

Entrepreneurial visions of international competitiveness in Estonian SMEs

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Abstract

This paper studies the adaptation of Estonian enterprises to European integration from the point of view of competitive advantage visions. The research question is: what are the main entrepreneurial patterns of internationally competitive business development for SMEs in a transitional country in the European integration process? The study uses explorative research combined with a questionnaire survey and follow-up interviews of entrepreneurs and managers from 87 enterprises in food processing, transportation and logistics, wood and furniture, information technology, mechanical engineering, textiles and professional services. The research focuses on industries directly influenced by EU accession and further European integration. Flexibility and competent staff were most often pointed out by respondents as the key element of their competitiveness vision. Three clusters of enterprises were identified: “subcontracting efficiency boosters”, “diversified internationalization opportunity users” and “international value chain members”. The paper highlights differences between these clusters, but also between micro, small and medium-sized and larger enterprises in anticipating changes resulting from European integration and the sources of their international competitive advantage.

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1. Introduction

Baltic countries have experienced rapid economic transition over the last 15 years. Joining the European Union in May 2004 was a milestone along the European integration path, but strategic adaptation to the broader European economic space is still some way off for small, medium-sized and large enterprises operating in this region. In Estonia, membership of the European Union and the need to improve international competitiveness have intensified discourse about international competitiveness gaps in industry structure and productivity (Tiits *et al.*, 2003) that has been linked to the knowledge-based economy and the development of the education system (Kattel and Kalvet, 2006). The strategic challenge of increasing the role of middle- and high-level technology sectors in the creation of added value in Estonia (Jürgenson *et al.*, 2005) has become topical for the sustainable growth of the Estonian economy.

In the first decade of the 21st century, an important challenge is to understand interrelations between European integration, anticipated and real changes in the business environment, managerial perceptions of the threats and opportunities of European integration and visions of future competitive advantage. The present paper reflects the research results of a study that combined a questionnaire survey and follow-up interviews of managers from 87 enterprises in food processing, transportation and logistics, wood and furniture, information technology, mechanical engineering, textiles and professional services. The research project was carried out from May 2004 to August 2006 at the Estonian Business School. The paper focuses on the role of competitive advantage visions in the internationalization process of small and medium-sized enterprises. Differences between entrepreneurial visions and

development paths for attaining international competitiveness are analyzed by using cluster analysis and by comparing smaller and larger enterprises.

2. Internationalization strategies and SMEs

Internationalization strategies and paths of small and medium-sized enterprises have been part of the socio-economic development discourse especially in the advanced and open market economies, where international business operations are a key factor of economic growth. The research of internationalization strategies in recent decades has been strongly influenced by the stage approach of the Uppsala school (Johanson and Vahlne, 1977, 1990) and approaches that relate stages of entrepreneurial internationalisation to product, operation mode and market dimensions (Luostarinen and Welch, 1997). The internationalisation process has been described as a multi-stage increase in foreign market commitment, according to the changes in the company's experiential knowledge (Johanson and Vahlne, 1977). Stage approaches however, have been challenged by the concept of born globals — companies that start exporting and follow internationalisation strategies already at an early stage in their business activities (Knight, G. and Cavusgil, 1996, Andersson and Wictor, 2001). The stage approach assumes a cycle of periodic transitions to the new stages of internationalization. The emergent approach to change (Dawson, 1994), but also the punctuated equilibrium model (Romanelli and Tushman, 1994), are more in line with the stage approach whereas the born global strategy has to rely both on the strategic plan for rapid globalization and on the continuous transformation model of change promoted by Tom Peters (1997) and Rosabeth Kanter *et al.* (1997). Entrepreneurial vision is an important assumption for successful strategies in both approaches.

The dynamic capability school developed by Barney (1991) sees the departure point for strategy development in assessing the internal resources and developing distinctive organizational capabilities and core competences that are difficult to imitate. The cycle of establishing competitive advantage, its dissipation and renewal consists of discovery or creation of a radical Schumpeterian innovation, assessment of the opportunity to create or renew competitive advantage, the creation of competitive advantage by leveraging innovation to exploit attractive opportunities and the dissipation of positional advantage (Miles and Darroch, 2005).

Baker and Sinkula (1999) suggested that a superior learning environment will leverage the use of all resources that accompany a market orientation. As such, market-driven business logic can, however, have a negative association with the ability to innovate if technology searching and monitoring is not an essential part of the business logic (Tuominen *et al.*, 2003). Senior managers must be able to see potential business opportunities that do not yet exist, and unarticulated strategies that are at the frontier of what the company is capable of doing. In order to be ready to use such opportunities, companies need complex strategic integration that takes into account external constraints, including regulatory, technological and market forces, plus the internal limitations of competencies, capabilities and resources (Burgelman and Doz, 2001).

