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INTERNATIONALIZATION OF FOREIGN-OWNED SUBSIDIARIES IN EASTERN EUROPE

A CASE OF SEVEN MULTINATIONALS

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ABSTRACT

Since the fall of communism in the late 80's Poland has taken major steps forward and become one of the most successful transition economies. One significant economic change is that trade has been re-oriented away from the CEE and CIS countries towards Western Europe as a result of a liberalization of the economy. However, trade relations with eastern neighbors are growing and becoming more important. A major role in these relations is played by foreign-owned subsidiaries based in Poland.

This study sets out to explore how these subsidiaries have internationalized and what the underlying explanations as well as future prospects for such development are. The main purpose of the study, which is limited to investigating market entry into Ukraine, is to create an understanding for the internationalization of subsidiaries in Eastern Europe.

The main findings of the study show that the mainly market-oriented subsidiaries were established rapidly in Poland through large capital investments, which made them into group regional centers. The subsequent expansion into Ukraine revealed that the subsidiaries operated in a gradual manner and by low commitment, because of various subsidiary internal factors and due to an insecure and volatile Ukrainian transition environment. To manage the business activities network relationships were used extensively. No common pattern was found as an explanation for the subsidiaries' initial entry into Ukraine. Because of the slow developing character of the transition process subsidiaries are within the near future believed to continue expanding into Ukraine in the same way as they do at present.

Key Words: Internationalization, Subsidiary, MNC, Networks, Transition, Eastern Europe, Poland, Ukraine

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Gothenburg, 11.01.2003

Filip Rodziewicz

TABLE OF CONTENTS

TABLE OF FIGURES

ABBREVIATIONS

CEE	*Central and Eastern Europe*: Include; Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, FR Yugoslavia, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic and Slovenia
CEFTA	*Central and Eastern European Free Trade Agreement*: Include; Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania and Bulgaria
CIS	*Commonwealth of Independent States*: Include; Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekiztan
EBRD	*European Bank for Reconstruction and Development*
EU	*European Union*
FDI	*Foreign Direct Investment*
MNC	*Multinational Corporation*
NATO	North Atlantic Treaty Organization
UNCTAD	United Nations Conference on Trade and Development

1 INTRODUCTION

This introductory chapter aims at giving the reader a picture of what is going to be studied within this thesis. First, the initial spark to what started the interest in the subject is presented. Second, some propositions concerning the thesis framework are revealed. The remaining part focuses on stating and explaining the problem definition, which has been divided into three research questions.

1.1 Background

1989 marked the fall of communism in Poland as the first free elections were held and a non-communist majority government was formed. This meant a new political and economic era for the country and was the start of a transition process from a centrally planned economy to a free market economy. Today, thirteen years have passed since the transformation of the economy began and a great deal has happened since that. As one of many Eastern European countries going though the same process, Poland has turned out as one of the most successful transition economies (EBRD, 2001) in its region in terms of economic and social reforms.

The transition process has opened up the Polish economy for foreign companies. The level of foreign involvement and Poland's integration into the global production system has increased year by year. In fact, Poland has over the past few years become the main target for foreign direct investment in Central and Eastern Europe. In 2000, the total FDI stock in Poland amounted to 36,5 billion USD. The figure can be compared to 21 and 19,2 billion USD for the Czech Republic and Russia respectively (UNCTAD, 2001).

The implication of the investments on foreign trade for CEE economies is that the bulk of trade, which formerly was within the Soviet block, has been re-orientated away from the CEE and CIS countries towards Western Europe (Mercado et al., 2001). However, Polish trade relations with the former Soviet block are still noteworthy and actually growing in importance. Exports and imports with countries such as the members of the CEFTA and CIS have shown increasing growth rates during the past few years. Even if the Russian crisis in 1998 decreased Polish trade with the CIS countries as a total, today the situation has changed for the better and the level of trade is higher than ever since free market economy was introduced in these countries in the late 80's and beginning of the 90's (Foreign Trade Research Institute, 1997-2002).

An observation made at the World Bank (2001) is that there are indications that during the last few years Poland has established itself as a regional hub for some foreign companies that are expanding into the CIS and CEE. What can be seen is that the growing amount of subsidiaries of foreign companies entering and establishing production in Poland increasingly commit themselves to the neighboring markets and above all Ukraine and Russia, most notably by exporting. This means that instead of entering the CEE and CIS markets directly from the MNC's country of origin these markets are penetrated by the subsidiaries active in Poland.

In 2001, foreign-owned subsidiaries exported goods worth 1415 million USD to the member countries of CEE and CIS. The figure can be compared to 340 million USD in 1996. Furthermore, the share of the foreign-owned companies in total exports to CEE and CIS has increased from 27,5 % to 46 % during the five years. The figures indicate that foreign owed subsidiaries in Poland have started a broad scale penetration of the neighboring eastern markets.

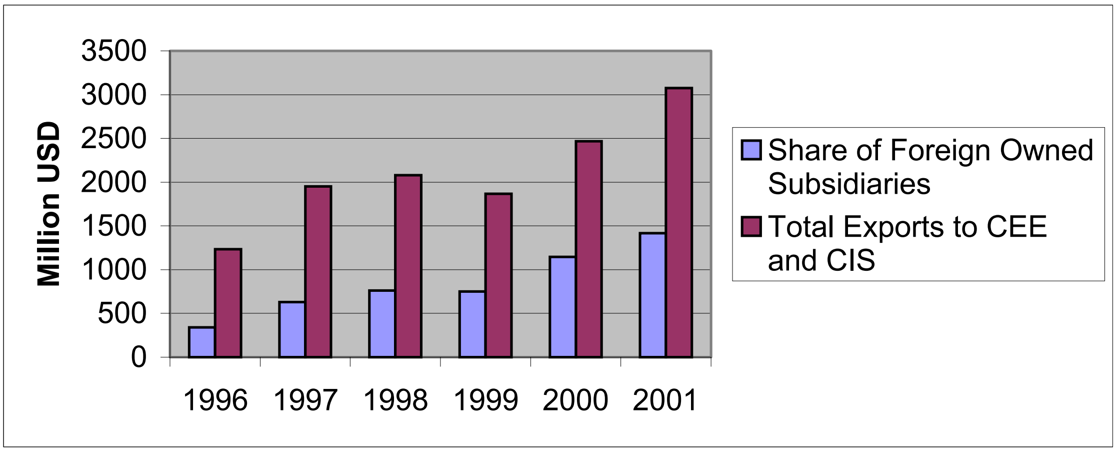

Figure 1 – Polish Exports to CEE and CIS

Source: Calculations based on Foreign Trade Research Institute (1997-2002)

There is really no organization, public nor private, in Poland that monitors Polish outward investments and therefore there is a huge lack of knowledge in this area. In an investigation conducted by Gazeta Wyborcza (2002), the largest Polish daily newspaper, Polish embassies in CEE as well as in the CIS countries were contacted and questioned about the size of Polish investments in their respective countries. The results showed that the largest amounts of investments have gone to Ukraine and Russia followed by Lithuania and the Czech Republic.

According to the Ukrainian-Polish Center for Cooperation (www.upcfc.org, 2002), which bases its statistics on the Ukrainian Ministry of Economy, Polish direct investments in Ukraine have shown a steady increase since 1995 when Polish investments amounted to 13,7 million USD. In the beginning of 2001 the level of aggregated investment had increased to 62,1 million USD. Increasing Polish outward FDI, especially to Ukraine, should indicate that there is increasing interest for companies active in Poland to launch manufacturing in Ukraine. Even if the case of Ukraine shows a positive development, the overall Polish outward investment remains at very low levels.

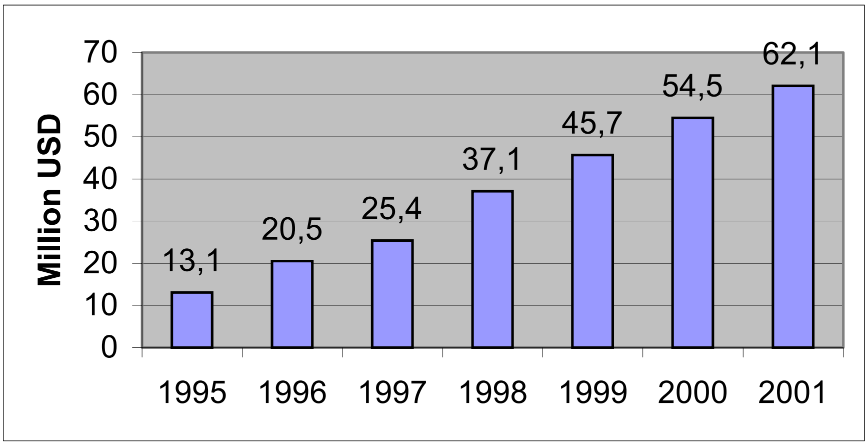

Figure 2 – Polish Accumulated FDI Inflow to Ukraine 1995-2001

Source: www.upcfc.org, 2002

Furthermore, the research made by Gazeta Wyborcza (2002) showed that there are today already 200 Polish firms that have started production in Ukraine. However, how many of these firms include capital of foreign subsidiaries in Poland and how large the overall investments that have been made in Ukraine by the foreign-owned subsidiaries is unknown. Considering the high level of exports that are generated by these subsidiaries it would be reasonable to presume that they would also have a certain share in the direct investments.

The discussion above has shown that there is a new trade and investment pattern emerging between Poland and its regional neighbors where subsidiaries of foreign firms play an important role. This has developed Poland into a regional hub meaning a center from which several foreign subsidiaries expand through at least exporting operations into neighboring countries. Thus, an interesting question that arises is what leads to this development In other words, how do they establish and develop international business activities?

1.2 Research Problem Discussion

To the authors knowledge there is no specific explanation as to *why* subsidiaries internationalize. It is not known if firm internationalization theory is able to explain such a phenomenon. The two most broadly excepted theories on firm internationalization would offer differing explanations for how and why subsidiaries of foreign firms have expanded their operations from Poland into CEE and CIS.

First, the *internationalization process view* as developed mainly by scholars at the University of Uppsala would propose that the reason why these markets are entered from Poland was because of acceptable and *manageable differences in culture, business practices and institutions*. Furthermore, the markets could have attracted the companies by their *size* and *future potential*.

Due to a lack of knowledge about the CEE and CIS markets the subsidiaries would be cautious when entering them. As the firms learn the realities about these markets - acquire market experience - by operating in them they would increase their commitments to them in a *step-by-step process*. First, their foreign sales would be handled by different modes of exports and later they would continue increasing their level of commitment and in some cases end up opening production facilities. However, exceptions could occur and the firms could have penetrated the markets faster in case they controlled large resources, the markets were stable and experience from similar markets had been previously acquired.

The other widely accepted theoretical approach concerning firm internationalization (created by among other Johanson and Mattsson, 1998) is based on theories about *industrial networks*. Instead of looking at independent markets as the process model does, internationalization in the network view is considered to emerge when the firm establishes a market position in a foreign network. The theory has been widely used as an explanation in cases where firms have shown rapid internationalization, which previously was not considered possible to fully explain with the process model.

Thus, the network theory of internationalization would suggest that what markets further east the Polish subsidiary enters is completely the outcome of what new relationships are established with Eastern European firms. The size of the market or psychic distance is not interesting in this perspective. Instead a central factor is relation-specific distance. However, since it is not known what relationships will be established the theory does not say anything about where or how a firm would internationalize.

In a forthcoming article by Johansson and Vahlne (2002) the authors develop a network model of the firm internationalization process, which embraces the basic mechanism from the old process model and incorporates it into the network perspective. Thus, it is expected that internationalization occurs as a result of an experimental learning-commitment mechanism, however, which instead applies to network relationships. Relationships with new Eastern European counterparts would therefore primarily be built in an incremental character. However, this does not mean that firms cannot enter new markets rapidly and that there would have to be a chain of operation modes. It is rather a description of a necessary process with regards to the relationship before a commitment is done.

Thus, the above-mentioned theories give suggestions to alternatives of *why* the foreign-owned subsidiaries in Eastern Europe would internationalize. The

Uppsala-school would also very clearly suggest how the subsidiaries were to internationalize.

Previously done studies on market entry and expansion in Eastern Europe offers some *propositions* of how this process would evolve based on what has been recorded from earlier investigations. Looking into existing theory about how business activities are conducted in Eastern Europe can therefore give some more hints about the realities of these markets and hence help to understand the underlying situation.

Nieminen (1999) concludes that doing business in Eastern Europe is a difficult task for western enterprises. According to his research the cause for this is the *turbulent business environment* that has been caused by the transformation process. Since transformation began at different stages in these countries they are all at different stages. Thus, foreign firms expanding into the Visegrad Countries - Poland, Hungary, the Czech Republic and Slovakia – that are considered to be more stable would prefer *high commitment operating modes* such as wholly owned subsidiaries. Thus, they would expose themselves to higher risk. On the other hand, foreign enterprises entering CIS-country markets are believed to favor *low commitment modes* since the markets are more unstable and risky. Hence, preferred modes would be, for example, traditional export-import operations, sales subsidiaries or joint ventures.

Furthermore, due to instability *taking advantage of relationships* in local networks in order to bridge the institutional insufficiencies in foremost the CIS-markets would be common.

Research made by Vahlne et al (1993) reveals interesting findings concerning how firms would expand into Eastern European markets. According to the study it would be expected that foreign investors start off by employing low commitment modes and later increase investments to form higher commitments. The findings are said to be in line with what the Uppsala-model suggests. Hence, starting with, for example, sales subsidiaries and *gradually increasing commitment* until production would be reached.

The introductory statistics have shown that foreign-owned subsidiaries in Poland establish themselves in Ukraine. Since there exists no explanation to how this process starts and develops some initial propositions have been presented here. To challenge these the following problem definition has been defined.

1.3 Problem Definition

Main Question:
How does a foreign-owned subsidiary in Poland establish and develop business activities in other transition markets and what are the explanations as well as future prospects for such expansion?

The main question has been divided into three research questions in order to clarify it and enable a more structured analysis in the end of the study. Thus first, to increase the understanding of this process it would be reasonable to investigate a MNC's initial entry into the transition country from where its subsidiary started to expand. This should be seen as a background explanation with the purpose of increasing the understanding of further development.

I. How and with what intentions was the initial market entry into Poland made?

Whether the firm's intentions where the one or the other, it is not known what brought its subsidiary to the following market. Thus, a second research question is posed in order to explain the subsidiary's entry and development within another transition economy. This question is the center of this study. Hence, it follows and should challenge the stated propositions.

II. How and why does a foreign-owned subsidiary in Poland establish and develop a market position in additional transition markets?

As a final research question the issue of what is going to happen to the firm and its future expansion within transition markets is brought into light.

III. What are the major operational barriers and how do they affect further expansion into the transition markets in the near future?

1.4 Purpose

The purpose of this study is to create an understanding and to describe how and why Polish-based subsidiaries of MNCs have internationalized in Eastern Europe. Since this is probably one of the first studies of subsidiary internationalization this thesis should form a basic understanding of what the phenomenon is about.

Since entering new markets through subsidiaries is not the most common type of market entry this study presents an alternative way of penetrating and expanding a company's operations.

The research should also contribute to an increased awareness of how internationalization processes are managed and developed in the environments of emerging markets as well as test and challenge previous findings about market entry and development in Eastern Europe.

1.5 Scope and Limitations

First of all, the starting point in the exploration of a MNC's activities in Eastern Europe is Poland. Thus, Poland is the country from where the subsidiaries should have started their internationalization. Second, Ukraine was chosen as the destination country.

