37/XIV: SMI-2→ (SMS-2 and IC-2 and IC-4)→ SMS-1 F-3
38/XV: (IC-3 and F-5)→→ SMI-3
38/XVI: (IC-2 →IC-3) ←→ SMI-4 (F-2) →→ SMI-3→ $\partial F-5$
38/XVIII: (SMI-1→→ SMI-3←SMI-2)→↔ SMS-1 or SMI-2 → SMI-3+ $\partial F-2$ → IC-4
38/XIX: (EC-1 and SMI-2) →↔ F-5 → SMI-3
38/XX: F-2 →SMI-3 →↔ IC-1← F-3
39/XXII: SMS-4 ←→(SMI-3 (IC-3)→→ SMI-2 $\partial F-2$ and F-3 and IC-4→ F-5
39/XXIII: SMI-4←→IC-4)→ SMA-2→ $\partial F-2$ ← EC-3
39/XXIV: (IC-2)SMI-4 ←→ SMA-1 →SMI-3 $\partial F-5$ and F-4
adaptation, i.e. feedback loops
40/I: (EC-1←→EC-2) →SMA-1 $\partial F-2$ and F-3
40/II: SMI-2+→ SMA-1 →IC-1(F-2) →(SMS-3 and SMS-1)
41/IV: (IC-4←+ or → EC-2)→ (SMI-1and SMI-2)→ SMS-1 →SMA-2 $\partial F-2$
41/IV: SMS-3 →(IC-4group←→ EC-2) +→or√SMA-2+ or $\partial F-2$
41/VI: EC-3→ SMA-2 →↔IC-1 ← F-3 (domestic)
42/VII: (SMA-2 $\partial F-3$ and F-2) +→EC-3
42/VIII: EC-1+→ SMI-1(SMS-1) +→ $\partial F-2$ and F-3
42/IX: (IC-4 ←+→SMA-2)→ (- EC-3) + $\partial F-2$
42/X: EC-3- →(IC-4 ←→SMA-2) - $\partial F-3$ and + $\partial F-2$
43/XII: SMA-1→ (SMS-1←→ SMA-4) +→ ($\partial F-2\partial$ ← -EC-3) →SMS-3
strategy-in-making, i.e. feedback loops
44/I: EC-2 →(SMS-1 and SMS-2) $\partial F-2$ and F-3
44/II: +SMS-1 +→SMA-3 + $\partial F-2$ (EC-2→↔ EC-3)
44/IV: F-2 → (IC-1 and IC-2) →(SMS-2 and SMS-1)
44/IV: (IC-4)(SMI-2←→ SMS-2) +→SMS-1 +→ F-2 and F-3
45/IX: EC-2 - $\partial F-2$ →SMS-2→ SMI-2
46/X: IC (group) →→ F-2 →→ SMS-3
46/XI: (IC-3 and IC-4)→ F-5 →(SMI-4 ←→SMS-3) $\partial F-2$
46/XII: F-2 →SMS-3→ SMI-3→↔ SMI-2←EC
46/XIII: (IC-1→ F-5) →SMS-3 →SMS-2→ ∂F

Legend in Appendix 7

Table 7. The B-case mechanisms and focuses

B cases Focuses	Number of mechanisms	%
All focuses	1	2.6
F-1	1	2.6
F-2	16	41
F-1 and F-2		
F-2, F-3 and F-5	1	2.6
F-2 and F-3	7	17.9
F-2 and F-5	6	15.4
F-3 and F-5	1	2.6
F-3	3	7.7
F-4 and F-5	1	2.6
F-5	2	5.1
Mechanisms with one focus	22	56.4
Mechanisms with two focuses	15	38.5
Mechanisms with three focuses	1	2.6
Mechanisms with all focuses	1	2.6
All identified mechanisms	39	100
All identified mechanisms	39	65
All occurrences of focuses	60	100
		%
All F-1	2	3.3
All F-2	31	51.7
Economic focuses	33	55
All F-3	13	21.7
All F-4/cognitive focuses	2	3.3
All F-5	12	20
F-3 and F-5 socio-political focuses	25	41.7
All occurrences of focuses	60	100

Table 8 Focus properties with other properties

B-cases		%
F-1 and F-2 with EC	4	6.6
F-3 and F-5 with EC		
F-4 with EC		
F-1 and F-2 with IC		
F-3 and F-5 with IC	2	3.3
F-4 with IC		
F-1 and F-2 with SMI	10	16.6
F-3 and F-5 with SMI	13	21.6
F-4 with SMI	1	1.6
F-1 and F-2 with SMA	9	15
F-3 and F-5 with SMA	5	8.3
F-4 with SMA		
F-1 and F-2 with SMS	10	16.6
F-3 and F-5 with SMS	5	8.3
F-4 with SMS	1	1.6
Number of identified mechanisms	60	100

Table 9. Focus properties with sense-making process properties

B-cases		%
F-1 and F-2 with SMI	10	18.5
F-3 and F-5 with SMI	13	24
F-4 with SMI	1	1.8
SMI all	24	44.4
F-1 and F-2 with SMA	9	16.6
F-3 with F-5 with SMA	5	9.3
F-4 with SMA		
SMA all	14	25.9
F-1 and F-2 with SMS	10	18.5
F-3 with F-5 with SMS	5	9.3
F-4 with SMS	1	1.8
SMS all	16	29.6
Number of focus occurrences in sense-making	54	100

Table 10. Positive and negative feedback loops

B-cases			Percentage
Complex mainly economic feedback loop	11		18.3
Less complex feedback loop + or - economic feedback Definitely negative	14	10 4	23.3
Linear relationship with economic objectives	8		13.3
Complex, mainly socio-political feedback loop	10		16.6
Less complex feedback loop + or - socio-political feedback loop Definitely negative	5	4 1	8.3
Linear relationship with socio-political objectives	10		16.6
Complex, mainly cognitive feedback loop	2		3.3
Less complex feedback loop + or - cognitive feedback loop (either direction is possible) Definitely negative			
Linear relationship with cognitive objectives			
Complex feedback loop	23		38.3
+ or - feedback loop	14		23.3
Definitely negative feedback loop	5		8.3
Less complex feedback loop (All)	19		31.6
Linear relationship	18		30
The number of identified focuses	60		100

Appendix 10

Cross-case analysis

Table 1. Tables selected for cross-case analysis from Appendix 9

	A-cases	B-cases
Tables from Appendix 9	Table 2	Table 7
Tables from Appendix 9	Table 3	Table 8
Tables from Appendix 9	Table 4	Table 9
Tables from Appendix 9	Table 5	Table 10