

# **Entrepreneurship's Development in Estonian Industrial Company-Towns during Post-Communist Transition Period: Impact of Local Factors**

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## **Abstract**

In the paper are studied the development of entrepreneurship in specific regions like post-communist company-towns during transition period in Estonia. The aim of the paper was to find out the crucial factors to achieve sustainable development in these settlements. The paper bases on original research done for authors PhD-thesis. Information was collected through the interviews with company managers in settlements. The main idea of analysis method was through identification of the latter process to find out the initial factors of deciding moments in entrepreneurships development. The importance of different initial factors was estimated in the comparison of different cases (settlements).

In the paper are found out that crucial factors in the formation of sustainable entrepreneurship in settlements were local professional knowledge of production (usually represented by management of former main company), quality of local labour force, the image of settlement or (main) company, and local initiative in entrepreneurship.

JEL Classification numbers: R11, R39, O18.

Keywords: entrepreneurship, development factors, regional development, industrial areas, post-communist transition

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## **Introduction**

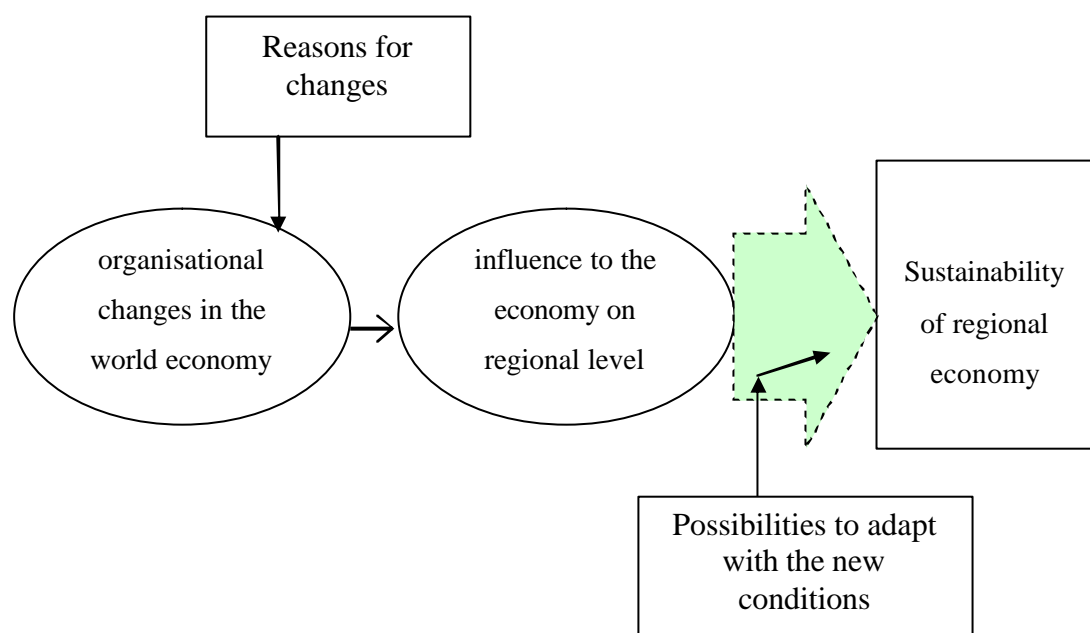
In present paper is studied the development of entrepreneurship in a regions with very specific structure and socio-economic environment – in post-communist single-company industrial settlements (called also “company-towns”, or “mono-functional” settlements) in Eastern Europe, particularly in Estonia. During the post-socialist transition period of sharp changes of production relations have several among these settlements gone through a significant crisis related to the bankruptcy of dominated companies. However, many of single-company settlements had the success in the transformation of production relations and had been able to achieve sustainable development. The paper bases on the study that was done with the aim to find out the crucial determinants in the formation process of entrepreneurship's sustainability in Estonian company-towns.

The research done in the paper bases on two original empirical studies done in 6 Estonian company-towns. Observed settlements in the study were Kunda, Sindi, Tootsi, Lavassaare, Võhma, and Oru (more about the observed settlements see from 2.1). There were both failure and successful settlements among these. The main method of empirical data collection during the work was interviewing. There are done 32 semi-structured interviews with managers of companies by the author. Information

was collected about the structure of entrepreneurship in settlements and about the fortune and position of dominating (formerly dominated) company and other enterprises in settlements during the last 10-15 years.

## 1. Possibilities for formation of sustainable entrepreneurship on regional level in contemporary era

Next figure presents the general logic of theoretical analyse used in this paper. First are explained in this chapter the impact of contemporary changes in industrial organisation to the regional economies. In the end of the present chapter are observed the possibilities to achieve entrepreneurship's sustainability on the regional level in the changed conditions and it's specificity in post-communist countries.