The degree of internationalization of both the market and the firm, influences the role of networking in building competencies for internationalization (Hinttu *et al.*, 2004). Business networks mean continuous exchange and the other co-operative relationships that a business organisation is engaged in with other organisations (Håkansson and Snehota, 1995). Although international networking has been a

popular concept in EU-sponsored development projects, external communities of knowledge have been overlooked for the role they play in the flow of strategic knowledge inputs to organisations (McGrath and Purcell, 2004). Participants of the knowledge sharing process in a network have to understand their core competencies and competency gaps, but also the competencies and competency gaps of their partners in the context of their common and individual interests. Complementary core competencies among the network participants can be applied to reframe value chains as the main way of competing in the future (Hamel, 2000; Normann, 2001; Simpson, 2002).

Fletcher (2004) stresses the social constructivist approach to studying international entrepreneurship and stresses the role of cognitively building a particular international business situation as an opportunity. Modern strategy perspectives depict strategy as a messy, disorderly and disjointed process (Volberda, 2004). The post-modern perspective sees strategy as strategic schemas or frames of reference that allow the organization and its environment to be understood by organizational stakeholders (Bettis and Prahalad, 1995; Volberda, 2004). Strategic schemas become tools that support change through organizational learning. A competitive advantage vision can be presented and discussed as a crucial strategic schema that determines strategic choices and risks that entrepreneurs or entrepreneurial managers anticipate and are ready to deal with. In the present paper future competitive advantage visions of managers are studied as key drivers of strategic choices for surviving in the international competition.

Learning organization concepts (Senge, 1990, Pedler *et al.*, 1991) have been applied in strategy development and change management practices. The capability of an organization to learn by systematically processing new information about the changing business environment and by critically reflecting past experience is especially relevant to business organizations in transitional countries. The vision of future competitive advantages is also an enabler of sustainable strategic leadership and organizational learning for developing core competences.

3. European integration and international competitiveness challenges for SMEs in a new EU member state

A key strategic change driver for enterprises operating in Estonia has been the transition from the state dominated economy where private ownership of enterprises was ruled out to a vibrant open market economy. The high degree of openness to the international business environment has resulted in rapid growth of export but, on the other hand, even more rapid increases in import flows. In 2006, exports were 7 632 million euros compared to 10 345 million in imports (Statistics of Estonia, 2007a, p. 17). In Estonia, export development is the key business growth driver in sectors where economies of scale are an important efficiency factor.

In 2001, the share of EU countries in Estonian exports was already 69.5% and 56.5% in its imports (Statistical Office of Estonia, 2004). In 2005, the share of enlarged EU-25 in Estonian exports was 77.7%. The share of EU-25 in Estonian exports has not increased since joining the EU — it was 82.4% in 2003, 80.1% in 2004 and 65% in 2006. The share of EU countries in Estonian imports was 76.5% in 2003, 77.6% in 2004 and 74% in 2006 (Statistical Office of Estonia, 2006; Statistics Estonia, 2007b).

A comprehensive overview of entrepreneurship and SME research in Estonia is presented in (Venesaar, 2006). Several research projects have focused on changes

in the economic environment and on main problems facing entrepreneurs at different stages of the economic transition, privatization and restructuring. New or privatized and restructured enterprises first started to export as opportunistic subcontractors and only later focused on a more strategic approach by comparing different target markets and entry modes and investing in their own product development and market research. A survey of Baltic clothing exporters in the last decade (Smallbone and Venesaar, 1998) pointed out that compared with the Polish and Bulgarian firms, Baltic clothing exporters, including Estonian enterprises, were more likely to be involved in foreign subcontracting. Elenurm (2000, 2001) analyzed the export training needs of Estonian SMEs at the end of 90s and came to the conclusion that in the SME sector of Estonia as a transition country the logic of developing exports and going international is different from the stage logic which has served as the basis of export development programs in stable market economies. Many SMEs that started exporting in the 90s were in fact not following a stage-wise approach, but were simply found by entrepreneurial foreign business people who engaged them as subcontractors. Finding markets was mentioned as the main business constraint by 42% of respondents in a large-scale survey of 1 912 SMEs conducted in 2002 in the context of preparations for joining the European Union. At the same time, even among very small manufacturing enterprises, 32% were involved in exports (Smallbone and Venesaar, 2006, p. 19–46).

Research on the internationalization process of the largest Baltic corporations has revealed that over 40% had already started their operations abroad some years before Estonia joined the EU. Imminent EU membership was not identified as the driving force of the Baltic corporation's internationalization (Liuhto and Jumpponen, 2003). A survey of 70 Estonian outward investing enterprises (Varblane *et al.*, 2001) pointed out a high volatility of FDI outflows from Estonia 1993–2001, and a correlation between GDP and outward foreign investments. Connections between inward and outward investments have been identified in the banking sector (Varblane and Roolaht, 2004). ICT-sector developments in Estonia and other transitional countries have been compared in and challenges of knowledge-based development have been pointed out (Vahtra *et al.*, 2005).