The reason why the study is limited to one destination country is to enhance the comparison of the individual expansion processes. Transition economies have several common characteristics. However, since the beginning of the transformation processes the individual countries have started to diverge from each other most importantly politically, legally and economically due to variations in transformation progress. Thus, focusing on one destination country should make the subsidiaries' behavior more understandable since they are studied in the context of one environment.

Since this is a behavioral study its focus lies within the individual companies and their experiences as well as perceptions concerning expansion processes. In transition economies these processes are still believed to be highly dependent on the characteristics that are typical in transition environments. This thesis focuses on the most common of such characteristics found in the business literature.

Therefore less attention is given to market specifics of Ukraine. Instead a subsidiary's behavior will be mainly explained in relation to the existing findings about doing business in transition economies, as a general description concerning a group of Eastern European countries. Thus, there will therefore be no extensive descriptions of the market characteristics in Ukraine as a framework for this study.

In the initial stages of this thesis project the purpose was to limit the study to Swedish companies. However, as the work progressed and it was time to search for case companies it was realized that the amount of Swedish companies that were exporting or had invested in Ukraine through Poland was limited. Therefore, a decision was taken to broaden the scope to include all western MNCs.

The general theories that are used to create the framework of this study are the Uppsala and the Network model. The motive for the choice of these theories is twofold. First, since network relationships in Eastern Europe are considered to be highly important for foreign firms operating there, as stated by Törnroos and Nieminen (1999), theories about networks should provide important insights.

Furthermore, both theories have received high popularity and acceptance among a wide group of scholars. Even if the Uppsala model has several times been classified as outdated it is believed that it might be advantageous here when studying the Eastern European context. Due to its explanatory power and prediction of gradual internationalization processes, which coincides with a similar proposition presented earlier in this thesis, it should hopefully add to the understanding of the studied processes.

2 METHODOLOGY

The following methodology chapter explains how and under what conditions this thesis was written. This is done in order to enable the reader to trace how the author went about when conducting his research. First, a number of major fundamental research issues are raised, followed by the data collection procedure and the quality of the research.

2.1 Research Paradigm

Merriam (1998) differentiates between three research orientations *positivism*, *interpretative research* and *critical research*. All three represent different ways of looking at reality. The author illustrates the difference between them by defining education with each of them. The positivist perspective is about making research, education or schooling the objective. It is thought that knowledge acquired by scientific and experimental research can be objectified and quantified. On the other hand, in interpretative research one looks at education as a process and an experience for the one who attends it. Thus, understanding education as a process or experience is the knowledge that can be attained from this worldview. The approach in such research is often inductive, hypothesis- as well as theory generating. Furthermore, it assumes that all individuals create their own realities. Critical research would depict education as a social institution and would thus mainly focus on how the institution is structured.

Since the purpose of this research is to increase the understanding of how companies internationalize through their subsidiaries seen as an evolving process it becomes obvious that the research orientation should be interpretative. Hence, there is no interest in studying how companies are structured as institutions nor to conduct experiments on how companies would behave in certain situations as critical research and positivism would suggest.

2.2 Research Method

According to Merriam (1998) interpretative research can be also labeled as qualitative research. The focus of such research is to "understand and explain the meaning of social phenomena with as little disruption of the natural setting as possible." The research method is based on the assumption that human beings create reality as they interact with their social worlds. Thus, qualitative research tries to reveal and explain things that have been constructed by people. In order to analyze these creations human beings are the key data sources in qualitative studies and therefore field work is a very common means of collecting data.

Another research method is quantitative research. Instead of aiming at giving explanations to people's realities it tries to take apart a phenomenon and examine various components of it. The components are then used as variables in the study. The objective in quantitative research is rather to measure or quantify a certain phenomenon.

Firm internationalization processes are certainly social constructions that are controlled and developed by human beings. Therefore, understanding how they work in a certain context, as expressed in the purpose of this study, is a complicated matter, which requires a thorough investigation of the process as a whole. It would of course be possible to conduct a quantitative study of internationalization processes and in fact it is quite common. However, the objective of this study is not to quantify the number of occurrences of a certain phenomenon such as choice of entry mode. Instead this study attempts to explain why certain operation modes are used in a context that offers several rather complicated explanations. Thus, the qualitative research method is preferred over the quantitative.

Qualitative research usually follows an *inductive* research method (Merriam, 1998). Rather than testing existing theory inductive research tries to build abstractions, concepts and theories from empirical findings. This method is usually used when there is a lack of a theoretical frame of reference or when the existing theories do not explain a certain occurrence. Therefore, it is not possible to construct a hypothesis out of obtainable theoretical reasoning. The opposite of inductive research is *deductive research*, which instead is based on existing theory and knowledge. The researcher's starting point is then what is known about a certain occurrence. Thus, he hopes to find data that explains his propositions in contrast to the inductive researcher who attempts to formulate theory from his findings. *Abductive research* can be seen as a combination of the two previous ones. Together with the empirical findings as a point of departure and existing theoretical frameworks the investigator is able to formulate hypothetical propositions that can be tested. This method is advantageous when there is a phenomenon that the researcher wants to illuminate by applying certain theories as a basis.

The initial start and interest of this study emerged out of a statistical depiction, which proposed that there was a new trade and investment pattern forming between Poland and its CEE and CIS neighbors. Moreover, it was noted that a major role in this development was played by foreign-owned subsidiaries that were operating in Poland. Thus, the early phase of this study was inductive in the sense that the statistical findings gave birth to conceptualizations about this emerging pattern by looking at what explanations existing theories of firm internationalization could give to the phenomenon. Subsequently, the internationalization theories came to stand in the center of the study as the research questions were derived from them. Thus, the remaining study is based on testing the propositions and hence the major part of the study is deductive. Since both the inductive and deductive method is used, the study should be considered *abductive*.

2.3 Research Approach

A research approach describes the investigator's intent with the research as well as nature of the case studies. Yin (1994) categorizes three different research approaches *exploratory*, *explanatory* and *descriptive*. Exploratory research is most commonly used in the initial stages of a study when the researcher aims at finding a research problem or developing his research problem and making it more explicit. The research approach can also be used to evaluate performance or as a method for gaining more knowledge concerning further research.

Explanatory research on the other hand attempts to establish various explanations for the same phenomenon and tries to assess when it will be possible to apply the explanations in another situation. Thus, explanatory research aims at explaining why one event leads to the other and therefore it deals with cause-effect relationships.

Descriptive research aims at presenting detailed information about a phenomenon under study. Thus, a historical case study is nothing more than a description of a chain of events (Merriam, 1998).

This thesis follows mainly an explanatory research approach. The main question as well as the various research questions that have been posed aim at finding an explanation for why firms decide to take certain action, for example, choosing a certain operation mode.

2.4 Research Strategy

There are several research strategies to lean on when conducting studies in social sciences. Yin (1994) mentions and discusses *case studies*, *experiments*, *surveys*, *histories* and *the analysis of archival information*. A key question that the researcher has to deal with is which of the above-mentioned strategies to choose from in order to answer a research problem as favorably as possible. Each one of them implies a different way of collecting data and analyzing the empirical findings. Furthermore, they all have their own advantages and disadvantages. The goal is to avoid gross misfits, which would be the situation if a research strategy was chosen, although another strategy would be more appropriate or advantageous. However, research strategies are not mutually exclusive, which means that a researcher can actually use more than one strategy in any given study.

To come to grips with which research strategy to choose three conditions should be looked into. First and foremost, the type of research question posed. Second, the extent of control an investigator has over actual behavioral events. Third, the degree of focus the research questions have on contemporary or historical events.

Type of research questions can be categorized by “what,” “who,” “where,” “how” and “why” questions. Using any of the five research strategies can solve questions that begin with ”what” and are exploratory in their nature such as; ”What are the ways of making schools effective?” However, a “what” questions can also be a form of “how many” and “how much” inquiries that require some kind of quantification and are therefore usually most preferably tackled with the help of *survey* or *archival strategies*. This is also true for “who” and “where” questions. Surveys and analysis of archival records are thus well suited when the goal is to describe the incidence or prevalence of a phenomenon. Moreover, they can be used in predictions about certain outcomes.

“How” and “why” questions are considered to be more explanatory than the previous types. Their aim is to explain operational links, which need to be traced over time. Therefore, the research strategies most appropriate for such inquiries are *case studies*, *histories* and *experiments*.

Looking further into the conditions that should decide which research strategy to choose the researcher has to conclude what control he has over behavioral events and if the focus of his study is on contemporary events. If behavior can be manipulated directly, precisely and systematically and the research is on current issues the choice should be experiments. On the other hand, when there is no control over the events and the focus is on past events the researcher should make use of either history or archival analysis. In the case of archival analysis the focus can also be on current events. When it comes to surveys and case studies there is no need of control over events, but the focus of the research should be on contemporary issues.

Applying the framework from above on this thesis reveals that the case study approach should be the most appropriate strategy for challenging the problem statement. First of all, the main problem as well as most of the research problems are formulated as “how” and “why” questions. The posed questions clearly point out that the area that is going to be investigated concerns processes, to be more precise expansion processes in Eastern Europe. Since the focus is on contemporary happenings rather and there is no control over the behavioral events the alternatives are narrowed down to the case study. Some of the questions are, however, formulated as "what" questions and do not at first sight seem to fit the chosen research strategy. Nevertheless, the questions are closely related to the studied processes and should therefore not be extracted from their context i.e. they are explanatory in the context. The purpose of this thesis is neither to try to quantify the types of entry modes used nor hurdles in the entry process, but to clarify how they appear in different circumstances in the context of the whole process.

As stated by Yin (1994) a case study is defined as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident." The definition itself points out the strength of case studies being the desire to understand complex phenomena in an unclear context, thus highly applicable in this study given that the Eastern European markets create an insecure environment for western enterprises that want to establish business activities in the region.

Case studies have also received criticism concerning inconsistency of its investigators ability to handle the research strategy. Carelessness and generation of biased views have in too many situations influenced the findings and conclusions. Moreover, it has been claimed that case studies do not provide enough evidence for generalization, although there exists a way of generalizing to theoretical propositions. Case studies are also said to take too long time to conduct and result in long unreadable documents. Despite these accusations it is believed that the case study will provide the best prerequisites for this study since its advantages appear to hold very strong in comparison with the other research strategies.

2.4.1 Case Study Design

Designing case studies means to form the logical link between the questions that are posed and the data collection process as well as the conclusions that will be drawn. All case studies include a research design either of implicit or explicit nature. The researcher basically has four alternatives. First, a decision has to be made about doing single-case or multiple-case designs. Thereafter, a choice is made if the single or multiple designs should be holistic (i.e. include a single unit of analysis) or embedded (meaning that multiple units of analysis should be incorporated). No design is superior to another since they all have their advantages and disadvantages. It is the purpose of the study that should decide what design is the most appropriate to use.

If a researcher aims at testing a well-formulated theory he might be interested in analyzing a *critical case*, which should fulfill several characteristics related to the posed research questions as well as the developed theory and thus make it an interesting case to study. This would allow a developed theory to be examined and expanded in detail. The researcher might also find an *extreme* or *unique case*, which could be interesting to study and to challenge existing theory with. Such cases could reveal interesting findings and lead to startling conclusions due to their unusual nature. Similar findings could be expected from a *revelatory case*, which represents a previously non-existent phenomenon.

The use of *multiple-cases* is generally viewed as more forceful and producing stronger evidence. However, single-cases can satisfy certain needs that cannot be met by the multiple-case approach e.g. the analysis of one unique case. This implies that a multiple-case study is necessarily not superior to a single one.

Conducting multiple-cases can be compared to doing multiple experiments where the target is to reproduce the same result over and over again. Thus, the multiple-case approach follows a *replication logic*, in which each case predicts similar results (literal replication) or produces contrasting results but for predictable reasons (theoretical replication) i.e. either the single cases support the theory that is challenged or they do not but for expected reasons. In the first instance strong empirical support is found for the existing theory. In the latter theory has to be questioned and developed. Thus, literal and theoretical replication represents two ways of testing the initial proposition or theory in a study.

Due to the advantages of the replication effect multiple-cases in this thesis are preferred over a single-case study. This study tries more to develop new theory on the basis of existing theory than to test a theory. Therefore, it is more advantageous to conduct multiple cases and to make theoretical replications based on the given propositions. Making a single study of a critical, unique or revelatory case that could challenge an existing theory is therefore not interesting.

2.4.2 Selection of Case Companies

Selecting and finding the proper cases to this study was a really complicated and time-consuming matter. The main reason for this is that no person, list or database, at least to the author's knowledge was able to point out several firms or subsidiaries that would fulfill the initial main criterion of this study. The sought after actor had to be a foreign-owned subsidiary in Poland that in addition was present in Ukraine through investments. The search for such actors began by contacting all relevant institutions such as the Polish Agency of Foreign Investment, trade chambers and governmental bodies, business schools etc.

However, the only interesting actors that were found were subsidiaries that were exporting from Poland. As the search continued three foreign-owned subsidiaries that had invested in Ukraine were found. The procedure that led to the discoveries were lists of investments that had been made in Poland by foreign companies whose websites were screened for presence in Ukraine. Another source that was fruitful was the highly appreciated help of the two Polish professors Bolesław Domański at the Jagellonian University in Cracow and Tadeusz Stryjakiewicz at the University of Poznań.

Still, only three subsidiaries were first found this way. Since the planned amount of cases was slightly higher a decision was taken to change the criterion and also include subsidiaries that were so far only on an exporting level. This was an easy task since there were plenty of such firms. As the cases had been completed it turned out that one of the subsidiaries that was supposed to be only exporting had in fact made a contractual agreement in Ukraine and thus was actually on a higher level than thought.

Afterwards, it is more understandable why finding the after sought firms was difficult. Since even when the targeted subsidiaries make a commitment on the level of production they seem to be of low character. Contractual agreements, for example, do no necessitate any kind of capital investment. Therefore, it is hard for anybody to keep track of such commitments.

2.5 Data Collection

Data can basically be structured in two groups *primary* and *secondary data*. Primary data is data that has been collected for a specific study and purpose. On the other hand, secondary data originates from a previously done inquiry and does therefore already exist somewhere waiting to be used by somebody else. Normally when an investigator starts researching he begins by looking for secondary data in order to solve his problem partly or even wholly, since the collection of primary data is usually a costly operation. Secondary data sources include company internal sources, governmental publications, periodicals and book, the Internet and commercial data provided by certain companies (Kotler, 1997).

2.5.1 Primary Data

In this study the primary data was collected through nine interviews that were conducted in relation to seven case companies mainly at their headquarters in Poland. Geographically seen the companies were rather evenly spread around the whole country, which meant a lot of traveling. The interviews were made with people who according to company sources had the best experience from dealing with the expansion into Ukraine. The respondents had either been responsible for the subsidiary's operations in Ukraine or had worked very closely with the market for several years, usually from the beginning of the operations. Their positions varied from being CEOs to export managers.

Generally speaking the interviews were conducted under good conditions and in an open atmosphere. The type of questions that were posed had an open-ended character but followed a certain pattern, which aimed at analyzing the internationalization process in a chronological order i.e. first the subsidiary's entry into Poland and secondly the expansion into Ukraine. An open-ended nature of the questions was preferred since each and every person has his own view of reality and therefore it was believed that the interviews would be more fruitful and provide valuable insights if the respondent was able to speak more freely about his own view. Thus, the interviews could according to Merriam (1998) be classified as semi-structured i.e. a mix of more- and less-structured questions.