**Figure 1. General logic of paper's theoretical approach**

The sustainability of regional entrepreneurship is defined in this paper as continuation of present entrepreneurship or/and incoming and arising of new enterprises into the region<sup>1</sup>. The term: "region" we can use in the meaning of every geographical area in this paper. To analyse the impact of organisational changes to the regional economies, we have to distinguish organisational structure, sectoral structure, and spatial structure of economy. The first means the division of economic activity between different organisations (and owners), like it is done in the discipline of industrial organisation, second one the structure across different activity fields (economic branches), and third one the division of economic activity in space. The

<sup>1</sup> In the empirical chapter of paper is mainly used the term: „settlement”.

last one we can call also geographical or regional structure. Usually one-side-dependent organisational structure leads to the sectoral monostructure but not always. By Maillat, for example, even a dominance of small enterprises in a district can lead to "... a very high degree of specialisation in the zone, which may go as far as the mono-industry" (Maillat 1990, p. 343). Of course, there exist very many dependencies between the formation of organisational structure and spatial structure. For example, according to Maillat (1990, pp. 341-342) small enterprises need geographical proximity, that makes intensive information exchange possible. That is the reason why networks of SME-s tend to agglomerate. On the other hand, different forms of organisational structure have different impact to the regional economy. It means that regional characteristics (like GDP on regional level, welfare, sustainability etc.) are dependent on the local organisational structure of economy: what kind of units are located in district, about their power relations inside the district and with external partners. Many authors have pointed out that in the cases of geographically dispersed production systems are more sophisticated, higher value suppliers tended to be closer to the headquarters than suppliers of standardized goods which require little information exchange (Hayter 1997, p. 319) and it will continuously increase the economic power of central regions (Nilsson *et al* 1996). Branch plant economy concept explains that outside the core area are located the activities with low decentralisation costs but those activities are usually more standardised and less knowledge intensive, and companies like to do R&D activities near the headquarters and branch plant units will be dependent on the external innovations. (Malmberg 1990). By Cumbers (2000) even local innovativeness can't make the branch plants free from the power of transnational companies. There was increasing the number of local innovations in Aberdeen oil-processing region in 1980-s and 1990-s but it didn't create any preconditions for sustainable development of region because the relations between international capital and local economy remained loose and temporary, nevertheless. (Cumbers 2000, pp. 374–381). By Francois transnational companies are creating few local relationships and contacts with local SME-s (Francois 2002, p. 26). Several studies done in different countries have shown that branch plant units located longer distance away from the headquarters have bigger rate of closing. Malmberg explains that a unit will be founded outside only if the location has some advantage and will be closed after these advantages have lost. More likely will be closed the units that have relatively longer distance from headquarter, worse working conditions, are smaller, without local marketing- and development activity, are located in less favourable regions, and are weakly embedded to the local community (Watts et al 1999, pp. 414-421).

One pattern of regional industrial organisation that is often seen as problematic is the dominance of one big<sup>2</sup> company in the region. By Cossentino is for this kind of regions characteristic sharp social polarisation, increasing number of conflicts and problems in access to the financial resources and technical and intellectual know-how, as well small capability for international co-operation (Cossentino 1996, pp. 103-104) and non-equal competition relations between big dominating company and other enterprises (Pyke 1992, pp. 41-43).

In the last decades in Western European and North American countries have fallen into difficulties the districts where in the economic sectoral structure was dominating industrial activity. One reason has seen here the changes in sectoral structure in the world economy, including the decrease in share of industry and

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<sup>2</sup> In this context it means the relative size of company in comparison with the extent of whole economy of the region.

increase the share of services, called also post-industrial transition. Reasons for that change are by different schools seen both the changes in demand and in supply (Syrquin 1991, pp. 205-215). The last one is explained both via technical progress and changes in possibilities of use of different resources (Strukturwandel...1990, pp. 787-788). Technical progress as reason for structural change is explained with the differences in the rate of productivity growth across the different economic sectors. The same principle is used also in new economic geography that adds to the theory the spatial dimension. Because of decrease in transportation costs takes place the increase in factors mobility. In the same time, the mobility rates of different production factors still remain different and this leads to the competition between localities (Lammers *et al* 2000; Suntum 1999). By Steiner, the difficulties in old industrial areas are not possible to explain to whole extent with the structural change in economy but the direct reason of problems in old industrial areas is the inability to adapt with the new conditions. In such a situation, the socio-economic environment in industrial areas reproduces inadaptability. The entrepreneurs in such kind of environment cannot change their ways of acting according to changes in external conditions. The norms in these areas are creating "learned helplessness" and this kind of regions are not attractive for new investors either (Steiner 1999). The complex nature of problems in this kind of regions stresses also the staple theory, elaborated in 1920-s in Canada for the regions where dominating activity was raw material export but because this theory is utilised also in 1980-s in Finland to study the problems of rural areas (Raagmaa 2000), so we can conclude the relative universality of this approach.