Research on the internationalization of Finnish companies in the Baltic states has highlighted sector-specific drivers that are either related to cost-efficient subcontracting inputs or accessing new markets (CEMAT, 2005). Estonian companies that set up subsidiaries in neighbouring Baltic countries may have often acted as implementers of the strategic vision developed by their Nordic owners or long-term business partners. Roolaht (2006a) has however described cases, where entrepreneurial changes crucial for internationalization were made by Estonian owners transforming their companies from a clothing manufacturer into innovative apparel retailers or acting as the coordinating agent in a custom-built international bus transport network. He has suggested that the regulatory and competitive environment of the EU will reduce the role of arbitrary entrepreneurship and will support the knowledge-based entrepreneurship (Roolaht, 2006b).

The empirical research that will be presented in the next sections of this paper is based on the assumption that exploring future change trends and the strategic priorities of managers will complement studies of strategies that have been implemented and overviews of problems that entrepreneurs face in the present situation. Comparing the strategic visions in several industries and in larger and smaller enterprises is helpful for identifying strategic competitiveness challenges and

for anticipating entrepreneurial development patterns in the context of internationalization and European integration.

4. Combining quantitative and qualitative research

Quantitative questionnaire-based surveys are good tools for measuring such attributes of phenomena which are understood in the same frame of reference by all respondents. Qualitative research in business and management provides a more detailed picture of the object of the study to identify important variables, patterns and meaning structures for participants in order to investigate little understood phenomena (Remenyi *et al.* 1998, pp. 107-113). When studying complex concepts such as competitive advantage and related strategic choices, the validity of data can be increased and new insights developed if the survey answers are compared to semi-structured interview results and secondary background data about companies involved in the research process. The research process started with a questionnaire survey, but continued with interviews. Combined research design supports dialogue between managers and researchers looking for longitudinal insights into whether and how respondents change their interpretations of strategic change drivers.

In spring 2004, when Estonia joined the EU, the questionnaire survey was conducted as the first step in revealing connections between scope and potential changes in the nature of international operations, staff mobility forecasts, the anticipated impact of EU-driven changes and the vision of international competitive advantage among managers.

The questionnaire started by identifying the number of employees in the company and asking the respondent to forecast inward and outward mobility of employees between the company and employers in other EU member states. The next block of questions identified the present modes of international business operations inside and outside the EU. Respondents had to forecast if the share of each of the types of international operations in the business activity of the enterprise would grow or diminish by the year 2010.

A checklist of potential changes resulting from European integration was offered for ranking by importance and rating them on the 5-point threat or opportunity scale. Respondents used an open checklist of 13 potential competitive advantages for assessing the extent to which each of them would contribute to their international competitive advantage in 2010. The last part of the questionnaire included open questions for identifying changes that assume acquiring additional knowledge and developing new competencies in order to be competitive in the EU. There were also questions about participation in EU-supported development projects. Respondents were asked to assess the real or potential effects of projects and factors that have inhibited participation in projects. Questions about the strategy development time horizon concluded the questionnaire.

The sample of respondents was formed assigning equal quotas to 7 industries that were selected for the survey after discussions with experts on the basis of two criteria: potential impact of European integration and eligibility to participate in EU-supported development projects. The retail sector, although influenced by the EU, was not included as it is not eligible for EU-supported development projects. The chemical industry and agriculture were excluded as sectors where competitiveness is influenced by specific factors. The intention was to involve in the survey from each industry 20-25 top managers that represent small, medium and large enterprises. Managers of 175 enterprises were invited to participate in the survey, but only 87 completed

questionnaires that qualified for data processing were received. The industries represented were as follows: 22 respondents from professional services, 15 from food processing, 13 from wood and furniture, 11 from information and communication technology, 11 from mechanical engineering, 8 from textiles and 7 from transportation and logistics. In terms of the size of the enterprises involved 17.2% of respondents were from micro-enterprises (1-9 employees), 29.9% from small enterprises (10-49 employees), 13.8% from medium sized enterprises (50-99 employees) and 39.1% from large enterprises. The over-representation of large enterprises is not a problem for the explorative insight-seeking focus of the present research as large enterprises may be influenced by more complex organizational change drivers. The limited response from small and medium-sized enterprises reflects, among other issues, that such enterprises were overloaded with administrative inquiries and procedural changes during the months surrounding EU accession. Some SME managers were not eager to discuss long-term strategic issues related to the EU under the influence of the short-term bureaucratic red tape associated with EU accession.

The survey results served as an important input for 25 follow-up interviews that provided a deeper insight into the strategic reasoning behind the visions of future competitive advantage and learning needs 1-2 years after EU accession, but also reflected the dynamics of the integration of enterprises into the markets and business environments of the EU. Managers were selected for interviews as representatives of three clusters identified when processing the survey data. The need to obtain explanations about answers to the open questions and/or inconsistencies in some of the answers in different parts of the questionnaire served as selection criteria within the clusters.