Furthermore, during the interviews it was noticed that in order to capture and cover the main issues a whole lot of flexibility was required, which meant that several additional questions that were not included in the question sheet had to be posed. These were often questions that tried to deepen the knowledge about some case-specific issues that the respondent had answered to in a rather concise manner.

The author's perception is that all the respondents were very knowledgeable about their companies' situation on the Ukrainian market, which they had much to tell and explain about. All interviews were recorded in order to guarantee the largest possible amount of data from the interviews. Moreover, considering that the average interview lasted approximately one and a half hours a whole lot of valuable information was gathered.

2.5.2 Secondary Data

Since this study focuses on a part of a company, a subsidiary, secondary data sources were only available to a limited extent. Information that was found about the Polish subsidiaries was mainly used to double-check the information that had been colleted during the interviews. This data consisted largely of different publications on the Internet, which in many cases could have not been regarded as reliable sources and was therefore not used in the cases. What was possible was to write some introductory group and subsidiary facts by using some companies' websites.

In one of the case studies, Wavin-Metalplast-Buk, the group's entry into Poland had been documented in a previous academic study (Törnroos and Nieminen, 1999), which was used in the case in order to save interview time to the more important part about Wavin's entry into Ukraine. The reason to include the case in this study was that it covered the gap in a satisfying way and was considered highly reliable due to the high authority of the persons who had completed the study.

2.6 Quality of Research

2.6.1 Internal Validity

According to Merriam (1998) internal validity concerns the measurement of how the findings in a study *converge with reality*. Since the conception of reality in qualitative research is very subjective in nature measuring what really is out there is impossible due to the fact that everybody has his own way of looking at reality. Thus, measuring validity is about assessing people's understanding of the world. The author proposes six methods that can be used in an effort to increase internal validity. The first tactic is to make use of triangulation. The researcher can use multiple investigators, multiple data sources or several methods of confirming the findings e.g. by using external sources to validate the material.

Another tactic is to do a member-check where data and interpretations are handed over to the people from were they originate and letting them evaluate or confirm them. A recommendation is to do it continuously during the research process. Third, the researcher can do long-term observations, which enables the data to be gathered over a period of time and thus increasing validity. As the fourth method the investigator may ask his colleagues on comments about the findings, termed peer examination.

An additional idea is to take advantage of participatory or collaborative modes of research to let all the participants in the study be part in the whole research process i.e. from the very beginning of the study to writing the findings. Finally, the researcher can as a means of enhancing internal validity clarify his worldview, assumptions and theoretical ideas i.e. reveal his biases.

Since this study has been conducted by only one investigator the possibility of confirming and discussing the empirical findings with participating researchers has not been possible. Of course, this can be seen as a disadvantage. However, there is also a positive aspect to this. Doing interviews in foreign countries does create barriers that can be related to language and culture and thus can harm the validity and reliability of a study. However, as the author is well acquainted with the Polish culture and language due to his Polish heritage it was possible to conduct the interviews in the interviewees' native languages. It is believed that this allowed a closer and more direct contact with the respondents then in the case the interviews had been conducted in English. Although English is becoming more usual in Poland it is not the first language and will therefore always create a barrier in a relationship.

Furthermore, for most of the companies there was the opportunity to use more than one source of data. First, the author was able to interview not only one but two persons at some subsidiaries. During the second interviews a chance was given to double-check the information that had been received from the first interview. In addition, other valuable perspectives of the same internationalization process were collected.

A second data source and way of confirming the empirical finding was by comparing them with several news publications that were found on the Internet in various e-newspapers and bulletins. An advantage was that before the interviews were carried out some material on certain cases had already been collected from the mentioned secondary sources and therefore allowed the author to focus and prepare questions on specific issues of interest.

To detect and avoid misunderstandings or misinterpretations the empirical findings in this study were sent to the respondents for a check on the accuracy of the descriptions on the internationalization processes, which in some cases were rather complex. The complexities occurred form the nature of the studied processes, which included not only the Polish subsidiaries, but also other national units of the companies or close partners in other countries. These parties had to be taken into account in the study because they in many cases fulfilled important corner stones in a subsidiary's expansion into Ukraine. However, response was bad and only a few were returned.

2.6.2 External Validity

External validity has to do with the *possibility of generalizing* the findings from a certain study on other cases. When generalizations are made with the help of case studies the findings should be generalized to existing theory. This is not easily done by using one case. Instead the researcher usually has to replicate the same finding a second or even a third time in order to create a solid base for a generalization to other cases. Thus, using multiple case studies is a way of getting better external validity (Yin, 1994).

Merriam (1998) reveals that in order to even discuss external validity, internal validity has to be high. This is believed to be the case since the findings have been verified in several ways. Thus, conducting seven cases and theoretical replications in this study has allowed a higher level of external validity or generalizability, which is further discussed in the conclusions.

2.6.3 Construct Validity

Construct validity focuses basically on how well a study has *measured the change factors* of analysis. Thus, this is about finding the right tool for measuring a certain phenomenon and therefore the first step for the investigator is to choose the change that is going to be studied. Subsequently, it has to be shown that the selected measures really are going to represent the changes that are studied. The investigator could improve construct validity by using multiple sources, establishing a chain of evidence or letting key informants review the study (Yin, 1994).

As the current study aims to analyze how foreign-owned subsidiaries in a country internationalize, two theories, the process theory and the network theory of internationalization, are used as a way of expressing and explaining the changes that take place. The chosen theories are not perfect nor do they clarify every aspect of internationalization. However, the theories are among the most accepted and used in the academic world. Their strength lies in the ability to capture various types of internationalization processes and therefore they are seen as favorable here e.g. compared to the transaction cost approach. Since they represent two different views of firm internationalization it is believed that this will broaden the scope of analysis of the targeted processes.

2.6.4 Reliability

Reliability is about the likelihood that the research finding could be reproduced when somebody else conducted the same study at another point of time. Thus, if a replication of the study would give the same results as the previous one then the reliability would be high. The concept is based on the belief that there is only one reality, which can be depicted. However, since this is not the case in social sciences the concept becomes problematic to a certain extent, again, because the quality of the information that is gathered depends on the person who did it. Therefore, measuring reliability is more a question of whether the results are consistent with data that was collected. There are also methods of enhancing reliability in a study. The researcher could explain his position by describing his assumptions, the underlying theory, position in relation to the studied unit, why certain informants were chosen and describe them as well as refer to the social context during the data collection.

A further method of improvement of validity is possible through an *audit trial*. This is done by explaining to the reader how the investigator reasoned and came up with his results. Therefore, he has to show how he collected data, how categories were derived and how he took his decisions. Again, triangulation could also be used (Merriam 1998). In this thesis all the processes of gathering, presenting and analyzing data are made available to the reader in different chapters. Thus, he is free to draw his own conclusions.

3 THEORETICAL FRAMEWORK

The theories that are brought up in the following section of this paper are aimed at creating a framework for collecting, analyzing and drawing conclusions from the empirical findings. Thus, they create an analytical space to which this thesis is limited.

3.1 The Uppsala Internationalization Model

In the late 70s Johanson and Vahlne (1977) published an article on the firm internationalization process, which presented a theory that has become known as the Uppsala Internationalization Model. The focus of the model is on the development of the individual firm. Particular attention is given to the firm's incremental knowledge development about foreign markets and operations as well as to the increasing commitment to foreign markets. The theory presupposes that the lack of knowledge creates a hurdle for establishing foreign activities and that a prerequisite for overcoming the necessary knowledge is primarily through operations abroad. Firm internationalization is therefore seen from two perspectives. First, an enterprise can increase its involvement in a foreign market. Second, operations can be established successively in new individual markets.

3.1.1 Establishment Chain

The theory that was presented had its foundations in previous research done in the area, primarily at the Uppsala University. These studies had shown that companies develop and extend their international operations in small steps, which create an establishment chain. In this process four different stages of involvement can be distinguished (Johanson and Wiedersheim-Paul, 1975):

1. no regular export activities
2. export via independent representatives (agents)
3. sales subsidiary and
4. production/manufacturing

At the beginning of the internationalization phase companies typically start by non-regular exporting. As the exports increase they start to use agents. Later companies decide to establish their own sales subsidiaries and finally there are the cases were production is established abroad. The first step implies that the company has made no commitments to another market and that there is no regular information channel established with the foreign market. The initial market commitment is realized as the agent relationship is set up and thus the firm starts to receive fairly regular information about sales influencing factors. In the third phase the establishment of a sales subsidiary allows the company to control the information channel and decide the type and amount of information to be collected about the market. The final step represents an even larger resource commitment.

It is not expected that a firm has to go through all the steps in the establishment chain. Some companies never reach the higher levels of commitment since they lack the needed resources. Furthermore, some firms are expected to jump over certain steps in the process due to previous experiences from foreign markets.

3.1.2 Psychic Distance

Prior research in firm internationalization processes has furthermore shown that there normally is a chronological pattern of successive establishment of operations in new markets that corresponded to the *psychic distance* from the home market to the host market. Markets that are psychically closer are usually entered first. Psychic distance is believed to emerge from several factors and is defined as something that prevents the flow of information between the home and the foreign market. Herein lie differences between languages, education, business practices, culture and industrial development. Since the factors change over time psychic distance cannot be considered constant.

However, not only psychic distance affects the choice of which markets a company will enter. Another factor that is regarded important is *market size* or *market opportunity*. A firm may either choose to enter large markets or smaller markets. The motivation to enter a smaller market may be that it is more similar to the company's home market and would require smaller amounts of resource commitments as well as contain less competitive industries.

3.1.3 A Model of the Firm Internationalization Process

In an attempt to explain the internationalization process of firms Johanson and Vahlne (1977) created a model that described the basic mechanism of internationalization and which included a *state* and a *change aspect*. The model shows that the two state aspects market knowledge and market commitment affect the change aspects commitment decisions and how current activities are preformed. Thus, the two change aspects then lead to a change in market knowledge and market commitment and thus an ongoing causal cycle is created. The model holds two assumptions. First, firms are considered to strive to increase long-term profit, which in the model is equaled with growth. Second, companies are seen as risk aversive and therefore pursue low risk-taking.

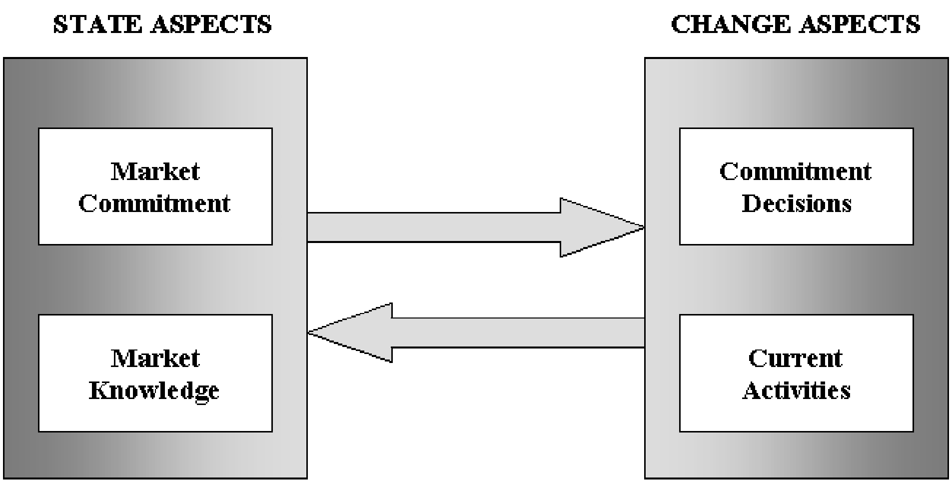

Figure 3 - The Basic Mechanism of Internationalization – State and Change Aspect

Source: Johanson and Vahlne, 1977

Market commitment in the model is made up by the amount of recourses committed and the degree of commitment. The amount of recourses refers to the size of the investments made in marketing, organization, personnel etc. The concept of the degree of commitment is slightly more complicated. Normally, an investment that is made by a company in a foreign market is considered to be a committed to that market. The more difficult it is to find an alternative use for the committed resources and to transform them for a new purpose, the higher is the degree of resource commitment. In some cases though, it can be easy for a company to sell its assets and use the financial resources for another investment. Then the degree of resource commitment is low. Generally speaking, the more the resources committed to a foreign market are integrated with other units of the international firm with whom integrated activities are important, the higher is the degree of commitment.

The concept of market knowledge is important in the model since it forms the ground on which commitment decisions are taken. It is assumed that knowledge of *opportunities* and *problems* should initiate decisions. Moreover, the choice between different alternatives is based on knowledge about the firm's business environment and its performance of activities in it.

Knowledge can be classified according to the way it was acquired. First, there is objective knowledge that can be taught and carried over from one person to another. Experiential knowledge on the other hand cannot be taught, only learned through personal experience. The second kind of knowledge is seen as crucial when enterprises internationalize and since it is more difficult to acquire than objective knowledge it is highly attractive. Thus, acquiring experiential knowledge in international operations becomes a key task. A company can only obtain the knowledge gradually through its operations. The less structured and well defined the activities and required knowledge is the more important experiential knowledge becomes. Therefore, activities that are connected to individuals such as managerial work or marketing necessitate experiential knowledge.

In addition, experiential knowledge provides the ground for perceiving and formulating market opportunities. Objective knowledge can only be used to create theoretical propositions about future possibilities. However, experiential knowledge makes it possible to seize a real opportunity and to place it in the context of the present and future activities.

A further classification of knowledge can be made into *general knowledge* and *market-specific knowledge*. General knowledge stands for knowledge that can be applied in different markets such as marketing methods or characteristics of customers regardless of their geographical location. By contrast market-specific knowledge has to do with the awareness of special features of a single market where business climate, cultural patterns, structure of the market system and the characteristics of the customers distinguish one market from the others.

A company needs both general and market-specific knowledge to drive operations in a foreign market. Market-specific knowledge is generally attained through experience. General knowledge on the other hand can be transferred from other markets and applied in any other market. This allows companies to take advantage of previously generated knowledge and utilize it in new situations.

Current activities are the main method of gaining experience from a market, although a firm can also gain experience by hiring new personnel with the sought experience. Therefore, there is a need to differentiate between two kinds of experience, namely firm and market experience. A person requires both these types in order to be able to perform marketing activities and thus it is difficult to substitute company personnel who have firm experience with people from the outside who just have market experience. The more the activities are concentrated to production, the less interaction there is needed with the business environment and therefore it becomes easier to hire outsiders. The fact remains that experience from a market takes long time to acquire making the internationalization of companies a slow process.

Another change aspect is the decision to commit resources to a foreign market. The decisions are dependent on which decision alternatives are available and how they were chosen. An assumption is made that firms choose their decision alternatives from the existing problems and opportunities concerning a market. These problems and opportunities are assumed to be dependent on experience. Therefore, the ones who hold responsibility for activities and deal with activities are the ones who encounter the decision situations. Problems and opportunities are by the ones dealing with them normally dealt with by extending the operations in the market i.e. taking a decision of further market commitment.

Two effects can be studied when additional market commitments are made, economic effect and market uncertainty. The economic effect refers to an increase of the size of the operations, whereas market uncertainty has to do with the decision-makers inability to predict the future outcomes generated by the market. Increasing interaction with the customers, setting up new service activities or buying customers can reduce the latter.