One way to explain the nature of problems in old industrial areas is to analyse them in the framework of post-modernist changes and post-fordist changes as economic aspect of this process. Fordism is explained as the particular way of industrial organisation. For it was characteristic the mass production, collective bargaining, big corporations with decentralised management structure and central control. After the Second World War, the system was permanently supported by Keynesian economic policy and welfare state (Amin 1994). Although different schools see the initial reasons and mechanisms of above-mentioned processes in different way (connections between institutional changes, technological development, and changes in World market demand), the existence of changes is broadly accepted.

In the first stages of post-fordist transition there was taken place the increase of regional concentration in industrial location. Central forces in that process were growing large firms applying economics of scale and it was increasing the differences between centre and periphery (Eraydin 1995, p. 163) but in the later stages it was replacing with the process where big corporations started to locate their units to peripheral regions and regional dispersion of industrial location increased. In the same time, there was continuing the organisational concentration (into big corporations) (Hayter 1997, p. 319). In these circumstances, fordist aggregated mass demand and relative stability of economic system created the certainty for production units located into peripheral districts (Amin 1994). In these circumstances there was formed so called "locational hierarchy" (Bergman *et al* 1991) that meant the dominance of specialised production units (belonged into big corporations) in peripheral areas. In post-fordist era is by Esser and Hirsch (1994, p. 77) characteristic the change in industrial relations that leads to the spatial concentration of production. In the situation where flexibility has become more important, get the advantage small enterprises located near the market.

The situation where spatial, sectoral, and organisational structure are changing in the same time, has of course the impact on the regional level economies. From the

point of regional sustainability there have become essential the capability to react flexibly to the changes in market demand. It wasn't possible in the regions without adequate know-how, contacts with markets etc. In the success of regional economies have become important such factors like active co-operation with demand, co-competition between firms (Porter 1990), human- and social capital. The reasons why regular learning capability has become more important as in earlier times are as fastened speed of societal changes, growing uncertainty, as rise of knowledge (Lundvall 1992). In these circumstances there has grown the role of network relationships as coordination form between actors in business more important as before. The role of networks in regional economy has seen mainly as transmitter of both local business culture and tacit<sup>3</sup> knowledge. (Bellandi 2001; Morgan et al 2000) Piore and Sabel are described as one possibility to achieve success in contemporary era the model of flexible specialisation. By Garmise (1995) the model of flexible specialisation is described as a system of SME-networks in a particular region, making very specific operations but always able to change the partners and adapt with the changes in demand. The system bases on intensive information exchange basing on personal contacts. However, this model is also criticised from many points of views, for example by Amin (1994) this concept bases on the description of chosen districts and is not a generalised approach following the argued logic. This kind of model is not even possible in every region but needs specific cultural and historical preconditions. By Baker the freedom of choice in these districts is illusionary because small companies and their employees have no economic power. The absence of choice is often also the reason of creation family business, and success in these districts has often been coincidental and temporary. These kind of districts are highly dependent on the big companies (located outside the district) and their motives are mainly the cost saving and risks externalisation. Because of increasing supply of cheap labour in international market are these districts also under increasing competition pressure. (Baker 1996)

Besides, the main advantage of small enterprises has been the flexibility and faster reaction to the market changes but large companies are through decentralisation becoming the same advantages (Whithford 2001, pp. 43-45). So the question for regional economies is first of all: to what extent could the advantages of large companies bring the benefits to the region where they are dominating.

By Oinas (1991) in the dependencies between a region and company are important the geographical location of companies partners, the character of relationships with partner, company's relative size (as employer in the locality), and the location of company's control. So for embed the company to the local community is needed the existence of company's local partners, and local control over company. In the same time, networking relationships between company and its partners are increasing the dependency of locality on the company. The interest of company to integrate into local networks is dependent on which resources is the company interested. If the integration is not needed in the case of simple work than using the tacit knowledge the company has to adapt itself with the rules inside the locality. On the other hand, flexibility is needed also by the side of locality, i.e. the local business culture has to make possible the approach of newcomers. So for company the most

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<sup>3</sup> The knowledge exchanged in business relationships is possible to classify into codified (factual) knowledge (possible to transmit in impersonal form), and tacit knowledge. The last one is not possible to exchange without the personal (oral) contacts. By Morgan *et al* (2000) the hierarchy as coordination form has limited learning capability because of inflexibility, and market relationships have limited capability to exchange the information because of uncertainty. So network as co-ordination form can avoid both disadvantages.

beneficial is the case where local social capital is not too weak and not too strong (Bellandi 2001).