5. Questionnaire survey and interview results

As much as 55.2% of respondents stated that they were selling their own products in other EU member states and 29.9% anticipated substantial growth of the share of this type of international business operation in the portfolio of their business activities by the year 2010. 29.9% of enterprises were selling their products outside the EU and 13.8% anticipated substantial growth in this field. 35.6% of respondents were involved in developing products and technologies with partners in EU member states and 13.8% with partners outside the EU. Substantial growth in such development co-operation with EU partners was anticipated by 18.4%, while 8.0% anticipated growth with partners outside the EU. As much as 52.9% of enterprises were involved in subcontracting for enterprises in other EU member states and 16.1% anticipated substantial growth, whereas 8% anticipated a substantial decrease in the share of this type of international business operation in their business activities. Subcontractors for companies outside the EU amounted to 17.2%, and 8% of all respondents anticipated substantial growth in subcontracting to clients outside the EU, while 5.7% forecasted that the share of this type of international business activity would decrease. Establishing subsidiaries in other EU countries was seen as a substantially growing internationalization trend by 5.7% of respondents, and establishing subsidiaries outside the EU by 3.4% of respondents. A substantial growth trend in inward or outward licensing was anticipated by only 3.4% of respondents. The questionnaire results demonstrate quite a high share of firms selling their own products on markets of other EU states. However, the interviews revealed that in many cases this needs to be qualified as contract manufacturing, where the final

product is specified by the foreign customer. Subcontracting is seen as a strategically sustainable way to internationalize by a large number of enterprises at least until 2010, although in the interviews they pointed out the growing competition from Asia. The next wave of EU accession was not considered as a source of intensifying competition between subcontractors.

A one-way between-groups variance analysis (Anova) was conducted in order to identify statistically significant differences between the 7 industries involved in the survey. When analyzing managerial perceptions of threats and opportunities driven by European integration assessed on the scale 1 (pure threat) to 5 (pure opportunity), post-hoc comparisons using the Tukey HSD test indicated that the mean score for the food processing industry for sanitary, occupational safety and environment protection regulations ($M=3.53$; $SD=0.743$) was significantly different from the mechanical engineering mean score ($M=2.36$; $SD=0.674$), Sig (0.049). Preparations for membership of the European Union involved a period of intensive harmonization of Estonian legislation, quality, safety and environment regulations with EU requirements. Compliance with the new regulatory framework assumed substantial investments, especially in the food processing industry. It can be concluded from the interviews that several managers in this industry see modernized facilities as an asset in promoting sales in the old EU countries, where the production environment may be even less updated. At the same time, co-operation networks between enterprises in different EU countries were seen more as an opportunity in ICT enterprises ($M=4.90$; $SD=0.316$) than in food processing enterprises ($M=3.93$; $SD=0.730$), Sig (0.026). The ICT sector in Estonia has examples of innovative development work such as SKYPE and solutions by Playtech Estonia for the online gaming industry. These examples also influence smaller enterprises in the ICT sector. Surprisingly, creativity and innovation as a potential competitive advantage in 2010 was rated substantially higher on the 5-point scale by respondents from professional services enterprises ($M=4.06$; $SD=0.725$) than by the average respondents from the ICT sector ($M=2.91$; $SD=1.640$), Sig (0.049). ICT enterprises rated the effect of EU-supported projects on new product development ($M=4.50$; $SD=0.756$) as more significant than the majority of mechanical engineering enterprises ($M=2.17$; $SD=1.169$), Sig (0.025). The effect of EU-supported development projects on knowledge sharing in international networks was assessed as significant by both transportation & logistics enterprises ($M=4.67$; $SD=0.516$), Sig (0.025) and professional services enterprises ($M=4.47$; $SD=0.990$), Sig (0.013), compared to the textiles industry ($M=2.40$; $SD=0.894$).

Correlation analysis of the data from all enterprises demonstrated a strong positive correlation between the anticipated growth trend of selling own products in other EU countries and sales growth outside the EU ($r=0.636$, $p<0.01$). Developing new products in co-operation with partners from other EU countries also correlated positively with the growth trend of selling products in other EU countries ($r=0.670$, $p<0.01$). This could be interpreted as strategic intent to create synergy between development co-operation inside the EU and exports to third countries. If respondents anticipated developing new products with partners from other EU countries as a growth trend, they also identified co-operation networks between enterprises in different EU countries as a future opportunity ($r=0.418$, $p>0.01$). Many enterprises that anticipated subcontracting as a growth trend, simultaneously considered new product development a significant effect anticipated from EU-supported development projects ($r=0.501$, $p<0.01$).

In order to obtain new insights into change drivers and strategic priorities that reflect cross-industry patterns, clustering was applied using the nearest neighbour algorithm in the statistical package SPSS. Three significant clusters were identified.

Cluster 1 (25 enterprises) can be labelled “subcontracting efficiency boosters”. Managers in this cluster stressed lower labour costs as their competitive advantage (Figure 1), and believed subcontracting would continue as a growth trend. At the same time, they anticipated relatively intensive emigration of their skilled workers to other EU countries. The significance of EU-supported projects is mainly linked to new technologies. In the interviews, representatives of this cluster stressed the desire to have EU support to modernize their production equipment in order to increase productivity.