Firms are expected to increase their commitment to a market as long as they reach the level of maximum market tolerable risk. Since the maximum tolerable level is highly dependent on the existing market uncertainty, a market commitment may arise from new experience generated by the activities in the market. This is the case if a market is stable. However, in highly unstable markets a company’s activities and experiences may not lead to any reduction of market uncertainty. In contrast, stable and homogenous markets do not demand experience to build the necessary market knowledge. Thus, these markets can be entered with the optimal mode from the very beginning. Market uncertainty can also fall due to a change in the competitive scenery or political stabilization of the business environment. Furthermore, a decision to increase the market commitment may rise from an increased tolerance towards market risk caused by a growth in the total amount of firm resources or as a result of a more aggressive approach with regard to risk. Companies that are expected to take decisions on considerable increases of resource commitment to a market will, therefore, either be firms with large resource endowments or those that perceive the market risk to be insignificant.

Companies are also expected to do uncertainty-reducing commitments when the existing market risk situation is thought to be higher than the maximum tolerable level. Thus, a firm would try to increase its interaction and integrate with the market environment.

In conclusion, commitment decisions are normally expected to result in a small step-wise increase in market commitment. The exceptions for this are when firms have very large resources, market conditions are stable and homogenous, or when experience from similar markets has been attained and generalized on other markets.

3.2 Market Entry Modes

When a firm makes an investment in a new market it has a choice between a variety of market entry modes. The stages theory in the Uppsala-model gives a few examples of how a firm may internationalize by using a certain sequel of operation modes. However, Kotler (1997) proposes additional steps, especially in the exporting phase, that can be taken by companies when entering new markets. These are not directly connected to Johanson and Wiedersheim-Paul's theory about the establishment chain and thus do not constitute a theory. Rather, they should be seen as a complement of additional alternatives when operating on a foreign market. This section presents the most common market entry modes in business literature beginning with Kotler's views and later complemented with Czinkota and Ronkainen (1998).

3.2.1 Modes of Exporting

In the initial phases of exporting when companies usually do not export by themselves, a company might take advantage of *domestic-based export merchants*, which are companies that buy goods form a manufacturer whereafter they are exported to foreign markets. A second category consists of *domestic-based export agents*. These companies look for clients with whom they negotiate foreign purchases. If they succeed in finding a client they are paid commission. Trading companies are included in this category. *Cooperative organizations* export merchandise on behalf of a group of manufacturers. They are often under administrative control and are commonly used by producers of primary products.

In a further stage of the exporting activities the manufacturer can take over its exporting activities and thus earn a higher profit since the intermediary is eliminated. Establishing a *domestic-based export department or division* is a way of dealing with foreign sales independently. Such a unit can carry out selling from the home base without being present on the target market. When a company decides that that there is a need to be present in the foreign country and to have better control of the sales it might start up an *overseas sales branch or subsidiary*. This entry mode would enable the firm to handle sales and distribution locally. Furthermore, the firm could open up an own warehouse and perform promotion activities. Often sales subsidiaries in addition function as display centers or customer service centers. If there is no need for being present with a legal person the company could hire *traveling export sales representatives* who would take care of sales in the foreign country.

3.2.2 Licensing

Licensing is a relatively easy way for a company to enter a new market. The entry mode is based on a license, which gives a foreign company the right to use the manufacturing process, trademark, patent or trade secret of the firm interested in internationalizing. For the use of the license the licensee has to pay royalties. A major benefit of licensing is that it enables a firm to internationalize relatively easy without having to make any investments and at low risk. For the licensee this provides advantages in the sense that the company does not have to, for example, invent a new product. There are also disadvantages connected to licensing. For example, by granting a license a company reveals a part of itself, which is handed over to another party the firm has little or no control over. Furthermore, if the licensee is successful in taking advantage of the license the licensor has lost market opportunities that the company itself could have gained from. Three forms of licensing can be distinguished: management contracting, contract manufacturing and franchising.

3.2.3 Joint Venture

Czinkota and Ronkainen (1998) describe a *joint venture* as a form of cooperation between two or more parties for more than a transitory period. The partners share assets, risk and profits, although it does not have to be on an equal basis. In some joint ventures one partner is the main owner of the venture whereas in others the parties can hold an equal share. When a joint venture is launched the parties involved can contribute with several types of assets. For example, a company can incorporate funds, technology, know-how, sales organizations or a plant and equipment.

There are two reasons why companies prefer to establish a joint venture, governmental and commercial. Sometimes local governments for different reasons require that a firm wanting to enter the market must cooperate with local firms in the form of a joint venture. A usual demand is that at least a certain percentage of the joint venture should be owned by a domestic firm. A commercial motive to form a joint venture is that a firm might find a foreign partner with a common goal and if there would be no barriers to cooperating with that firm the joint venture would provide a very effective way of internationalizing.

The strength of a joint venture lies in the possibility of taking advantage of each other's advantages and thus being better off than if the parties tried to reach their goals individually. If the parties are specialized in different areas then the outcome is usually more effective. For example, if a firm wants to establish production in a foreign country and it has access to valuable technology but lacks capital it could find itself a strong capital partner to start production with.

3.2.4 FDI and Full Ownership

As stated by Kotler (1997) the highest possible form of market commitment is to fully own a manufacturing plant in a foreign country. This level can be reached either by making an *acquisition* of an existing manufacturer or by building own facilities from start i.e. making a *green-field investment*.

Sometimes the decision to own the operations wholly is based on the thought that the firm should have total control over its business and avoid outsiders from interfering with management interests. In some cases the decision of full ownership can be based on a company principle, which is simply just followed. (Czinkota and Ronkainen, 1998)

The main disadvantage of having full ownership in a foreign production unit is that a company exposes itself to a large financial risk. In the case, for example, the foreign country's currency is blocked or devaluated, the market worsens, assets are expropriated and the losses may turn substantial for the single owner.

3.3 Industrial Networks

According to Johanson and Mattsson (1988) an industrial system is composed of firms engaged in production, distribution and the use of goods as well as services. The term network is used to describe the existing relationships between the firms in such a system. Since there is a division of work between the actors they are considered to be dependent on each other's resources and thus to make the networks function, co-ordination of activities is needed between the actors. The co-ordination does not take place through a central unit that decides the action plans nor through a price-mechanism. Instead work is co-coordinated through interaction between the actors involved in the network. Firms are free to decide which counterparts they want to interact and establish exchange relationships with. However, this freedom of choice is limited by the fact that it takes time and demands firm efforts to establish and develop the relationships. The co-ordination of the work is either managed by joint planning or the exercise of power of one party over another. Since networks include a multitude of firms this means that relationships have to be built with several actors including customers, distributors, suppliers and in a few cases even with the competitors. It might sometimes also be important to have relationships to third parties such as the customers of the customers or suppliers of the suppliers.

Most of the exchange that occurs is in the framework of existing network relationships. However, starting new relationships and breaking old ones is part of a normal process. A reason for breaking up an existing relationship might, for example, be caused by competitive factors. A fact is that relationships are continually changing as a range of bonds is developed between the actors. A distinction can be made among technical, planning, knowledge, social, economic and legal bonds.

Due to competitive forces a firm’s relations to it its network counterparts are of interest for other companies who want to get access to the exchange relations. The reason why companies maintain their contacts is that there exists specific inter-firm dependence relations. A firm has direct dependence relations to the companies that are closest to it in the network and indirect dependence relations with actors that are closely connected to the nearest counterparts.

When a company establishes itself on a new market it has to connect to a new network that is formerly unknown to it. This means that network relationships are built with new actors. In some cases this implies that old relationships have to be broken up. Of course the situation can be reversed when a previously unknown firm steps forward and establishes itself in a company’s network.

The above reasoning suggests that a firm’s participation in a network is a cumulative process in which relationships are managed by building, developing or breaking them in order to reach economic well being, insure their survival and future development.

The term market position is an important indicator of a firm’s power in a network. It refers to the firm’s relations to the counterparts i.e. to its industrial environment and is something that changes over time as a result of the firm’s past behavior. Furthermore, it lays the ground for the firm’s future development possibilities and constraints in the network. Thus, market position is of importance for strategic thinking in a company. Strategies are developed for the desired change and defense of the firm position. The explanation as to why market position is considered so important is that it allows a company to control the resources of other firms. Due to this a firm’s market position can be viewed as an intangible market asset as contrasted with internal assets that are directly controlled by the firm and used for production, marketing, development etc.

There are by definition two different kinds of market positions, micro- and macro-positions. The first refers to the firm’s relation to an individual firm, whereas the latter describes the relation to the network as a whole or a specific part of it. There are three characteristics of a micro-position:

1. The role the firm has for the other firm
2. Its importance to the other firm
3. The strength of the relationship with the other firm

A macro-position is on the other hand characterized by four factors:

1. The identity of the other firms with which the firm has direct relationships and indirect relations in the network
2. The role of the firm in the network
3. The importance of the firm in the network
4. The strength of the relationships with other firms

When discussing the global industrial network it can be broke up and defined in smaller entities. The division of a network can be made in geographical areas, products, techniques etc. A ‘national net’ is a network within a nation’s border, whereas a ‘product net’ is one that refers to the group of firms that takes part in the production of a specific product or product area. Therefore, for example a ‘heavy truck net’ comprises all the companies involved in production, distribution, repairing and the use of heavy trucks. The product area network can be further downsized to different geographically separated nets such as a German, Italian or Danish heavy truck net.

3.3.1 Internationalization within Networks

According to the network approach firm internationalization occurs when positions with actors in foreign networks are established and developed. There are three ways to do this. First, when a company establishes positions in relation to actors that are part of a new national net it has internationalized through *international extension*. A second way is to develop market positions and increase the commitment to a network in which the firm already has established a position. This alternative is called *penetration*. Third, there is *international integration*, which occurs when the co-ordination of positions between different national nets is increased. A common feature for all the three forms is that they make use of market positions. Therefore, investments in firm internal and external assets, which are the building blocks of market positions, draw attention to themselves.

3.4 The Network Model of the Firm Internationalization Process

A common belief among scholars today is that theories concerning the firm internationalization process do not explain or do leave out certain important aspects in the attempt to enlighten the way a firm internationalizes. In present time, many firms internationalize very rapidly and the underlying explanation to this phenomenon is probably increased global competition and fast technological development. The models where firms internationalize in a slow step-by-step process are among several academics therefore considered to be outdated. Thus, Johanson and Vahlne (2002) propose that in order to increase our understanding of internationalization processes the Uppsala-model and the Network approach could be integrated into a wider theory, which they call the Network Model of the Firm Internationalization Process.

The authors begin by stating that a common perception in international business literature is that individual country markets are separate entities and thus require different kinds of modes of operation. According to that concept economic, institutional and cultural barriers create the barriers to business. The terms psychic and cultural distance are factors that determine the size of the obstacles. Even if theses terms in academic work are mainly used to describe the differences between two country markets, psychic distance has in some papers been referred to as something that disturbs the relations between two companies i.e. an inter-firm distance. Furthermore, experience has been seen as an influencing factor in this context (Hallén and Wiedersheim-Paul 1979; Nordström and Vahlne 1993).

Entering markets is thus according to the prevailing process model a matter of climbing over the market barriers. This is managed by establishing the right mode of operations. In a network perspective the traditional thinking in terms of market entry modes as a way of overcoming barriers is not interesting since it is focused on building relationships with customers and suppliers. Therefore, the barriers in the network world consist of problems related to *relationship* *establishment and development*. Some scholars believe that an internationalization process can be expected even in the network approach (Anderson and Weitz 1992; Blankenburg Holm, Eriksson and Johanson 1999). In this sense companies are thought to build their relations incrementally and again there should be an interplay between experiential knowledge development and resource commitment. The companies learn about each other by getting to know each other's needs, resources, strategies and business conduct. The ground for such cooperation comes from mutual interest in a common development of resources.

The authors refer to Håkansson and Johanson (2001) who state that there are three types of network learning. First, there is *partner specific learning*, which has to do with how the partner firm reacts in different situations, what the role of different employees is and the readiness of the partner firm to adapt in various ways. Thus, they learn about each other in a way that ties the two parties to each other and it is therefore also a further commitment to the relationship.

A second type of learning occurs when firms learn something from their existing relationships that can be used in developing relations with other actors i.e. a sort of relationship experience development. Such experience is practical in particular when the firm wants to develop its relationships with companies that are similar, for example, companies that are of the same size use the same technology, have similar culture and institutional settings.

Third, a result of interaction in a network is that the partner firms learn to coordinate other relationships with firms such as, for example, supplier relationships. Thus, the network is developed in the sense that relationships are connected to each other.

The fourth network-learning situation emerges as a consequence of the three mentioned learning situations above. Dealing with network development makes companies more knowledgeable in this area and therefore it becomes easier for them to establish new networks in the future.

Based on these statements Johanson and Vahlne (2002) believe that a firm's internationalization is the result of the firm's development of existing relationships. It is expected that firms will establish foreign network relations with such firms that are similar to those the company is successfully cooperating with in the domestic network. Moreover, the internationalization of the firm will be a consequence of its development of relationships with customer firms that are connected to those, that they already are working together with. Thus, there is no pattern of internationalization offered by the network perspective as in the case of the Uppsala-model, since country markets are not seen as relevant entities i.e. the model does not say anything about what countries a firm will enter and expand in. Furthermore, the model does not foresee that a firm will follow the establishment chain. Therefore, the foreign market entry mode is not an issue that is emphasized in the network perspective to internationalization. Instead focus is on international expansion and network development.

Commitments that are made to the relationships will primarily be incremental in character. Therefore, close interdependencies will be created to strategically important counterparts, which the company will constantly be ready to defend. This is going to be done through increasing the resource commitment to the partner relation and other firms that are important for the relation to the strategic partner.

Studies in internationalization have shown that there are two kinds of market-specific experience a company can benefit from, first, institutional experience and, second, business experience. Business experience is related to a firm's knowledge about its business environment. In the network model the environment consists of a company's relationships to the firms the company is engaged with. Institutional experience has to do with a company's knowledge about a certain country's language, laws, regulations and public and semi-public authorities. Thus, it is the sort of experience that decreases the psychic distance to a country. Consequently, institutional experience and business experience focus on two different types of managerial problems, which means that there should be an interest in combining the network view with the internationalization process model. As a result, it could be said that there are *country-specific* and *cultural barriers (psychic distance)* as well as *relationship-specific barriers*. Therefore, a distinction should also be made between country-specific and relationship-specific distance.

3.5 The Eclectic Paradigm

The Eclectic Paradigm is in this study used as a tool of classifying the findings of and analyzing the first research question of this study. The theory was chosen since it provides an easy and comprehensive way of analyzing why international production has been launched.

In the 80s John Dunning created a theory that tried to explain when a firm is going to engage itself in international production. Previously, well-established theories had been created by Stephen Hymer and Raymond Vernon. However, their work on FDI theory and international production was not explaining the whole picture. Dunning's thinking was new and he combined findings from various theoretical approaches such as the theory of the firm, organizational theory, trade theory and location theory. Thus, he came to call his theory the *eclectic paradigm*, which here is extracted from Dicken (1998).

Dunning's theory proposed that a company will start international production when all three conditions were fulfilled. First, there is *ownership-specific advantage*. Second, it would be required that the firm *internalizes* the advantage and, third, at least one so-called *location specific factor* would have to be existent.

More specifically, ownership specific advantages can be seen as assets that are part of the firm. For example, it could be certain types of knowledge, organization, human skills, legally protected rights or commercial monopoly. Ownership-specific advantages can be created and purchased by the firm or arise from the firm's size, diversity as well as technical characteristics.