Granovetter (1973) had the idea of the strength of weak ties, i.e. there exists the optimal way between strength of social relations in region and adapting possibility. So we can conclude that the question about certainty on regional level is about mutual interests between region and companies, but the impact to regional level depends also on the specificity of economic branch. By growth poles theory should the economic branch functioning as the growth engine be dynamic, highly innovative, and able to forward innovations through production linkages (Hermansen 1972; Perroux 1955).

In the conditions of post-socialist transition it has been in discussion whether the process of enterprise restructuring has been similar to the changes in Western countries in the same period (Steiner 1999) or is it different by the nature (Domanski 1999). Anyway, there are without the doubt some specific lines in post-communist countries like the geographical change of the markets, and more radical nature of organisational and political changes (for example: Todeva 2000, Balaton 2001, Clark 2001). The components of enterprise restructuring process in post-communist transition countries has seen by several researches as rebalancing the “make or by” decisions, downsizing of manufacturing companies, and vertical disintegration (Balaton 2001, Bornstein 2001).

In these conditions many authors stress the importance to the combination of old (pre-transitional) and new relationships (Kuczi et al 1997, Uhril 1998) The factor embedding companies outside the region (usually from Western European countries) to the local economy through long run interests is often seen to be the local labour force and professional background of local managers. Also the local initiative has counted as more important in the post-socialist conditions where was characteristic the lack of former entrepreneurial experiences. (Bateman 1998)

## **2. Entrepreneurships' development factors in Estonian post-socialist company towns**

In this chapter I give first a short overview about general development of entrepreneurship in observed settlements during the post-socialist transition period (since the beginning of 1990-s). After that will be found the criteria to evaluate the rate of sustainability of local economy and the “turning points” in the fortune of settlements to estimate the role and importance of different factors to the development of entrepreneurship.

As soon mentioned in the introduction of the paper, the paper bases on two original empirical studies done in 6 Estonian company-towns by the author of the paper and his colleagues. Kunda, Sindi, Tootsi and Lavassaare were in the study observed as example cases of successful development, and Võhma and Oru as examples of failure. Because Tootsi and Lavassaare settlements are economically close integrated, they are in the analysis observed as one case. So we have 6 studied settlements but 5 cases.

## 2.1 General characterisation and development of observed settlements

First I give a short description about history, development ways during transition period, and situation at the observation moment in observed settlements.

The cement-industry-town **Kunda** (ca 4000 inhabitants) is located in Estonian northern part ca 2-3 km away from the coast of the Finnish Gulf of Baltic Sea. The distance from the bigger highway is ca 15 km and from the regional centre ca 25 km. In surrounding the present town Kunda were arisen urban areas due to the expansion of the port in the beginning of the 19<sup>th</sup> century. Until the middle of 19<sup>th</sup> century were founded into the settlements several industrial plants. Cement factory is founded by the local landlord in 1870-1873. The present town (in the present location) is arisen as the living place for employees of the cement-factory. For 2000, cement-factory was remained the main employer in the town. In 1992 there was founded on the basis of cement-factory the joint venture company with a Scandinavian concern. From the last one are received new markets and technology, and investments in considerable amount. Around the main<sup>4</sup> company has formed the network of satellite transportation companies, and company has re-open the port (closed at Soviet time).

**Tootsi** settlement (approximately 1100 inhabitants) has arisen as the workers living place at the peat-factory built in 1937-1939 with the aim to take into use the peat bog nearby. The settlement is surrounded with the wooded and wetland. The distance from the nearest highway is 6 km and from the public railway 2 km (at the factory is the branch line belonging to the company). The distance from the nearest centre Pärnu (there is also the port) is ca 40 km - in Estonian conditions is this relatively peripheral district. Tootsi is almost closed labour-market area (96% of the working population worked 1997 in Tootsi what was 98% from people working in Tootsi) (Võhma... 1998). The main part of working inhabitants was in 2000 employed in AS Tootsi Turvas (the present name of the peat-industry company). Besides this there exist a couple of sewing workshops and some smaller producing companies.

**Lavassaare** settlement (ca 600 inhabitants) is located in the south-eastern part of Estonia in the separated place surrounded with wooded and wet areas. The distance from the regional centre (Pärnu) and from the bigger highway is ca 20 km. Although, Lavassaare has in comparison with Tootsi better connection with the other local centres and villages in surrounding and the labour-market area of Lavassaare is less closed as in Tootsi. Lavassaare peat-industry company was founded in 1919 into the former small village. At the present time there exists the peat-industry-plant as a department of the Tootsi Turvas (present name of peat-industry company in Tootsi) acting in the peat scooping and being the main employer of local working population. The other companies are interrelated with the peat-production system and there are also some sewing workshops. For 2000 the peat-industry-company was done through significant changes (included entrance to Western European markets).