Cluster 2 (24 enterprises) – “diversified internationalization opportunity users” stressed co-operation networks between EU countries as EU integration opportunities (Figure 2). Staff training, the identification of new foreign partners and access to data banks were pointed out as strategic priorities for participation in EU-supported projects. They anticipated sales growth both in other EU countries and on markets outside the EU. Some enterprises in this cluster also considered inward licensing as a strategic move. In addition to skilled workers, they anticipate the inward and outward international mobility of experts and technicians. The vision of competitive advantage in this cluster includes enterprise location, productivity and a cost effectiveness not driven by low labour costs (Figure 1).

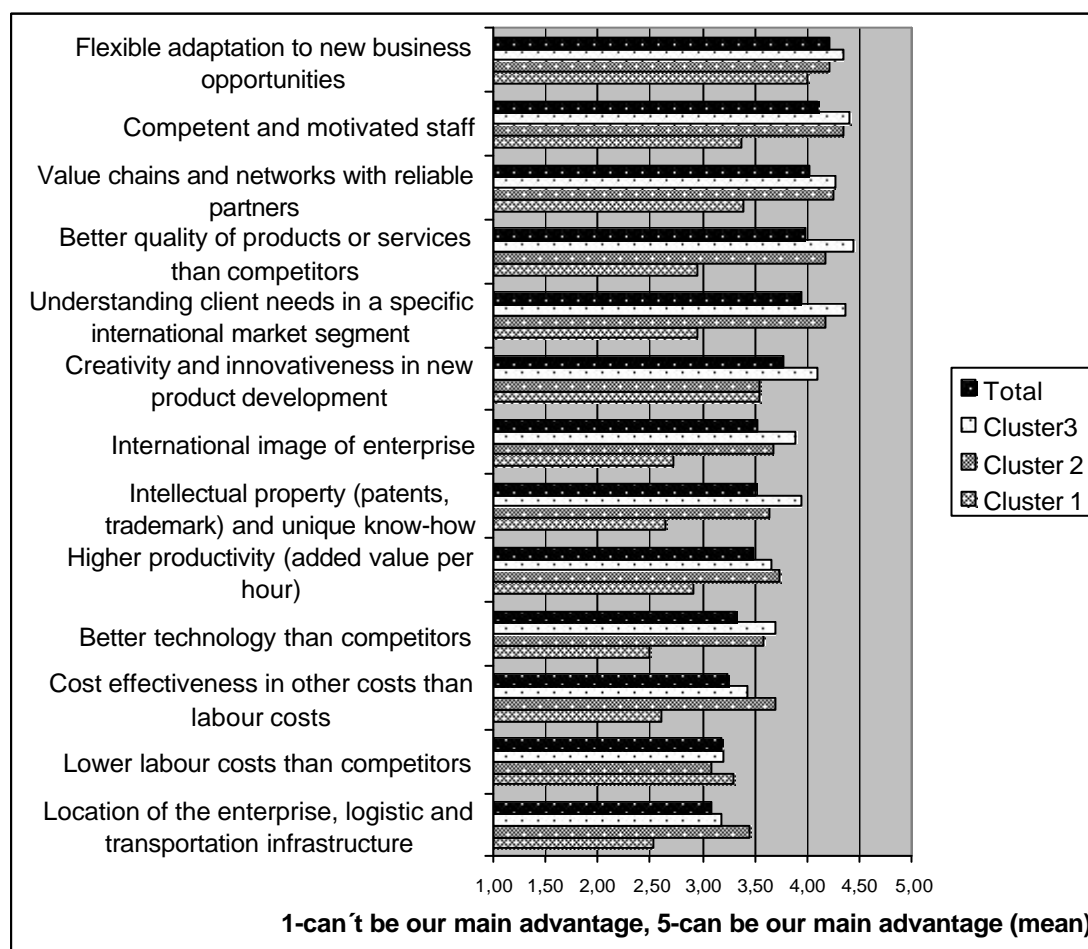


Figure 1. Competitive advantage in 2010 by clusters

Cluster 3 (38 enterprises) – “international value chain members” anticipate changes in management. Higher trade barriers with non-EU countries are seen as threats slightly more than in other clusters (Figure 2). Despite this, the respondents in this cluster anticipate a growth trend of sales both in the EU and on markets outside the EU. The effect of EU-supported projects is linked to new product development and knowledge sharing in international networks. Vision of competitive advantage stresses better quality of products or services than competitors, competent and motivated staff, understanding client needs in specific international segments, the international image of enterprise and flexible adaptability to new business opportunities. Foreign-owned production enterprises and knowledge-based firms dominate in the cluster of international value chain members.