A firm might internalize an owner-specific advantage and start production abroad. This is not always the objective since it is also possible to establish a license agreement with a foreign firm or just to export products. However, what will make a company internalize its advantage and start production over-seas is the fact that markets are imperfect, which will create economic opportunities for the company. As an example, a company could invest in production in a country where labor is cheaper since it would make good use of its ownership-specific advantage. Another factor that drives internalization of advantages is uncertainty. The higher the level of uncertainty the better it is for the firm to internalize. Suppose that uncertainty is high regarding price or quality of supplies then a company might decide to internalize its knowledge about supplies production and integrate backwards.

Location-specific factors include markets, resources, production costs, political conditions and cultural or linguistic affinities. In the case none of these factors offer better conditions abroad than in the home market a firm will not establish production overseas.

3.6 Types of international production

Production can be classified into two types according to Dicken (1998), *market-oriented production* and *supply or cost-oriented production*. Hence, these types show different purposes related to the foreign manufacturing, however, there is no clear boundary between the two of them, as there may seem to be. This classification of production is a good way of describing what an actor's intention has been with its investment related establishment on a market and therefore it will provide a useful tool in answering the first research question of this study.

Market-oriented production is established in a country for the purpose of serving the local geographical market. The goods that are produced may be identical to the ones that are produced elsewhere, although it is not unusual that a company decides to adapt manufacturing to local tastes or requirements. What makes a company take the decision to establish market-oriented production is most obviously market size.

On the other hand, supply and cost-oriented production refers to firms that localize production in areas where they find attractive supplies to their manufacturing that are highly localized geographically. Thus, this type of production concerns many firms active in natural resource industries. A key issue is what the firm's cost structure is and how important a certain factor of production is. However, no matter how expensive a certain factor is, if the transportation cost is down at zero there is no need for a company to establish supply or cost-oriented production.

Today many see the world's most popular location-specific production factor as labor. The reasons why a firm might locate production in a foreign country due to the labor force, is because of geographical variations in wage costs and labor productivity. The labor cost issue is a highly significant element in international investment-location decisions. Furthermore, firms usually tend to establish production in countries where the labor controllability is high.

3.7 FDI in Eastern Europe

According to Domański (2000) there are significant differences in the character of FDI coming to Poland from various countries or regions of the world. He makes a distinction between market-oriented and cost-oriented investments and states that, contrary to popular belief, the majority of manufacturing FDI coming to Poland is aimed at serving the local market. This is particularly true of American and German investments out of which only a small portion is aimed at generating exports. However, Japanese investments generally diverge from this pattern since they are directed at taking advantage of the low costs associated with production and low labor costs in particular. Products manufactured at Japanese owned locations are to a very high degree exported to Western European markets. Swedish and Dutch enterprises have proved to be the most cost- and export-oriented out of all the European investors present in Poland.

Kurz and Wittke (1998) bring these issues further by developing the reasons and strategies behind western enterprises' presence in the Central and Eastern European economies and their expansion in the region. The authors mention that the opening up of the former planned economies means new market opportunities for foreign companies as well as new alternatives for advantageous production location. The main motivation to place production in CEE and to use it as a supply base is to take advantage of the qualified, well trained and experienced industrial labor force, which is more cost competitive than the Western European. However, a question that demands attention is for how long the wage-levels in the currently most preferred countries Poland, Hungary and the Czech Republic will remain low.

Producing in these countries for the purpose of low labor costs is probably just a temporary strategy. In a medium to long-term perspective more and more western companies are believed to move production or parts of it further east to the member countries of the Commonwealth of Independent States where wage levels are lagging behind. Increasing direct investments by CEE countries to eastern neighbors suggests that the development has already begun. Although a key issue is how far east such an expansion could lead, since the advantage of spatial proximity to the many important western markets would diminish all along the process.

The strong growth of the Eastern European markets makes them also attractive in terms of the existing and future output potential. For many companies this is the main determinant of locating production in the region. This is true in particular to producers of consumer goods (such as producers of foods and beverages, automobiles, consumer electronics and household appliances) who have mostly committed themselves to these markets by making investments in local production in those countries that have showed the highest per capita GDP. Kurz and Wittke (1998) distinguish between three types of production and distribution strategies followed by these actors. Two of them draw special attention, since they partly explain the motives for the increased business relationships between Poland and its eastern neighbors. Generally speaking, these two strategies pursued by some western firms aim at producing products in CEE adapted for the special requirements of these markets. The goal is to meet local needs by trying to match the products to the prevailing market conditions and consumption patterns. In addition, the objective is to try to reach the relatively similar markets further east of the CIS as well as developing country markets.

4 TRANSITION AND THE BUSINESS ENVIRONMENT

The purpose of this chapter is to give the reader an overview of what transition is and how it affects the business environment in the former Soviet block countries and the way foreign firms usually have to adapt to the prevailing circumstances. A distinction is made between networks and the economy or market as a business environment.

4.1 The Concept of Transition

Transition as a concept in the case of Central and Eastern Europe is defined by Mercado et al (2001) as "*the movement away from a command to a market economy and to the creation of a new system for the generation and allocation of resources.*" The definition indicates that the transformation process implies enormous reforms that can be related to various *policies* and *institutions*. These include market deregulation, price liberalization, privatization, enterprise restructuring as well as banking and financial sector reform. The transformation process in the CEE countries has also meant major changes as regards macroeconomic policies and foreign trade, which have been re-orientated to the west. However, as indicated in the introduction of this study trade relations with CEE and CIS member countries are increasing at least for Poland.

The situation in the transition countries is worsened by the fact that even the most advanced countries in the region have difficulties understanding the mechanics and institutions that are part of a market-based economy. In addition, transition countries overall have several challenges regarding their financial, legal and institutional reform.

The above description of transition is a broad economic one, which illustrates the changes taking place in the economic sphere. Another approach is taken by Nieminen (1999) who has analyzed and focused on the task environment, which is important for foreign firms operating in transition countries. He mentions that a lot of research has been done on the transitions economies, but few studies have been conducted about how the transformation process affects relations between Eastern European and Western firms. Thus, he discusses transition from the perspective of four changing processes: *socio-political*, *economic*, *institutional* and *individual* and defines transition on the basis of the ongoing political changes, structural problems and insufficiencies in the institutional framework.

Political change from socialist states to democracies is the most important characteristic of the transition process. Even though the changes started already in 1989 they have not yet come to an end and since the change processes began at different points of time in the single countries, they are all at different stages of development and no longer a homogenous group of countries. A general trend shows that the countries where the Communist Party had ruled for a longer time, such as the CIS-countries, have more difficulties with the transition process than the countries of CEE. In an effort to improve their overall situation many of the newly independent states have started to re-orientate politically towards the west. As a result, the Central European countries have applied for membership in the EU and some countries are already members of NATO.

Major problems exist and have emerged from the lack of control over the market reforms. These include uncontrolled economic development with disturbances in it, shadow economy and criminal activity. Since democracy has basically not been fully implemented in many of the countries large economical inequalities have emerged and created several groups of people who have become losers in these economies. Furthermore, a wide spread political instability in foremost the CIS countries has meant that many firms do not want to commit themselves to these markets even if there can be good business opportunities.

Macroeconomic changes play an important role in the transition countries, since major changes are needed to turn the command economy into a market economy. Liberalization and restructuring are two important aspects of this. A former command economy needs to liberalize, for example, prices or foreign trade and state-owned enterprises need to be privatized. Furthermore, firms and industries need to be restructured in order to be able to function in a market economy. Centrally planned economies were characterized by several factors that do not fit into a working market economy such as state monopoly on all production, lack of customer orientation, competition, price controls, subsidies, production orientation, supply shortages and distribution by state enterprises.

Production in the former Soviet block countries was to a large extent based on basic and heavy industries that generally speaking were highly inefficient. During the transition process, one of the most difficult hurdles to overcome has actually been the needed structural adjustment in the transition economies i.e. the move away from heavy industry towards services and smaller enterprises.

In order for a functioning market economy to exist the society needs to build important infrastructure in the form of *institutions* that control the functioning of markets. In several countries of the Eastern European region many important institutions such as legal institutions, enforcement mechanisms, banking services, tax administration and public administration are still largely unreformed and at an early stage of development. For example, the legal and regulatory environment may many times be inconsistent and contradictory, which creates confusion among firms operating in such markets.

After the communist government institutions active in the planned economy were liquidated, the economies of the transition countries started to develop in an uncontrolled way. The reason was that the new systems were incapable of introducing a new institutional system at once. Instead it was realized that the process was going to a take long time. As a result of the institutional lack, production decreased since the government who had been the largest customer for the majority of enterprises ceased to buy. This development also gave birth to shadow economy and criminal activity in business life. In addition, due to the large shadow economy the quality of the statistics in transition countries is often poor, which means that it is very difficult for companies to analyze the past or to predict the future development.

Other major problems hindering the development of market economy can be associated with weak banking sectors as well as transportation and distribution systems. In general, what can be seen is that there is no basic trust for institutions or the society in these countries.

Another major change factor has been *behavioral change*, which takes place in the social and cultural setting. Since it is the policy-makers, enterprise managers and individual citizens who carry out the transition process it is their ability to adapt to a new environment that is a key determinant of success in the process. As mentioned large parts of the populations of the transition economies have had to suffer from poverty, insecurity and inequality and therefore there is broad skepticism among them towards the transition changes.

Both managers and individuals in these countries need education about the new system. Foreign companies have played an important role by educating their employees. In broad terms, people have had to start thinking in individualistic terms instead of collectivistic, which has implied accepting income inequalities and lower governmental social aid. It has been realized that this is a long-term change process where the values, habits and attitudes of individuals change gradually.

4.2 The Network as a Business Environment

Looking at the business environment in transition countries as a network Nieminen (1999) reveals what implications the transition process has on business network relationships. The author mentions first that firms operating in Eastern Europe have gotten an increased autonomy since the end of communism. This means that they now are able to take decisions more independently on how to run the company and whom to build contacts with.

However, there are several factors that limit their business possibilities. The previously state run companies do not have experience or knowledge about doing business in a competitive environment. They also often do not possess competitive products nor do they have adequate financial resources. What further complicates their situation and the situation for foreign companies as well is the underdeveloped infrastructure, high taxes and political plus economic instability. Due to these reasons there are a lot of Eastern European firms ready to get in contact with western companies in order to increase their financial resources and technological or managerial knowledge. Major failures that have been noted as western firms have tried to build relationships with

Eastern European firms emerge from low commitment, conflicting objectives for co-operation and the pursuit of short-term profits.

Networks are considered to be highly important for western firms operating in transition countries. The situation has changed since the fall of communism and today network relationships are mainly built with independent companies without the interference of government authorities or monopolies, as the case was not so long ago.

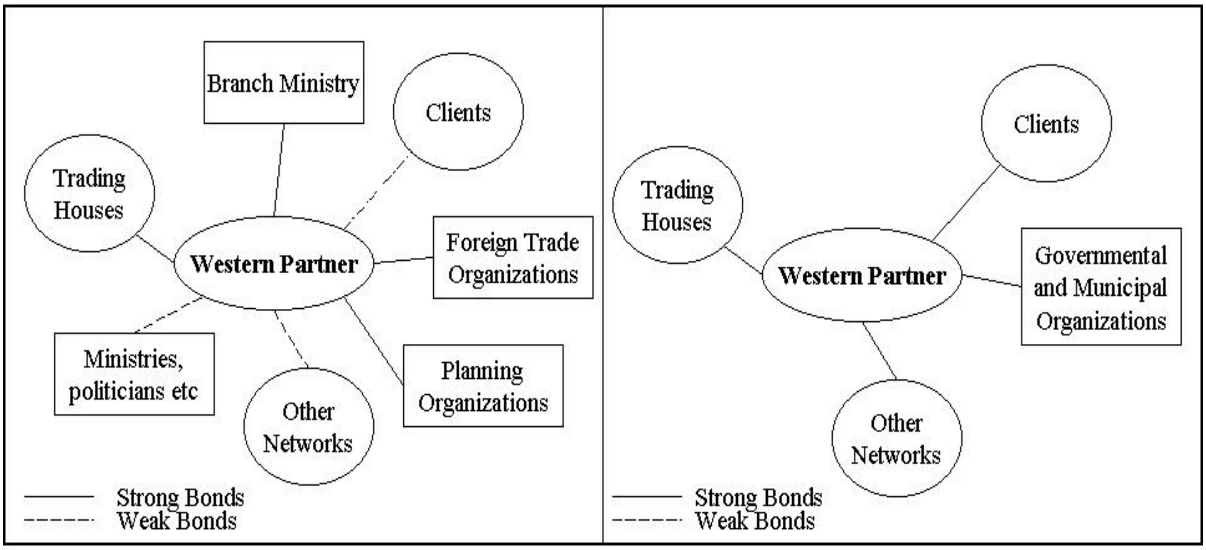

Figure 4 - The Evolution of Business Networks in Eastern Europe from the Command Economy Era up to Present

Source: Nieminen (1999)

The character of the network counterparts in Eastern Europe varies from the traditional relationships in the west. Not only the buyer-seller relationships are considered important, but also relationships with other actors in the environment such as distributors, suppliers, managers of other foreign companies on the market, local employees, politicians, bankers, government and municipal organizations etc. Especially, firms with little experience have shown to gain substantially from creating large networks.

The reason why the additional relationships are important is that they complement the insufficiencies experienced in the transition markets. A further aspect of this matter is related to the fact that personal contacts have come to play a significant role in diminishing uncertainty and risk. Good relationships with important persons can help a company to overcome problems related to, for example, uncharted legislation or institutional inefficiencies. Thus, firms seek security through personal relationships when the institutional framework cannot guarantee it. Moreover, good personal relationships seem to be more of a prerequisite for doing business in transition markets rather than an outcome of business activities as it normally is in the west.

Since the business environment in transition economies is highly dynamic, the roles of different relationships change and therefore it is important for foreign firms to develop several meaningful relationships instead of just focusing on a single relationship. Furthermore, it is important for foreign firms to create relationships with those actors that have strong positions in local networks. Thus, managing different relationships becomes a key issue.

The opening up of the former command economies has broadened the scope of operation modes that can be used. As result inter-firm cooperation has increased today popular operation modes are equity joint ventures, acquisitions and subcontracting deals. In addition, since 1990 foreign firms have been able to establish wholly owned subsidiaries throughout Eastern Europe. Due to various levels of perceived operating risks certain operating modes are more common in some countries. In countries that have been more successful in their transformation such as Poland, Hungary, the Czech Republic and Estonia *high commitment* operating modes are more common. In contrast, the operation modes that are used in the CIS countries tend to be more of *low commitment character*, for example, using local sales subsidiaries or forming joint ventures in the effort to minimize risk.

4.3 The Ukrainian Economy as a Business Environment

According to the World Markets Research Center (2002) Ukraine gained its dependence and broke out of the Soviet Union in 1991. During the first years on the path to democracy little liberalization of the political situation incurred. The country was led by nationalists and communists who used the situation to secure privileges and control of the country's assets. Policies remained largely unchanged and the economic situation worsened, which led to hyperinflation and recession.

In 1994, the first truly democratic presidential elections were held and the former Prime Minister Leonid Kuchma became president. He promised desperately needed economic reforms and renewal of the political as well as economic ties with Russia. As Kuchma was reelected in 1999 a battle with his opponents in the country's parliament resulted in a referendum, which proposed a reduction of the parliament's political power. A suspiciously high majority of the voters, 80-90 percent, approved the constitutional changes that had been put forward. As the changes were basically undemocratic in their nature there was a fear that Kuchma pursued the same type of leadership as his Belorussian counterpart Lukashenko. However, the suggested political reforms have until today remained unrealized.