**Sindi** town (ca 4200 inhabitants) has arisen likewise Tootsi as the living-place for workers of the cloth mill founded in the 1833, but the favourable location near the regional centre Pärnu (ca 10 km), the essential highways going through town and the longer history have for the town given also alternative functions. So Sindi is functioning

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<sup>4</sup> By the term: "main company" is meant in this paper the dominating company in a "company-town".

as the suburban settlement for Pärnu (ca 55 000 inhabitants). However, in Sindi was the textile factory the main employer before the bankruptcy in 1993 and the social processes in Sindi had functioned at that time very similarly to the processes in typical mono-functional settlements. Since 1994, there was beginning the sale of (former) textile-factory as bankruptcy estate to different investors. In 2000 there were functioning 8 different manufacturing companies in the town. For the companies was characteristic intertwined infrastructure between companies but contacts about main activities (production) were marginal.

**Võhma** (ca 2000 inhabitants) is a town in Central Estonia surrounded by rural area. In the Soviet time there was the main company Võhma meat-processing company that had a bankruptcy in 1994 first time (after that the production wasn't cancelled) and company was privatized after that. Privatised company had in 1996 a bankruptcy again, and there was following a social crisis and cancellation of almost any economic activity in town after that.

**Oru** (ca 2000 inhabitants in 1998) is a settlement in the middle of Estonian main industrial area Ida-Virumaa settled mainly by Russian-speaking population. At Soviet time the main employer of settlement was peat-processing company founded in the middle of 1960-s with the goal to exhaust the peat-level before the beginning of oil-shale mining. So the peat-industry company was planned to act temporarily and was producing the peat with planned loss (covered by profit from subcontracting). The company was privatized in 1994 by symbolic price (1 Estonian kroon) by a peat-exporting company located in Tallinn without former experience in peat-processing. After the privatization, though there appeared also some positive tendencies, the company had a bankruptcy in 1996. Similarly to Võhma, there was following a social crisis and until today there isn't taken place any development.

To analyse the entrepreneurship's sustainability in successful settlements<sup>5</sup>, there is by the author of this paper constructed the hypothetical scenario of main company's cancellation<sup>6</sup> for every observed successful settlement in the observation moment. In other words, it means that here is constructed the hypothetical situation where the main company was closing down, stopping the activity, or leaving the settlement in the observation moment. (In Sindi case, constructed scenario is about the cancellation of 3 bigger companies in town.) About the interdependencies between different companies in observed settlements we can say that the dependence on infrastructure (belonged to some other company) entrepreneurs estimated easy to solve if needed but problematic would be the dependence according to main activity linkage. So there was no problem the cancellation of some larger company in Sindi but in other 2 successful cases there would the cancellation of main company been economic catastrophe for the settlements.

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<sup>5</sup> Of course, we can estimate the rate of sustainability only in those settlements where economic activity was functioning in observation time, so the failure cases are not included into sustainability analysis.

<sup>6</sup> Hereafter, the term "main company's cancellation", means as closing down/stopping the activity/bankruptcy as the leaving the settlement of main company.

## 2.2 Sustainability of entrepreneurship in observed settlements in the observation time

In the next table we will present the hypothetical scenario where is supposed the scenario of hypothetical cancellation of the main enterprise(s) in settlements.

**Table 1. Diminishing of working places in observed settlements in the case of (hypothetical) cancellation of the main company in May-June 2000**

| <b>Indicator</b>                                                                                     | <b>Kunda</b>   | <b>Tootsi</b>  | <b>Lavassaare</b> | <b>Sindi</b>                  |
|------------------------------------------------------------------------------------------------------|----------------|----------------|-------------------|-------------------------------|
| Total number of employees in observed companies                                                      | <b>ca 790</b>  | <b>ca 430</b>  | <b>200-210</b>    | <b>ca 670</b>                 |
| living in observed settlement among them                                                             | <b>ca 670</b>  | <b>ca 420</b>  | <b>150-160</b>    | <b>ca 400</b>                 |
| Number of people losing job in the case of main company's cancellation                               | <b>575-580</b> | <b>ca 400</b>  | <b>ca 150</b>     | <b>225/190/120</b>            |
| in main company                                                                                      | <b>ca 345</b>  | <b>ca 400</b>  | <b>ca 150</b>     | <b>225/190/120</b>            |
| in other companies                                                                                   | <b>230-235</b> | <b>0</b>       | <b>few</b>        | <b>0</b>                      |
| How many additional persons would other companies employ in the case of main company's cancellation? | <b>20-30</b>   | <b>10-20</b>   | <b>10-20</b>      | <b>ca 200 during one year</b> |
| Number of people losing the job in settlement                                                        | <b>550-555</b> | <b>380-390</b> | <b>ca 130</b>     | <b>0-20</b>                   |
| Share of people losing their job from the total number of employees in settlement                    | <b>ca 70%</b>  | <b>ca 90%</b>  | <b>ca 65%</b>     | <b>0-3%</b>                   |

Sustainability of entrepreneurship in settlements is estimated using three following components:

1. Certainty of main company for settlement: i.e. the rate of improbability of main company's cancellation;
2. The variety of entrepreneurship in settlement;
3. Potential development and growth of entrepreneurship in settlement.