Flexible adaptation to new business opportunities is the competitive advantage that also received the highest mean rating in the total sample of enterprises (Figure 1). The interviews clarified different interpretations of this concept. This can mean flexibility in pricing or just in time approach to fulfilling orders for international clients for some enterprises, and for others anticipating new client needs or combining different technologies in order to offer a full service to its customers. The interviews also revealed that few enterprises have a clear strategic vision of how to use EU-supported development projects as change drivers that would enhance the competencies of the staff and other elements of the competitive advantage vision. Competent and motivated staff was rated high as the competitive advantage in clusters 2 and 3, but even in these clusters there was little evidence of strategic ideas for how to increase the human capital in the situation, where the free movement of labour can mean emigration of skilled workforce, but also opportunities to hire export managers and other competent persons from other EU countries for internationalization.

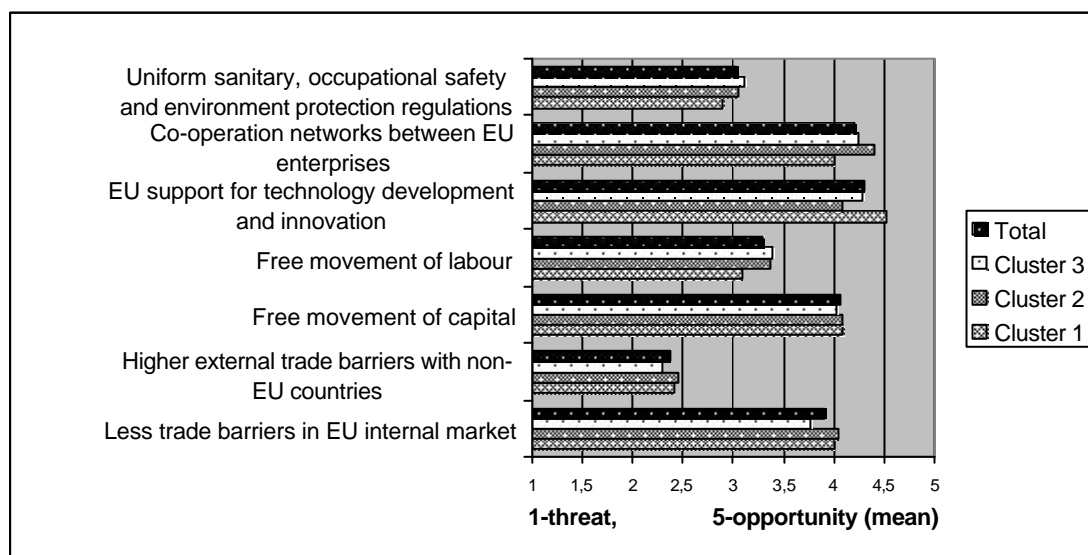


Figure 2. Threats and opportunities of the European integration (by clusters)

The free movement of capital is interpreted by enterprises in all three clusters as an opportunity within EU integration. That is indicative of the liberal Estonian economic policy framework, where foreign and domestic entrepreneurs have already been treated equally before Estonia joined the EU.

6. Does the size of an enterprise make a difference?

SMEs have limited resources for developing competitive advantages that may require substantial investments. SMEs are also considered vulnerable to threats in the rapidly changing business environment. At the same time, smallness may enable rapid use of new business opportunities. Our sample allows us to compare micro-enterprises (1–9 employees), small enterprises (10–49 employees), medium-sized enterprises (50–99 employees) and larger enterprises (100 and more employees). Although in EU statistics, the borderline between SMEs and large enterprises is generally 250 employees, in the context of identifying strategic opportunities, threats and competitive advantages we also included enterprises with 101–249 employees in the group of larger enterprises. In 2004 in Estonia there were only 160 enterprises that had 250 or more employees, in 2005 the number of such large enterprises was 167. That is, less than 0.4% of the total number of 44 112 operating enterprises (Ministry of Economic Affairs and Communications, 2006).

When analyzing perceptions about threats and opportunities driven by European integration assessed on a scale of 1 (pure threat) to 5 (pure opportunity), post-hoc comparisons using the Tukey HSD test indicated that higher external barriers with non-EU countries were, to some extent, perceived more as a threat in companies with more than 100 employees ($M=2.10$; $SD=0.817$) than in SMEs that employed 50–99 people ($M=3.00$; $SD=1.044$), Sig (0.016). Small and micro-enterprises were in between these two extremes. Co-operation networks between EU enterprises were placed higher on the importance ranking scale by micro-enterprises ($M=1.80$, $SD=1.317$, Sig (0.015)) and small enterprises ($M=2.35$; $SD=1.539$), Sig (0.043) than by enterprises with more than 100 employees ($M=3.81$; $SD=1.90$), but all size categories considered networks and EU support for technology development and innovation primarily as opportunities.

Enterprises that had 10–49 employees were less often involved in selling their products in other EU states than larger enterprises or micro-enterprises, but some growth trends in these types of international operations were anticipated in all size groups of enterprises. Enterprises with 100 or more employees ($M=0.59$; $SD=0.501$), sell more often their products outside the EU more than micro-enterprises ($M=0.08$; $SD=0.289$), Sig (0.011). Larger enterprises ($M=0.64$; $SD=0.488$) are also more often involved in developing products and technologies in co-operation with partners in other EU member states than enterprises employing 10–49 people ($M=0.27$; $SD=0.452$), Sig (0.031). Although enterprises employing 10–49 people had a slightly more positive outlook of growth in subcontracting operations than in the total sample, there are no significant differences between enterprises of different size in anticipating growth trends in subcontracting to partner enterprises inside or outside the European Union.