In 2000, the country's political stability was shaken by accusations that Kuchma was directly involved in the disappearance of an oppositional journalist. Moreover, the whole presidential administration was accused of a list of crimes and corruption, which led to sporadic mass demonstrations in the country. This culminated in a dismissal of the government by a parliamentary vote of 'no confidence' in April 2001 and is considered to be the largest political crisis since the country's independence.

After almost a decade of economic contraction the Ukrainian economy has made good progress since the turning point in 2000, one year after the Russian crisis. In 2001, GDP grew by 9,1 percent, which can be considered a very high growth figure. However, growth is expected to stagnate during the next few years. Overall GDP was in 2001 37,6 billion USD, which in per capita terms compared to the United States is only 2,1 percent.

Recent fiscal and monetary progress has been successful. However, now attention is drawn into achieving further structural reforms. An important part of this will be the restructuring of the country's state-controlled banking sector. Even if overall privatization has been realized to a certain extent Ukraine is still far behind as regards privatization reforms. Many foreign investors have avoided making investments in Ukraine due to the continually changing privatization rules, although the government tries to attract foreign investors into the country and has given the issue priority. In 1996, a law was passed that guarantees registered foreign firms equal treatment with local companies.

The legal situation in Ukraine has remained uncertain. Generally speaking the problem is that some parts of the law have not been improved, whereas some legislative areas change very fast and create an unmanageable legal system. The country needs a more predictable legal environment, especially since Ukraine is one of the former Soviet republics that managed the transition of the legal system less smoothly.

As a heritage from the Soviet days Ukraine carries a heavy baggage of troublesome bureaucracy, which is expected to remain for a long time. This problem has been addressed by the government, but results have been poor since corruption and rent-seeking networks reach high up in the administrative sphere. Actually, corruption is a widespread problem in Ukraine in particular due to the changing regulatory environment. The most common form of it is low-level corruption, which includes bribes and “gifts.”

Even if a deep investigation into the Ukrainian market situation is not made here, the above description shows some market characteristics that are typical for Ukraine and also largely to the majority of at least CIS-economies. As explained in the introduction of the thesis there is no need for a deeper environmental study of Ukraine since the focus lies on the foreign subsidiaries’ perceptions and experiences of the country. Hence, this section had only the purpose to illuminate some important issues in Ukraine for the purpose of increasing the reader’s understanding.

5 EMPIRICAL FINDINGS

The following chapter represents a summary of material that was collected during a two-week field study in Poland. During this time representatives of seven subsidiaries owned by multinational corporations were interviewed regarding their expansion to and operations in Ukraine as well as Poland. Four of these companies have at some point of time established production in Ukraine. The remaining three have solely been exporting. Each case begins with a short description of the group and the subsidiary, which is followed by the expansion process first to Poland and secondly to Ukraine.

5.1 Can-Pack Group

The interview about Can-Pack was conducted with Mr. Rafał Gaczorek, Sales Manager, at the head office in Krakow on 30 October 2002. The interview was later complemented by a telephone interview with Mr Olszewski who is a regional manger and in charge of the operations in Ukraine.

5.1.1 Introductory Company Overview

Can-Pack is a wholly owned subsidiary belonging to the American group F & P Holding, which is mainly engaged in the packaging and foods business. The group employs approximately 2000 people in Poland and is one of Europe's largest producers of metal cans, the largest in Eastern Europe. The company offers a wide range of products that includes cans for foods, chemicals and beverages as well as capsules for bottles and plastic PET-bottles. Moreover, the company provides technical services to their clients, which aim at helping the customer in several ways in case they have problems with their product lines.

Can-Pack has established production facilities in Poland. Today there are five factories in country that produce metal packages. In the remaining CEE-countries there is one factory in the Ukraine, Russia and Romania respectively. In addition, a factory has been established in the United Arab Emirates. Sales offices have been opened in Russia and Hungary. Their objective is to conduct market analyses and to take care of the incoming goods that are aimed for sales.

Moreover, the subsidiary sells its products in Slovakia, the Czech Republic, Moldavia, in the countries of former Yugoslavia, Estonia and Latvia.

5.1.2 Entry into Poland

The parent company F & P Holding is situated in the U.S. where several production facilities for industrial packaging of different kinds are run. The initial investments in Poland where made by the mother company with the beginning in 1989 as a state-owned manufacturing facility was acquired and the company Pol-Am-Pack S.A was established. This was followed by the creation of several new companies that became part of the group. The motive for the investments was that Poland was seen as a very interesting and attractive market due to its growing packaging industry and its future market potential. Furthermore, it was seen as a stable market in comparison to other countries in the region. Worth to note is that Poland was the first European country that was entered by F & P Holding. Later, decisions were taken to enter other markets in the region. Due to this development the Polish unit has become the regional base of the enterprise. It controls and is responsible for all the other markets in CEE and CIS.

The Polish market became interesting for F & P Holding after the political turnaround in 1989. The market was entered through acquiring existing producers of packaging companies that were state-owned. Technology was transferred and capital was invested in the facilities that raised overall capacity of production to an acceptable level. Before the entry into Poland F & P Holding had already internationalized and ran operations on most continents.

At first the operations in Poland were aimed at satisfying the polish market. The main tasks were to try to understand the Polish customers' needs and to adapt machines and technology to local needs. Later on, Can-Pack started to expand its activities and new types of packages were introduced to the market.

In the planning phase the existing market conditions in Poland were still relatively unknown since there was no experience from the market. It was also unsure what was going happen in Poland after the political changes that had taken place. Therefore, initially there were no concrete plans of expanding the subsidiary's business into other countries. It was to be seen how the market was going to develop in the future and first then decisions could be made about further expansion.

5.1.3 Entry into Ukraine

After having launched production in Poland interest grew about the possibilities to export to the neighboring countries. The countries that the polish unit started to export to first were Ukraine, Russia, the Czech Republic and Hungary. The unit also exported to Scandinavia. A key figure for Can-Pack is that exports pay off maximally 1000-1100 km from the point of production. Further away transport costs are expected to rise too high. Naturally, the closest neighbor countries fell within these limits.

The Ukrainian packaging market was perceived as poorly developed and with a population of about 50 million it was seen as a large market. With many of the domestic packaging firms producing and exporting to Russia it was supposed that there was a lack or a need for high quality packages to reasonable prices. Subsequently, people from the Polish unit were sent to Ukraine to visit potential clients with the purpose to analyze the market needs and to find new clients for the subsidiary. In this way the market was scanned for its sales potential, what packaging needs there were, what the clients demanded, the general price level and what possibilities there were for cooperation with Ukrainian businesses. The actions were fruitful and in the middle of the nineties the first business deals were successfully closed with Ukrainian counterparts, which lead to the first exports from Poland to Ukraine.

Every country has its own standards when it comes to packages. This meant that Can-Pack had to adapt its production lines, materials, components etc to the prevailing conditions in Ukraine. Such market adaptations are common since they are practically made for every new market. They always cause additional costs for the subsidiary, but enable the subsidiary to sell its products on new markets. In the beginning only a few product types were sold and exported to Ukraine. As the market developed new products were added to the assortment.

Over time exports started to grow as the market developed. Many potential clients increased their capabilities and quality of production, which meant that they needed higher quality supplies. The domestic suppliers were not able to meet the higher standards and therefore domestic producers started more and more to turn themselves to foreign suppliers. A factor that slowed down the process was the price of Can-Pack's products, which has all the time been in the premium range due to the quality level that has to be fulfilled by the subsidiary as it follows the ISO-standards. Ukrainian customers prefer lower quality. However, Can-Pack has not been able to satisfy this price segment since it is impossible for them to lower the quality level.

Not long after exports had been launched a sales office was opened in Kiev, the capital of Ukraine. Its purpose was to import goods from Poland so that it would be possible to sell them to Ukrainian clients in the country's own currency in contrary to the previous situation where the client needed to pay for his imports in USD. The sales office was also supposed to eliminate the clients need to declare imported goods. Can-Pack has tried not to use any agents since they demand provision and therefore it is seen as more profitable to sell independently.

Can-Pack has since the beginning of the export activities been aware about the general financial situation of companies in Ukraine, not the least through its own market analyses on the field and awareness of situations where foreign parties selling to Ukrainian counterparts have been left without payment. Moreover, it is believed that Ukrainian firms usually emerge as fast as they disappear. Thus, Ukrainian counterparts are generally perceived as unreliable and thus difficult to do business with. Therefore, the subsidiary has always secured itself financially against possible insolvency of Ukrainian customers by demanding payment in advance or by using bank guarantees. The ambition has always been to secure all exporting activities maximally. As a part of this practice Can-Pack has taken advantage of the Polish Export Credit Insurance

Corporation, which provides insurances and guarantees for exporting companies.

With growing exports and the increasing knowledge about the market, Ukraine became the second country in Europe where a production unit was established. This was done through acquisition of a majority stake in a Ukrainian manufacturer, approximately two years after the exports had started. Today the factory employs approximately 22 persons. The reason why Can-Pack decided to acquire a share of an existing producer and to establish a joint venture was partly because of the general perception that East Europeans prefer do business with domestic firms instead of foreign companies, since they are loyal towards their own market. Having majority control allowed Can-Pack to decide over important strategic issues alone without having to deal with ownership interest conflicts and that is why the Polish subsidiary has not had any problems regarding decision taking or operations.

During the time of the investment there was an underdeveloped domestic supply of crown caps for bottles in Ukraine and therefore the decision was to start supplying that segment with local production. The foodstuff packages market was more saturated since all the large manufacturers of packaged foods were producing and satisfying their own needs. Thus, it was difficult to sell to them especially since the most important factor for them was price. The smaller foods producers did either buy from the larger ones or organize their supplies from other actors.

Additional reasons why production was launched was that the investment possibilities in Ukraine were considered to be attractive since the subsidiary had the possibility to make the investment in an economic zone and because the government of that time was seen as investment-friendly. Furthermore, the investment was made in Lviv, which is situated in western Ukraine close to the Polish border and thus within a relatively short distance (250 km) from Can-Pack's production facilities in Brzesko and the head office in Krakow. This allowed Can-Pack to establish the operations in the fastest and most preferable way as well as decrease costs associated with transportation and customs duties. The region around Lviv was in addition considered to have the most developed packaging market. When considering other Eastern European markets Russia as well as Belarus were perceived as less developed markets. Belarus had also the disadvantage of not being politically ready for direct investment.

The investments in Ukraine were partly made by Can-Pack in Poland and partly by the American owner who also conducted market analyses on Ukraine and calculated on its return on investment capacity. As the operations at the Ukrainian plant began Can-Pack had transferred good but used machines from its factories in Poland to the Ukrainian manufacturing site. There was also a transfer of personnel who knew and applied the Polish production practice in the newly bought factory. This made it possible to reach the same production quality as the one in Poland. The parent company was not part of the operative process.

The facility came to specialize in the production of crown caps since this was the largest and most promising market segment in Ukraine from Can-Pack's perspective, however, only one product category of Can-Packs product range. The market for the other products was not seen as profitable enough to get a reasonable return on investment even if the market itself was large.

The manufacturing was first of all adapted to local product standards, since sales of the output were planned for the Ukrainian market. At a later stage the plant started to manufacture crown caps for clients in Russia, Belarus, Kazakhstan and Uzbekistan. However, there has been no export to Poland, since the production of crown caps there remained. Still today the main market for the products produced outside of Lviv is Ukraine.

Today, there are still Polish exports going to the Ukrainian clients. However, they are limited since the production unit has been established there, which satisfactorily supplies the market. The products that are exported from Poland are those that are not produced locally by the Ukrainian producer i.e. mainly foodstuff packages in the form of cans.

5.1.4 Future Development and Expansion

Today's exports to above all Russia but also Kazakhstan and Uzbekistan might in the future lead to further investments to those countries. In fact, Can-Pack already has plans and intends to make investments in Russia in the near future in order to establish a production of cans. When it comes to the Asian markets of Kazakhstan and Uzbekistan, they are today considered not to hold enough market potential or being enough developed. The countries have large populations, but they are generally economically poor.

Many of the barriers that restrain Can-Pack from increasing its activities in Ukraine are the same today as they were some years ago. First of all, the Ukrainian customers' preferences towards low-priced goods, that Can-Pack is unable to produce. Quality is a factor that does not get much attention. Furthermore, Can-Pack sells not just a core product, but also services that are not demanded by the Ukrainian clients. Second, the weak financial situation of Ukrainian firms does not allow closer cooperation, since they in many cases are unable to pay for their purchases. Although as the market is still developing it needs some time. If the situation was different, for example the financial situation of Ukrainian firms were better, Can-Pack could of course sell more to the market. The subsidiary's way of approaching potential customers and demanding securities for the business deal to be closed limits the amount of companies that the subsidiary can do business with.

In order for Can-Pack to make any further investments in Ukraine the market has to develop and reach a certain economic level, which can guarantee stability and possibility of predicting the future. The companies that are weak have to disappear form the market and leave the ones that are financially strong and need quality products. Moreover, there has to appear a reliable financial institution that can verify a company's financial health.

The manufacturing plant outside Lviv imports its inputs used in the production from Poland due to the fact that the quality level provided by Ukrainian suppliers is experienced as too poor.

5.2 Delphi Automotive Systems Poland

The material to case of Delphi Poland was collected during an interview with Mr. Krzysztof Frelek on 24 October 2002 in Warsaw. Mr Frelek is responsible for the subsidiary's exports to Ukraine.

5.2.1 Introductory Company Overview

Delphi is part of the automotive industry as a supplier of automotive parts and components. The product range is very broad and includes electric and mechanical systems, a variety of elements in cars that are made of glass or rubber as well as shock absorbers, car oil etc. In general terms Delphi's business can be divided into two broad segments; supplies to vehicle producers and a business called aftermarket, which refers to replacement products. The larger and more important segment is the vehicle producer supplies, which accounts for around 90 per cent of total business. The market size of the products that Delphi produces is dependent of the amount of cars in use in a country. Therefore, the largest market in the world for automotive parts is the United States. In Europe, Germany and France are the top markets. The turnaround of the whole group at present is roughly 26 billion USD, which makes Delphi the largest player in its industry. Its biggest competitor is Bosch. Totally, the company employs 230 000 people worldwide out of which 5500 are working in Poland. The yearly sales in Poland amount up to 250 million USD.

Before the company entered Eastern Europe it had a strong presence in western parts of the continent as well as on most of the other continents. Today, Delphi has established production facilities in the following Eastern European countries: Poland, Russia, Hungary, the Czech Republic, Slovakia and Romania. In addition two sales subsidiaries have been opened up, one in Poland and the other one in Russia. All other Eastern European countries are served by direct exporting.

5.2.2 Entry into Poland

Delphi's activities in Poland where in the beginning only associated with exporting from western markets. The Polish market was further penetrated in 1995 as a manufacturing plant was acquired. The motive was that Delphi was looking for a new production base that could help the company to become more competitive. The production that was launched was a labor intensive one, since the company wanted to take advantage of the low labor costs. Poland was also seen as an interesting market because there were several automobile producers in the country. Also, at that time Opel made an investment in Poland and since General Motors owned both Delphi and Opel this provided a motive to make an investment. However, it was not the main reason behind Delphi's entry into the country. Furthermore, Poland was also considered to be a country with a lower operating risk than other countries in the region. At present, there are six factories operating in Poland.

The Polish unit is responsible for the aftermarket activities in Russia even though the Russian market was the first market entered by Delphi in the whole of Eastern Europe. However, when it comes to the remaining activities of the company the Russian unit reports to the European headquarters, which is situated in Paris.