The summary of estimations of three above-mentioned components across the successful cases is following:

**Table 2. Entrepreneurship's sustainability in observed successful settlements**

| Estimated component                                                       | Indicator                                                              | Kunda             | Tootsi-Lavassaare  | Sindi                     |
|---------------------------------------------------------------------------|------------------------------------------------------------------------|-------------------|--------------------|---------------------------|
| <b>Certainty of main company</b>                                          |                                                                        | +(-)              | +                  | +/-                       |
|                                                                           | consequence of main company's cancellation for settlement (in general) | a catastrophe     | a catastrophe      | no essential consequences |
|                                                                           | in dependency of main field of activity                                | +/-               | no solutions*      | no dependency             |
|                                                                           | in dependency of infrastructure                                        | possible to solve | possible to solve* | possible to solve         |
|                                                                           | remaining of employment                                                | -                 | -                  | +                         |
|                                                                           | remaining of other resources                                           | -                 | -*                 | +                         |
| <b>Multiplicity of entrepreneurship</b>                                   | Number of big <sup>7</sup> companies                                   | 1                 | 1                  | 3                         |
| <b>Potential development and growth of entrepreneurship in settlement</b> |                                                                        |                   |                    |                           |
|                                                                           | incoming/arising of new companies                                      | very probable     | improbable*        | few probable              |
|                                                                           | quantitative expansion of present companies                            | small             | small              | large                     |
|                                                                           | qualitative expansion of present companies                             | +                 | - (+)              | small                     |

Explanation of signs in table 2:

+ certain

+/- different estimation, no one is prevailing

- uncertain (few probable)

\* there is prevailing opinion in the table but some opinions are essentially different

We can see from the table 2 that there didn't exist perfect sustainability across all the components in any observed settlement in the observation time. The certainty of main company was the highest in Tootsi-Lavassaare case and the lowest in Sindi. In the same time, Sindi had the highest rate of entrepreneurship multiplicity, and that indicator was lowest in Tootsi-Lavassaare case. Most characteristics of potential growth and development were best in Kunda and worst in Tootsi-Lavassaare case.

<sup>7</sup> relative size as employer in comparison with total employment in settlement

## **2.3 “Turning points” and their reasons in entrepreneurship’s development**

To find out, which initial factors have been important in the formation of sustainable entrepreneurship development in transition period in observed settlements, we present now the most essential events or “turning points” during the development of entrepreneurship in observed settlements in transition period.

In Võhma, we can distinguish three stages in the declining process of main company:

1. Problems with receiving the payments for export to eastern (mainly Russian) market. This caused financial difficulties and problems in raw material receiving.
2. Cancellation of the bankruptcy estate sale because of lack potential investors.
3. Cancellation of mushroom growth-factory foundation because the government resigned from the guarantee offered before.

In Oru we can distinguish following stages of decline in main company:

1. Stage before privatisation - too high energy consumption caused financial difficulties.
2. Delay of privatisation that caused further problems with finances and technical equipment.
3. Stage after privatisation when company was felt in the circle of problems resulted with the bankruptcy. Problems were with receiving financial resources, raw material, work discipline, and accidents in factory.

In the case of Kunda we can find out following “turning points”: receiving large foreign investment into the main company, arising of satellite companies around the main company, and re-opening the port in town. In the case of Tootsi-Lavassaare were turning points the re-orientation to the Western-European markets, and in the case of Sindi the incoming of several new companies into town.

To find out, which initial factors and to what extent had the impact to the happening of above-mentioned turning points, we can compare different turning points across different settlements. Or in other words: we set up a question, why in non-successful settlements did not take place turning points bringing success and why in successful settlements did not take place turning points bringing the failure, and how it was connected with the different initial situation in different settlements in the beginning of transition period?

So in every observed successful case we can find most of following similar turning points: finding of new markets, finding of new activity field or new development ways.

In failure cases there were common similar turning points: the loss of former market of the main company, problems connected to the raw material receiving, financial difficulties, technical problems with buildings and equipment, accidents, unnecessary costs in production, lack of potential investors.