The comparison of competitive advantage visions over the four size groups of enterprises (Figure 3) demonstrates that managers of larger enterprises are less optimistic when anticipating their future competitive advantages compared to entrepreneurial managers in medium-sized, small and micro-enterprises. Medium-sized enterprises link their future competitiveness vision to the cost effectiveness of costs other than labour costs, and to better technology, lower labour costs and also to the location of the enterprise, and logistics and transportation infrastructure. Micro-enterprises point out value chains and networks with reliable partners, flexible

adaptations to new business opportunities, competent and motivated staff, but also the international image of the enterprise. The latter may be a realistic vision for some professional services, ICT and other knowledge-based enterprises. Small enterprises with 10–49 employees stress flexible adaptation to new business opportunities ($M=4.50$; $SD=0.859$), Sig (0.040) in quite a similar way to micro-enterprises ($M=4.60$; $SD=0.632$), Sig (0.030) that leads to statistically significant differences from enterprises with 100 or more employees ($M=3.94$; $SD=0.747$). Larger enterprises stress value chains and networks with reliable partners less in their competitive advantage vision ($M=3.63$; $SD=0.999$) than micro-enterprises ($M=4.53$; $SD=0.640$), Sig (0.035). The differences of cost effectiveness in costs other than labour costs are also statistically significant between medium-sized enterprises ($M=4.10$; $SD=0.876$) and small enterprises ($M=2.76$; $SD=1.348$), Sig (0.033) that are less optimistic about this competitive advantage in the context of international competition.

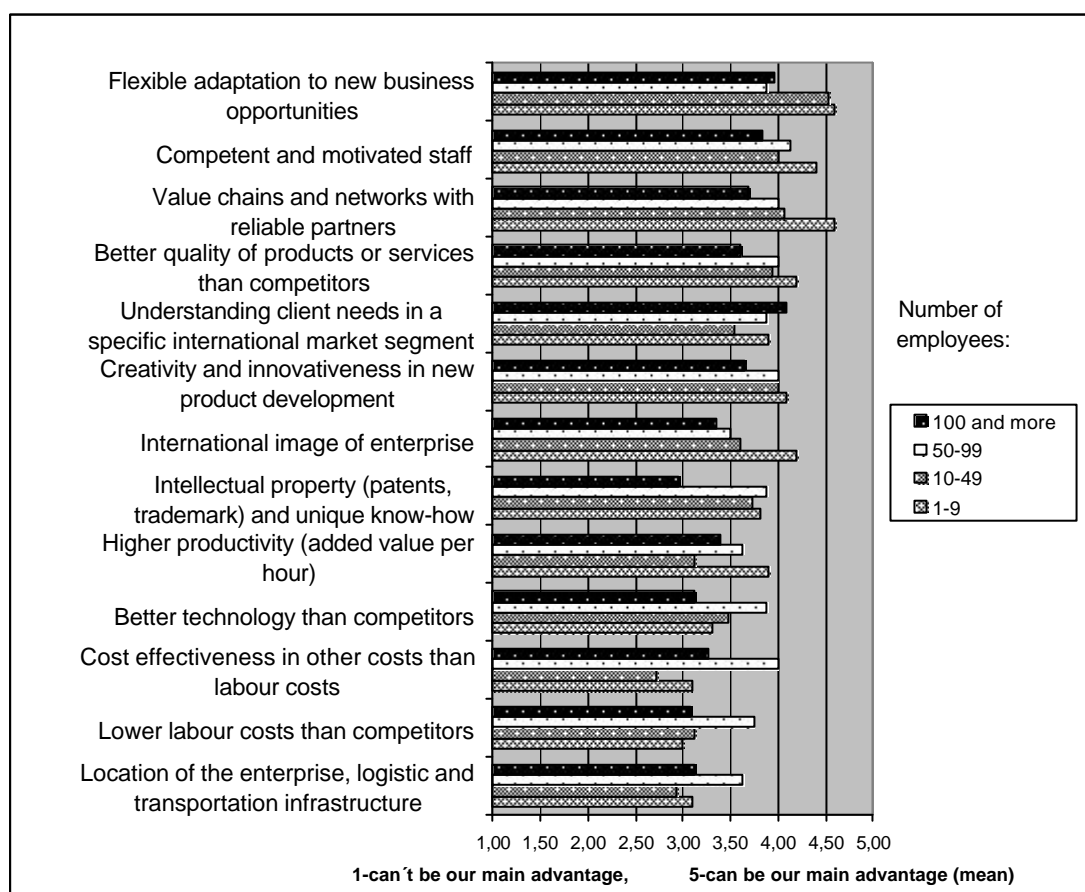


Figure 3. Competitive advantage in 2010 by size of enterprise

However, the variation of competitive advantage visions inside enterprise groups by size is substantial. Micro-enterprises, small, medium-sized and larger enterprises are present in all three enterprise clusters: “subcontracting efficiency boosters”, “diversified internationalization opportunity users” and “international value chain members” (table 1). Follow-up interviews confirmed that depending on the specific nature of the business and strategic visions of entrepreneurs, SMEs may follow the logic of an opportunistic subcontractor or establish themselves as a competence-based value-adding business in an international value chain. Although