Otherwise, Poland is responsible for exporting replacement products to all the markets east of the country. The reason for this is that the Polish organization has grown much faster and become a whole lot larger than, for example, the Russian or any other Easter European unit. At present, there is only one factory in Russia, whereas there have been several factories established in Poland. All the Polish manufacturing plants are wholly owned by Delphi except for one, which has been established as a joint venture where the joint owner is the Polish state with a share of 25 per cent. The Central European markets to the south of Poland, such as Hungary, are more tied to the Austrian division.

The subsidiary owns several warehouses from where products are shipped to Ukraine to be sold to local customers. Today, around 70 per cent of the total turnover created by the Polish unit is generated by exports, whereas the remaining 30 per cent is sold in the home market.

5.2.3 Entry into Ukraine

As a sales office was opened in Russia in the early nineties it became obvious that the unit could also export to Ukraine as well as to other former Soviet states. Thus, the initiative to establish sales in Ukraine was initially taken by the Russian unit. The reason behind Delphi's interest in Ukraine was purely tied to the output potential of that market in terms of aftermarket sales. Generally speaking, Delphi tries to extend its aftermarket operations to every possible country where there is a potential market. Already from the very beginning of the export activities in 1996 Delphi Russia started cooperating with a local distributor, which ever since has been the single Ukrainian distributor used by the subsidiary. Delphi chose to work with the client due to its good potential on the market and since it was is easy to work with just one partner. The distributor is active in the replacement products business and sells also the competitors' products. Its headquarters are in Kiev and it controls a distribution network of 60 subsidiaries that cover the whole of Ukraine. To use a local distributor in order to reach the final customers in Ukraine was a natural move, since this is the norm in the industry. Producers such as Delphi do normally not sell directly to the end users in the aftermarket. In the case of its current distributor Delphi sells its products ex-works meaning that the distributor is responsible for the merchandise after it leaves the factory.

A few years later Delphi Poland took over the exporting activities and supply of the Ukrainian market. There has been no sense in increasing the amount of Ukrainian distributors because the cooperation has functioned without any disturbances and the Ukrainian representative has satisfied the subsidiary with a steady sales growth over the years. Each year a new contract on cooperation is signed between the two parties. Moreover, Delphi has chosen this form of entry since it is associated with a very low financial risk as well as costs. Most of Delphi's competitors are active in Ukraine. However, it is generally not considered to be a priority market. The country has a large population, but since the income level is low the market potential is small. A more important market for Delphi today is Russia.

The knowledge about the Ukrainian market is limited due to that only a small amount of information reaches the Polish unit. It is natural that when Delphi is not independently present on the market the knowledge about it is lesser. However, there is a continuous communication between the Polish unit and its Ukrainian distributor. As an example they meet almost once every month. At present, there is no need to increase the level of cooperation or increasing the costs for that relationship.

A further reason why Delphi has not committed itself more to the Ukrainian market is that the market is perceived to hold a high level of political and financial risk. The subsidiary can simply not know what is going to happen on the Ukrainian market. In addition, Delphi has also had bad experiences on the Russian market for quite a long time. Since the Russian crisis broke out the company's business in Russia has gone through difficult times, as a lot of customers suddenly were unable to pay or buy anything at all. A similar event could affect an eventual investment in Ukraine. Therefore, Delphi prefers to remain cautious at least as long as the rate of return does not cover the high risk.

Exports from Poland are also managed through two so-called export houses. Both of them are relatively small Polish companies that have entered the Ukrainian market and established local distribution channels. Delphi got in contact with these companies in connection with the acquisition of a factory in Poland in 1997. They had already worked as distributors for the previous owner of the plant and maintained their role after the acquisition i.e. they buy directly from Delphi in Poland and export to their Ukrainian clients via their sales channels. These companies have no right selling Delphi's products neither in Poland nor to any other country besides Ukraine. However, their sales of Delphi's total exports is minor, since they concentrate only in the sales of parts and accessories for the Soviet car brand Lada.

Delphi has not established any supplier relationships in Ukraine mainly because Ukrainian suppliers are not bound to any quality systems.

5.2.4 Future Development and Expansion

The Ukrainian market is still today seen as a high-risk country. The risks arise from political and economic uncertainty, which means that Delphi has little interest in investing in the country at all. The case is not that Delphi does not want to invest in Ukraine, but that the return on investment has to be higher in a country, which has a higher risk level. This is not the case today.

The Ukrainian market is expected to remain more or less the same over the next few years under the circumstance that no major changes occur that would change the situation. However, any major positive changes are perceived as highly unlikely. The living standards are still too low with the exception of large cities.

A characteristic of Delphi is that they normally establish production facilities in closeness to global automotive manufacturers. In Ukraine the company has no clients of such kind. Regarding the aftermarket business there are no cases where a production unit is launched just for the purpose of serving clients with replacement products in one market. Thus, a potential investment by Delphi in Ukraine is dependent on whether a major car manufacturer enters the Ukrainian market. If there is no such entry, Delphi will not make any investment in Ukraine either, because otherwise the market does not contain any clients worth producing for.

But if there is a product category, which is in the low price segment and that would need cheaper production to be more price competitive there is a chance that Delphi could make an investment just for the purpose of taking advantage of cheap labor. Yet today, the margins in the automotive industry are on such a level that an investment in this sense is not needed.

The most realistic further commitment in the near future is to establish an own distribution network. However, there are still a lot problems associated with the declaration of goods and the border control, which complicates the exporting activity. In the case Delphi would establish its own distribution network in Ukraine it would from that moment on have to deal with the customs by itself. Today, the Ukrainian distributor manages the cross-border trade and is therefore used to the appropriate behavior and special procedures. Delphi has no possibility to engage in illegal activities and has therefore no experience of such conduct. They know, however, that conducting business activities in Ukraine in many cases requires some sweetening. Thus, there is little incentive for Delphi to start managing the exports independently.

In the case an investment would be made in Ukraine the responsibility of the operations would most likely be placed with the Polish unit, if the investment concerned the aftermarket business. On the other hand, if the investment were in a manufacturing plant that would function as a supplier for an automotive producer the responsibility would probably be given to another organization depending on what products or division it would concern.

5.3 Esselte Poland

The background information to Esselte Poland's entry into Ukraine was collected during an interview with Mrs. Agnieszka Strzelczyk who works under the sales president for Poland and is specifically appointed for Ukraine and Belarus. The meeting took place on 5 November 2002.

5.3.1 Introductory Company Overview

Esselte is one of the largest global office supplies manufacturers, which means that the company produces and sells products such as file folders, plastic pockets, staplers etc. The company was established in the beginning of the twentieth century and is originally from Sweden. It has a strong international presence through its 25 subsidiaries around the world and sales in over 120 countries (www.esselte.com, 2002). 6500 people are globally employed in the company and its yearly turnover is around 1.1 billion USD. In Poland, Esselte has sales of approximately 19 million USD and employs circa 600 people. In Eastern Europe Esselte has today sales offices in Poland, the Czech Republic, Hungary and Russia and production only in Poland and Hungary. Other Eastern European countries are supplied by direct exports. Since July 2002, Esselte is owned by J.W Childs Associates, which is an American private equity investment firm that has acquired the group.

5.3.2 Entry into Poland

Esselte established production in Poland in 1991. The factory, which was opened in a small town called Korzienice 150 km south east of Warsaw, started to produce a sort of file folders that is the main standard in Sweden. Thus, all the products that came out of the factory were exported to Sweden. At that time the production site employed 25 people. The intention of the firm was to take advantage of the cheap labor in Poland. Before the production plant had been established Polish customers had been importing Esselte's products from Germany to a certain extent. Therefore, the management was aware that there was a market in Poland

In 1992, the Swedish management took the decision to open a sales office in Poland, since the Polish economy was expanding. The mission of the sales office was to build up a distribution network by looking up wholesalers and larger companies who could start selling Esselte's products within Poland. From that point of time, the factory in Korzenice started to adapt and produce products for the growing Polish market.

The expansion in Poland was relatively fast and sales increased from year to year. Today the factory in Korzienice is Esselte's largest factory in Europe with 36 000 square meters, a huge warehouse and 560 employees. Production has been modernized and is today highly automated. The factory has also become a logistics center for Europe due to its size and the large variety of products that are produced. Approximately 750 product categories are manufactured and then sold all over Europe. However, not all products in Esselte's portfolio are sold and therefore the subsidiary imports certain items from other countries for its Polish customers. The sales office is in Warsaw where 32 people are employed within marketing, sales and finance. The company's products are distributed through 80-100 independent distributors around the whole of Poland.

Esselte as a group is organized in a way where countries that have sales units are responsible for markets that have no representation. In 1998, the Polish Esselte unit was given the responsibility for Belarus and the Ukrainian market.

Before the changes France had been responsible for the two markets. Another example in Central Europe is the Czech unit, which was given control over Slovakia and Slovenia.

For the group the changes meant that above all transportation costs were lowered significantly now that the Polish unit was supplying the two markets instead of the French. Furthermore, it was more economic to sell goods coming from the Polish factory since they were produced at a lower cost.

5.3.3 Entry into Ukraine

Esselte started to export to Ukraine through its French subsidiary in the early nineties. In Ukraine the products were taken care of by independent Ukrainian distributors who supplied the local market. Until 1998 the Polish unit was not able to export anything officially to Ukraine, because it would have been against the group's rules. However, as Esselte in Poland was working with Polish distributors that were also present on the Ukrainian market they could not forbid them to sell Esselte's products. Thus, until 1998 Esselte's products ended up in Ukraine through both Polish distributors and the French subsidiary.

Esselte has presently four official distributors in Ukraine that are all Ukrainian firms. Three of them were taken over in 1998 from the French who had worked with them for several years. The fourth one is a distributor that is not supplied directly by Esselte Poland, but through one of Esselte's Polish distributors. This contact was established by the Polish distributor itself, which approached Esselte and explained that there was a Ukrainian client or distributor who wanted to sell Esselte's products in Ukraine. Since the Ukrainian firm is a customer of Esselte's Polish distributor Esselte cannot sell directly to them. However, they have made a settlement wherein Esselte is able to control the amount of sales that are made by the Polish distributor to the Ukrainian counterpart. In exchange the Polish distributor gets lower prices on the products it sells to the Ukrainian distributor.

Overall, many of Esselte's distributors in Poland do export to Ukrainian customers. But, how many and how much is not known. At least a partial explanation for this phenomenon is that during trade fairs that take place in Poland a lot of contacts are created between Polish and Ukrainian firms who decide to trade with each other. Moreover, Esselte's exclusive distributor in Belarus and the Russian unit's official distributors, who also export to Ukrainian clients, create another sales canal into Ukraine. This has created some controversy since the Russian subsidiary does according to group rules not have the right to sell to Ukraine.

Since Esselte took over the business on the Ukrainian market 1998 sales have been expanding impressively, approximately 200 % during the four years. Today the exact size of the Ukrainian market is unknown. It is difficult to believe in statistical figures, because they are believed to be false. Thus, there exists no statistics on market size. Even Esselte's own size of sales in Ukraine is difficult to estimate. Esselte's exports to the three official Ukrainian distributors are expected to be roughly four per cent of the size compared to the Polish market. However, the Polish distributors export to Ukraine as well and they might sell as much as 15 per cent of the products sold to them in Ukraine.

A few years ago Esselte Poland established a sort of a small-scale unofficial license assembly with one of its Ukrainian distributors. Due to high transportation costs of file folders an agreement was made that the Polish Esselte unit would sell the folder covers separately from the mechanisms that are inside them and thus save money on first of all more cost effective transportation since complete folders require more space in a truck. Moreover, costs were going to be saved on the fact that the total customs duties on the components are lower than on the ready-made product. To be able to assemble the two components the Ukrainian counterpart had to buy a machine that could manage it. As a result the Ukrainian counterpart today operates a mini-production facility with 2-3 employees in an economic zone. Recently, another one of Esselte's distributors made a similar agreement and bought a machine for assembly. There has been no financial risk associated with the assembly in Ukraine since no investments have been made.

Important for Esselte is that the distributors will live up to the agreed quality level of the fabricated folders. Therefore, Esselte tries to control the quality.

Since there was no written agreement signed about the assembly Esselte has no legal documents to lean on. Anyway, a general perception is that even if there was a signed contract it would have no value since the legal system does not seem to have any effect.

Even if Esselte in Poland has good contacts with its distributors in Ukraine payment in advance is required from them at all purchases. No matter how good the relations are there is always insecurity connected to dealing with Ukrainian firms, since it is impossible to know if the firms will pay or even exist tomorrow. The uncertainty rises from well-known anecdotes about so called “balloon companies” that appear on the market and run businesses. When the fiscal year ends the firm is gone and it never shows up again. The reason for this behavior is thought to come from the desire to avoid taxes and liabilities. Furthermore, Esselte once had a Ukrainian distributor who was in those days supplied by the French subsidiary. The French had sold on export credit insurance and were not paid. Thus, when the Polish unit took over they got rid of the indebted firm that was one of its official distributors.

A further complication concerning payment is the fact that Esselte in Poland is not able to take advantage of the services that are offered by the Polish Export Credit Insurance Cooperation and thus give its distributors sales credits. The problem arises from the Ukrainian distributors’ pursuit of avoiding customs duties and other costs associated with importing goods from Poland. As the distributors make an order they want Esselte in Poland to address the invoice to different as well as unknown companies each time and thus not to the distributor itself even if it is the receiver of the goods. Due to this procedure Esselte cannot get an export credit insurance because the companies that are addressed in the invoices are not credible.

As a major barrier to further expansion is that the Ukrainian firm landscape is so intricate due to all the new firms (balloon companies) that are established. This makes it difficult to reach them and to know who the owner is or the person who Esselte should negotiate with. Thus, to find new distributors, which is Esselte’s intention is hard. Furthermore, if you do not know Russian doing business in Ukraine will be difficult.

5.3.4 Future Development and Expansion

The market for office supplies in Ukraine is expected to continue to grow in the future. At present, Esselte aims to increase its distribution network and sales in Ukraine, because of strong growth. For this task two persons who know Russian have been hired that are going to travel to Ukraine and regularly meet the existing Ukrainian distributors and new potential ones. It is believed that a contact between two persons is better if they meet personally than speaking on the telephone. The expectation is that Esselte can get to know more about the market situation and increase sales by being more effective in negotiations and thus the employment of the two persons would pay off.

A decision to locate production in Ukraine is probably not an issue at present. In fact, Esselte's management takes these decisions centrally since they concern the whole Esselte group strategy. At present, the factory in Korzenice is doing well supplying the Eastern European markets.

5.4 Sapa Aluminium

Information regarding the case of Sapa and the firm's activities in Eastern Europe were collected at an interview with Commercial Consultant Elżbieta Pawłowska-Sapun at the subsidiary's head office in Trzianka, western Poland on 25 October 2002. Mrs. Sapun is responsible for the exporting activities to Ukraine.

5.4.1 Introductory Company Overview

Sapa Aluminium offers its customers aluminum profiles, which are later used in the clients' own production. Aluminium profiles can be used in the production of almost everything such as audio-video equipment, doors, and windows, antennas etc. The company offers either standard profiles or specifically designed profiles for a client's own needs. 70 per cent of the turnover consists of sales of specifically designed profiles, which makes it the larger business area.

The Polish subsidiary is wholly owned by the parent company in Sweden and employs at present approximately 360 people. Two manufacturing units have been established in Poland, one in Trzianka and the second in Łódż. The Polish unit has yearly sales of around 35 million Euros and by that a market share of 10-15 per cent. Before entering Poland Sapa was present on most larger European markets including Germany, France, the United Kingdom. Concerning Eastern Europe, the Sapa Group today has a production plant in Poland and a sales subsidiary in Lithuania as well as in Estonia. The two sales subsidiaries were started by the Swedish parent company and are until today served by the Swedish unit.