So comparing different turning points<sup>8</sup> both in successful and failure cases, it is possible to group them as follows:

- 1) turning points connected with the changes in production markets;
- 2) turning points connected with the receiving of production inputs;
- 3) turning points connected with the financial situation of actors in settlement;
- 4) turning points connected with technology and equipment of main company;
- 5) accidents as turning points;
- 6) turning points connected with restructuring of main company;
- 7) turning points connected with incoming and arising of new companies in(to) settlements.

For next is analysed across the turning points, which initial factors had impact on the happening (and non-happening) of different turning points in different observed settlements.

One of the main reasons of failure in non-successful cases (Võhma and Oru) has counted the cancellation of main companies' former markets. Comparing the situation with successful cases we can see that in every observed settlement was taken place the loss or sharp decrease in main company's (former) production market in transition period. In Tootsi-Lavassaare case the problem was solved by the way of active marketing to the Western European market. It was possible because of the existence of local former knowledge about marketing (that was quite exceptional situation in post-soviet conditions). In the cases of Kunda and Sindi the new markets were found by the help of foreign investor(s). So the factors of finding new markets were local know-how about marketing or foreign partner. Later we talk also about which factors were important to receive the foreign partner.

One of the reasons of failure in Võhma and Oru were find out in the study also problems in receiving of raw materials and other production inputs (both problems of exhaustion and financial difficulties in buying for those). Like in previous turning point, similar problems were had taken place also in some successful cases (Kunda and Tootsi-Lavassaare). Here were crucial the professional competence (capability to solve the problems: adequate decisions in "make or buy" dilemmas in organisation formation, adequate evaluation of input markets, and in discovering new sources of inputs.

Also financial problems were possible to solve by the help of foreign investor, like it was done in Kunda and Sindi cases. The lack of financial resources in Oru and Võhma case was caused by mistakes in managerial decisions, in the same time, in Tootsi-Lavassaare and in Kunda case we can see the initiative of main companies' management to solve the problems. In failure cases, there did also exist the possibilities to get financial aid (start-up) from public funds but local people did not use these possibilities after they had got unemployed.

Also problems with bad situation of buildings and equipment in main company did exist in most observed settlements, included these where main company had success in transition period. There was found out in the study that even if there were used old (Soviet time) buildings, they were renovated before and had new equipment. The capability to renovate old buildings and receive new equipment was

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<sup>8</sup> Here we have to notice that „turning point” in this context doesn't mean only the total turning of development way but also the deepening of the former development way (both increase and decrease).

dependent first of all on the possibility to receive financial resources and on the motivation of local management.

One turning point in Oru case is mentioned to be also the accidents (explosion in factory and fire on peat-field): it is not possible to make the proved conclusion but both accidents were happened in the periods where there were frequently taking place the violations of working discipline in the factory by workers. For comparison we can bring the case of Tootsi-Lavassaare where in the problematic periods was possible to agree with the factory-workers about the flexible payments.

For next is analysed the restructuring of main company as turning point in the settlements fortune. There was no need for radical restructuring only in Tootsi-Lavassaare case. In Kunda the production amount was decreased 4 times from the beginning of transition period. Although the successful cases and failure cases are different in that point that in the main companies of failure settlements was not possible to change the production amount, or profile, there still did exist the potential solutions. In Võhma there was not done necessary investment to change equipment that were been 1-2% from the whole borrowed sum. In Oru, the question was in need to replace the production technology with a more rational one and in dismissing unnecessary people. Also the lack of financial resources in Oru was caused by former managerial mistakes.

To explain the reasons behind last turning point (incoming and arising of new companies) we have to look at the motives of new companies created into observed settlements. Here is meant both start-up companies and old companies that were acting somewhere else before. It was found out that although the managers of companies said during the interviews most the motives like free buildings and labour suitable for their activity, at least the same importance had the image of settlement's main company and the existence of local initiator in settlement.

However, the role of local managerial team of (former) main company was in Sindi considerably smaller as in Kunda, playing comparative role only in one company in Sindi. In other new companies the initiative was had foreign investors interested about buildings and workers. That is also the reason why companies in Sindi have a single function as production units of mother companies, being additional risk factor in the future and decreasing sustainability.

In table 3 are summarised the factors standing behind the different turning points:

**Table 3. The connections between turning points and local development factors in observed settlements**

| <b>Object of turning point</b>                      | <b>Crucial development factor</b>                                                                                                             |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Production market of main company                   | →knowledge about marketing<br>→knowledge about production<br>→quality of labour force                                                         |
| Raw material problems in main company               | →knowledge about production<br>→quality of labour force<br>→local initiative                                                                  |
| Financial situation of actors in settlement         | →finding of foreign partner → see last row of table<br>→knowledge about production<br>→local initiative<br>→image<br>→quality of labour force |
| Situation of main company's buildings and equipment | →financial resources → see previous row of table                                                                                              |
| Accidents                                           | →quality of labour force                                                                                                                      |
| Restructuring of main company                       | →knowledge about production                                                                                                                   |
| New companies                                       | →quality of labour force<br>→local initiative                                                                                                 |

So we can conclude the crucial factors were local professional knowledge of production, quality of local labour force, the image of settlement or of (main) company, and local initiative in entrepreneurship. The sale of (former) main company's estate in the bankruptcy process had been the turning point only in one case (Sindi). To compare Sindi, Võhma, and Oru as settlements gone through bankruptcy of main company, we can see that the public actions in bankruptcy process was not the most important factor in the development of settlements but it was though the possibility to turn the fortune of settlements. In Sindi was through the correct process achieved the realisation of natural development assumptions of town but the same approach wasn't useful in Oru.