lower labour costs combined with other tools for boosting subcontracting efficiency were central in the competitive advantage vision of some micro-enterprises and small enterprises, others stressed diversification through importing products offered by their foreign partners or step-by-step transitions from subcontracting to developing their own product or technology. At the same time, there were companies among larger enterprises that based their competitive advantage on the subcontracting efficiency supported by economies of scale, but also companies that try to link understanding client needs in international markets and flexible adaptations to new business opportunities. Cluster 3 is especially diverse for small and larger enterprises, as it includes some small knowledge-intensive firms owned by local internationally oriented entrepreneurs, but also foreign-owned larger production enterprises.

Table 1. Enterprises of different size represented in three clusters

Enterprise size by number of employees	Enterprises in clusters			Total
	Cluster 1: subcontracting efficiency	Cluster 2: diversified internationalization	Cluster 3: international value chain	
Micro (1-9)	3	6	6	15
Small (10-49)	10	3	13	26
Medium (50-99)	2	5	5	12
Larger (100 or more)	10	10	14	34
Total	25	24	38	87

In the total sample, 16.7% of respondents stated that they have developed strategy for longer period than 5 years; 21.4% had strategy for 5 years, 48.8% for 1–4 years and 10.7% for a year; 2.4% admitted that their enterprise does not have a fully elaborated strategy. There were no statistically significant differences between strategic time horizons of micro-enterprises, small, medium-sized and larger enterprises.

7. Discussion and conclusions

The survey and interview results highlight links between anticipated growth trends in international business operations, the perceived threats and opportunities of European integration and managerial visions of future competitive advantages. Both for entrepreneurs in SMEs and managers of larger enterprises, the opportunities in European integration outweigh the threats, but external economic barriers with non-EU countries were considered a threat even more in companies employing more than 100 people than in smaller enterprises. Among opportunities of integration, co-operation networks between EU enterprises were considered especially important by micro-enterprises and small enterprises. SMEs however, often lack the organizational capabilities for international networking and do not use EU-supported projects to follow their strategic vision

Strategic intent to move from subcontracting to increased sales of a firm's own products both inside and outside the EU is an important change driver. Enterprises that are developing new products in co-operation with partners from other EU countries are looking to assume the role of gatekeeper between EU partners and markets outside the EU. Larger enterprises are however more often involved in

developing products and technologies in co-operation with partners in other EU member states than small enterprises.

The stage approach has to be modified when applied to the internationalization process and related change management challenges of enterprises in Estonia as a transitional country. An internationalization path for enterprises in the transitional business environment involves the use of subcontracting for accumulating financial resources and competencies in order to develop their own products for international markets. Such a gradual approach however, faces the challenge of entrepreneurial emancipation in order to avoid being trapped in the subcontracting relationship with only 1-2 main partners. International networking with larger numbers of partners in different EU countries and clarifying the competitive advantage vision are crucial change drivers in the internationalization process. The born global strategy assumes innovative products, but credibility created by strategic partners in international value chains is another prerequisite of this internationalization path. Radical Schumpeterian innovation for international markets assumes the need for even more change management, networking and organizational learning capabilities from an enterprise in a transitional country than from an enterprise in an advanced market economy.

Flexible adaptation to new business opportunities together with competent and motivated staff are rated high as future competitive advantages, but inward and outward cross-border labour mobility is not strategically utilized as a change management tool that could support future competitive advantage. Entrepreneurs in micro-enterprises, small and medium-sized enterprises are often more optimistic about their future competitive advantages than managers in larger enterprises. That is especially reflected in assessments and follow-up discussions concerning the competence and motivation of SME staff, flexible adaptation to new business opportunities and networks with reliable partners. Active monitoring of trends in the international business environment and risk analysis could enable a more realistic and balanced view.

State policies for supporting entrepreneurship and innovation could be more customized to meet the specific needs of enterprises that are influenced by specific combinations of change drivers and follow a different logic of internationalization. "Subcontracting efficiency boosters", "diversified internationalization opportunity users" and "international value chain members" need different EU-supported and locally sponsored development projects. Studying these three clusters leads to a deeper understanding of specific internationalization visions and challenges of entrepreneurs than simple classification of SMEs and large enterprises by their number of employees. In fact, enterprises of different sizes were represented in all three clusters.

The questionnaire developed for the survey and the survey results can be used for expert assessments and reflective strategic conversations in SMEs and in larger enterprises involved in the survey, but also in other organizations. This could then serve as an input for organizational development and action research that could help to overcome the limitations of the sample of the research reported in this paper.

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