In Võhma was (after the first bankruptcy) by government chosen instead of sale in equal conditions through public offering the way of Tootsi-Lavassaare and Kunda cases, i.e. the active choice of investor. Because the company was still functioning in that time, this kind of approach could be counted as rational in these circumstances. However, there was chosen too weak investor. After the second bankruptcy, the situation was similar to Sindi but potential investor needed a financial guarantee by government that was not given.

Besides, there was criticised Estonian government that it had not done enough for attract foreign investors into Võhma settlement. It is evaluated later by the experts that several programs, like creation of "food-processing-industry-park", would have beneficial effect for settlements development. It had lead to the process of formation sustainable entrepreneurship in Võhma and for that was needed that Estonian central government had done an active policy of place marketing and image-creation, and given the guarantee to the above-mentioned potential initial investor (who was planning to start the mushroom-growth in the building of former factory). So the different development between Sindi and Võhma was determined both by objective and non-objective circumstances. Although Võhma as location place was less

attractive for investors than Sindi there was still not done enough active promotion or place marketing for Võhma. So the promotion policy by government hadn't success in Oru case and wasn't needed in Sindi case but probably it had been helpful in Võhma case.

In the beginning of post-socialist transition period there didn't exist favourable environment for (small) entrepreneurship in any of observed settlements but in some settlement it has arisen (Sindi) or arising (Kunda) in the observation time. In these two settlements, the main enterprise(s) has/have functioned successfully during some years. Hence, there is needed the time, and the existence of some so called "pioneer", for forming the local business environment favouring the local entrepreneurship.

The assumptions for formation of favourable environment did exist also in Võhma and Oru. In both last-mentioned settlements were the workers optimistic until the things seemed functioning well in the main company. Problems with working discipline and leaving of best personnel had taken place after the appearance of difficulties in the company. So there is need a time of during the "pioneer" has be successful. Hereby, the arising of local small enterprises takes even more time than the incoming of additional bigger companies.

## **Conclusions**

The author of present paper has find out during the study in 6 Estonian single-company-town that crucial factors in the formation of sustainable entrepreneurship were local professional knowledge of production (usually represented by management of former main company), quality of local labour force, the image of settlement or (main) company, and local initiative in entrepreneurship.

Local knowledge about production was needed in Kunda and in Sindi in receiving foreign investors that strengthened the position of companies in foreign markets, solved financial problems and made entrepreneurship structure in Sindi more multi-sided. Professional knowledge about production was crucial also in Tootsi-Lavassaare case in success of main company. In the same time, one of the main reasons for bankruptcy of main company was in Oru the lack of knowledge about production and in Võhma the non-using of it. Also in Sindi was the local production knowledge used to less extent as in Kunda and Tootsi-Lavassaare cases and this has been also a reason why in Sindi the probability of foreign investors' leaving is bigger as in other successful cases.

Similarly, one of crucial factors in the entrepreneurship's development was the quality of labour force in settlements. It had the impact both on the receiving foreign investments into settlements and in solving organisational problems. However, here is essential to note that most important was the general quality (working habits and traditions) but not so much particular skills. In comparison across successful cases there was found out also the importance of labour force quality in binding the companies with settlements.

The (good) image of main company in settlements was important in Tootsi-Lavassaare case in entrancing to foreign markets and the (bad) image of settlements was one of the reasons why companies were not interested to make investments into towns Oru and Võhma. In Oru, it was also restriction to borrow money for renovation of main company. In the same time, the image of textile-town in Sindi and the image of cement-industry-town in Kunda was one of the main attraction factors in receiving investments.

The forth crucial factor in formation of entrepreneurship's sustainability in settlements was the local initiative. In the comparison of successful and failure cases we see it was essential as in the receiving foreign investments into settlements, in privatisation of settlement's main company, and in solving organisational problems in (former) main company. In the longer run, the local initiative had even more important impact because in the formation of environment favouring the local entrepreneurship is needed the existence of some so called "pioneer". Intensive incoming or arising of new companies was taken place only in those settlements where the main company(ies) has/have functioned successfully during some years.

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