5.4.2 Entry into Poland

The Sapa Group made a serious entry into the Polish market in 1992 as it acquired an existing plant, which was modernized and upgraded before local manufacturing was launched. Earlier, the Swedish unit had sold mainly aluminum systems used in the construction industry directly to Polish customers that were interested in buying Sapa's products. During the period between the exporting activities and the establishment of production there were no agent or sales subsidiary used.

Poland became the first country in Eastern Europe where production was established by Sapa and is still today the only Eastern European country that has its own production. At that time Poland was seen as a lucrative market. Three years had passed since the transformation process had begun. During that time the construction industry had started to grow and develop and thus there was very strong demand for aluminum profiles, which were used in the construction of new buildings. Another factor that generated strong demand was that there were no producers of aluminum profiles in Poland.

Until the late nineties the Polish unit only supplied customers on the Polish market and had therefore no foreign sales. All foreign inquiries that had been received by the Polish unit were forwarded to Sweden where they were taken care of. However, around 1997 the Polish subsidiary took over the task and started to respond to incoming inquiries from foreign customers. In connection to this an export department was initiated. Since these changes, Poland is part of a regionalization of Europe where, for example, the Swedish unit is responsible for the sales in Scandinavia whereas Sapa Poland holds the responsibility for the whole Eastern European region. Exceptions are the Estonian and Lithuanian markets that are supplied buy Sapa Sweden.

Today the market situation has changed. The domestic market is not as easy to sell to as before. Sapa Poland has therefore started to export to neighboring countries including the Czech Republic, Slovakia, Hungary, Germany and the former Soviet republics. Germany and the Czech Republic are the main export destinations. Sapa has also concentrated its marketing activities on these markets including Slovakia, which means that the subsidiary regularly visits trade fairs and its customers. The remaining markets' exporting share is significantly smaller and the exports are mainly sporadic. Thus, Sapa has not yet made any marketing investments in these markets. The CIS-markets are, in addition, considered to be less safe to do business in. For example, an owner of a company in these markets has the ability to change the name and legal status of his firm five times during a period of a few years, which means that it is difficult to establish and invest in long-term relationships. There is a fear that a client who would get a normal 30-day credit on his payment will close his firm and open up a new one, which would make it impossible to demand payment for the products that were sold. Actually, Sapa has one client "on a personal level" that is active as a buyer with already his fourth firm. It is believed that the reason for this behavior comes from such companies' interest in avoiding tax as well as customs payments or other liabilities. Due to this Sapa requires its eastern market customers to pay in advance when they intend to make a purchase.

Totally only about 10 % of the Polish unit's turnover is generated by exports, which means that the Polish plant mainly sells to domestic customers. The decision in what countries to concentrate the exporting and marketing activities is completely up to the Polish unit. The Swedish parent company does basically accept the Polish subsidiaries exporting strategies.

5.4.3 Entry into Ukraine

Sapa has no regular cooperation with Ukrainian firms. The relations with Ukraine are very sporadic. A characteristic of the Ukrainian buyers is that there are only a few firms that have ordered their own aluminum designs since they have low purchasing power. Most of the Ukrainian firms are rather interested in standard aluminum profiles that are very often used in the production of furniture and offer a cheaper alternative.

The first exports to Ukraine were generated in the later half of the nineties as a response to Ukrainian firms' inquiries about aluminum profiles. The amounts that were sold were very limited. Sapa was not prepared to supply that market and as a result the customer arrived at the factory and organized the exporting. The client also had to pay beforehand, since already then it was decided that no credits were going to be granted.

In general terms, Ukraine as well as the other CIS-markets are considered to be high-risk markets. It is impossible to know what in the future is going to happen politically or economically. However, it is believed that if a solid market analysis were made about Ukraine maybe the company would change its perception about the situation. Still, the relation to Ukrainian clients is different. For example, one of Sapa's Ukrainian clients who had made a few purchases suddenly seemed to be more interested in the company's machinery and equipment than in buying more from the subsidiary. As the customer came to collect the purchased goods they showed a strong interest in how the production process was managed. Instead of orders Sapa has received questions from the client regarding where and from whom the factory equipment was bought, since they are preparing to start an own production line of aluminum goods processing.

On a yearly basis Sapa Poland sells 5-7 tonnes of aluminium to Ukraine. If that is compared to Sapa Poland's total production of 8000-9000 tonnes a year, then it is obvious that the supply to Ukraine is limited. The Ukrainian sales correspond to an amount of roughly 25 000 Euros, which is generated by two to three clients a year. In the beginning of the exporting activities the yearly level was at about 3-4 tonnes, which indicates that the amount has increased modestly in real terms. These purchases have been single purchases and therefore the subsidiary has no long-term partners in Ukraine. The client firms buy and then disappear. However, it can be said that there are repeat customers. Yet, they are not firms but the individual owners and employees that are left after the old firm has changed into a new costume.

Another factor that probably reduces the sales to Ukraine are two other Polish competitors that also sell to the Ukrainian market. Theses companies are also closer to the Ukrainian boarder, which probably gives them an advantage. Most of Sapa's clients have come from Odessa, which is situated in southeastern part of the country.

When the Ukrainian customer leaves the manufacturing site Sapa no more has control of the exported goods. What can be heard from the clients is that they encounter problems at the border that are related to the Ukrainian customs officials and police. Apparently, these officials require some kind of additional payments that cannot be considered legal, which indicates that there is a barrier to the export activities created by corruption. This corruption can, however, not be connected to any form of organized crime or mafia. It is a problem of corrupt individuals.

The reason why Ukraine has received little attention is mainly due to the fact that the subsidiary has focused its efforts in trying to gain market positions in Germany and the Czech Republic. Of course, if the subsidiary receives any inquiries or orders from Ukraine they will be answered and realized. Sapa Poland is just in the beginning of expanding its exporting activities and therefore conquering the Ukrainian market is an issue for the future.

5.4.4 Future Development and Expansion

A rough estimate is that Sapa will within two years start deploying resources into the Ukrainian operations. The future aluminum sales in Poland are expected to stagnate or even fall. Due to this Sapa might have to become more expansive towards foreign markets. Ukraine holds a large potential for Sapa and it should be exploited. The market is perceived to be in the same situation as Poland was a few years ago. There is a growing market and aluminum products are increasingly used in more and more industries. In order for Sapa to become a known brand on the Ukrainian market the company has to be present on the market.

A factor that limits Sapas exports today is the fact that the subsidiary demands payment in advance, which probably has the effect that some potential clients turn to the offers of competitors who give them better payment conditions. The reasons why a firm chooses to make a purchase from Sapa are two-fold. First, Sapa has a short delivery time of tree to four weeks. Second, the company offers a high-quality product, which has so far not received any complaints from the clients of the CIS-countries.

If the Sapa Group are to establish new production further east of Poland is a decision, that lies completely in the hands of the Swedish parent company. Sapa Poland has no right to build a new plant by its own initiative. At the moment Sapa has no plans of moving production or parts of it further east. Such actions would require large investments and, furthermore, today Sapa is able to fully supply all its markets. Thus there is no need of making any new investments in production.

In the very near future Sapa intends to try to establish a long-term relationship with one of the subsidiary's customers in Odessa. The firm is in the furniture business and uses a lot of Sapa's standard products. Therefore, there might be a possibility of starting a closer cooperation with the firm.

To use hired distributors for increasing sales in Ukraine is a rather unthinkable alternative, since the subsidiary tried to do that in the Czech Republic and in Slovakia without success. The companies that were employed for the task appeared to be unreliable in the sense that they did not carry out the work they were supposed to do. They did not visit clients as planned and wrote fictive reports to the subsidiary in Poland. Therefore, using agents is seen as impossible without practicing strict control over the companies. Also, there are costs associated with hiring such firms. Thus, the preferred way of organizing exports is by doing it from the Polish headquarters and traveling to the foreign customers.

Sapa has not established any supplier relationships in Ukraine.

5.5 Wawin-Metalplast-Buk S.A.

On 5 November 2002 an interview was conducted in Warsaw with Mr. Zbigniew Koźmian who was in charge for the expansion of Wawin-Metalplast-Buk into Ukraine and lived in Kiev for several years. Today he is mainly occupied with the operations in the Czech Republic. The interview concerned mainly Wavin-Metalplast-Buk's entry into Ukraine. The facts of establishment of the company in Poland was mainly taken from a previous academic study, which is included in a larger study by two Finnish professors (Törnroos and Nieminien, 1999).

5.5.1 Introductory Company Overview

Wavin-Metalplast-Buk is a producer and market leader in Poland in the segment plastic pipe systems, which are used in several areas and mainly in the construction industry. Today the company has a turnover of approximately 200 million USD. It is a subsidiary that was created as a joint venture and its main owner is the Danish subsidiary of the Wavin group, Nordisk Wavin A/S, which posseses a majority stake in the subsidiary. The Wavin group originates from Holland and is the largest manufacturer of its kind in Europe and one of the largest in the world. The largest competitor in Europe is Uponor, a Finnish producer.

At present the Wavin Group has 43 factories all over Europe, out of which three are located in Poland. The group today has sales subsidiaries in the majority of European countries including CEE where the company has sales offices in Ukraine, Russia, the Czech Republic and Slovakia. There is also a production unit in Hungary and Lithuania.

5.5.2 Entry into Poland

According to Törnroos and Nieminen (1999) the Wavin group was not present in any Eastern European country before the iron curtain fell in 1989. In the beginning of the nineties Nordisk Wavin, the Danish subsidiary in the group, got the responsibility for the Polish as well as the Baltic markets. This was the beginning of the unit's interest in Eastern European expansion. What fuelled the unit's curiosity for these markets was the slowly growing home market, the management's interest in new market opportunities as well as the execess time they had. Moreover, politicians were at that time speaking well about Eastern European markets and their needs for economic recovery.

Subsequently, the management started to do calculations about the market size and future growth opportunities. It was realized that Poland was a huge market due to its large population and lack of flats and that the future was going to offer very good business possibilities. A lot of work was also put into analyzing the political situation, which resulted in a positive picture about Poland's political future.

The company intended to commence production in Poland immediately and started to look for a potential counterpart with an acceptable production plant. Finally, after having visited and analyzed some companies a suitable candidate was found in the town of Buk, which at the end led to the signing of a contract where Nordisk Wavin acquired 51 % of the total share capital. Before the acquisition of the stake in the Buk factory Nordisk Wavin had not carried out any kind of business activities in Poland at all i.e. there were no exports to Poland. During further expansion in Poland two new manufacturing plants came to Wavin's possession through acquisitions.

According to Mr. Koźmian the Polish unit was under the responsibility of the Danes for several years after it had been established, as did the Baltic States. Today Poland has become a responsibility center and has as its duty to take care of the operations in the Czech Republic and Ukraine where the unit exports its merchandise. Poland's advantages in being a responsibility center for the mentioned countries lies in the fact that it has a favorable geographical location, which makes it a good logistics center and that Polish businessmen have an advantage since they are familiar with the Eastern European culture as well as business conduct. The remaining Eastern European countries have different units responsible for them; for example, the Danish unit controls the Lithuanian. On the markets where the Wavin group has no representation all units are welcome to sell their merchandise, which creates internal competition. Due to this Wawin in Poland exports also to Belarus.

5.5.3 Entry into Ukraine

In 1996, Wavin in Poland started to sell its goods to Ukrainian firms who arrived in Poland with the purpose to buy the subsidiary's products. The sales that were made were rather sporadic and thus there was really no long-term cooperation between the counterparts. The subsidiary had so far not made any kind of marketing efforts towards Ukraine nor was there any plan to enter the Ukrainian market.

One year later, Wavin opened a representation office in Kiev with the purpose to learn more about the Ukrainian market by researching it locally and promoting Wavin's products. The subsidiary had already built a customer base in the country that motivated the opening of such a representation. Furthermore, there was a need to have a local representation in order to control the sales credits that were given to the local customers. In western markets Wavin can use banks or get recommendations from other suppliers as a way of controlling the credibility of a firm. On the other hand, in Ukraine Wavin had to do credit checks independently, since there were no reliable financial institutions offering that kind of service. Thus, the question was raised if the subsidiary should send its own delegations to the country to carry out the tasks or to hire people that would do the job locally. The latter alternative was considered to be considerably more cost-efficient. Another advantage of having a representation office in Kiev was that there were always people present who could deal directly with customers.

In 1999, a further step was taken and a sales office was established, Wavin Ukraine, at the same time as a local warehouse was rented. The sales office was wholly owned by Wavin in Poland and served Ukrainian customers with

Wavin's products directly in the country by importing them from Poland. The sales office enabled Wavin to be more aggressive on the market and therefore increase the subsidiary's sales. Now it was possible for the company to import large amounts of products from Wavin Poland and to sell them in smaller fractions to local clients that did not want to buy large quantities.

The company's sales were from the very beginning boosted with three sales representatives around the country. In addition, Wavin used three distributors who buy goods from Wavin in Kiev and sell them directly to Ukrainian customers. About 90 % of the sales are realized through these counterparts. There is no ownership connection to these companies. The relation to them is purely based on mutual trust and there are no contracts written, since it is believed that if a distributor were to double-cross Wavin Ukraine they would do it regardless if there was a contract or not. Today, sales in Ukraine amount to around one to two million USD, which is much more than what was sold during the first years when sales where about a few hundred thousand USD.

The sequence of steps that was taken by Wavin in Ukraine allowed the subsidiary to slowly learn about and understand the realities of that market as well as to minimize the risks. A general policy of the group is that it should be represented in those countries where it has notable sales. It is believed that without representation there is a substantial risk that a customer might change supplier.

One of the major problems when doing business in Ukraine and importing goods as Wavin does is the continuously changing legal framework. For example, a product that has never demanded any certificate to be imported suddenly requires one when the transport of the goods already is waiting at the Polish-Ukrainian boarder. Further problems that were experienced by Wavin concerned the bureaucracy of agencies and difficulties in finding personnel that was educated to understand the western way of accounting.

A temporary problem that hit the company and its market was the Russian crisis in 1998 that was felt in Ukraine by Wavin. Sales fell dramatically the following year to a zero level during a period of six months and some of

Wavin's competitors left the market. However, later sales increased and today the situation of the company is stable again.

5.5.4 Future Development and Expansion

Going one step further and establishing production in Ukraine is not an issue for the near future since the market size and Wavin's sales are too small to motivate investments. Opening up manufacturing in the sense of taking advantage of cheap local labor has also not been an attractive alternative, since the local suppliers of raw materials do not live up to the quality standards that would be required by Wavin.

The basic belief is that the overall situation in Ukraine is going to improve with time, which will create a more friendly business environment. However, assuming that the political and economic situation in Ukraine remains the same as it is today and Wavin succeeds to raise the sales to such a level, which would motivate the establishment of production, then there is no other reason why production could not be started. Thus, investing in production is today fully imaginable. Again, the only factor slowing down the development is the size of sales. Today's sales are simply too small to give a pleasing return on investment.

It is possible that a decision to make an investment in Ukraine will be taken in the next few years. The size of the investment would, however, be relatively small and only concern a few product areas. Its purpose would be to minimize the costs of transportation and to decrease the risks that are associated with political decisions concerning customs duties and other factors that can harm the subsidiary's exports.

There is no uncertainty feeling connected to the idea of starting a manufacturing plant, since Wavin has created a strong know-how about the Ukrainian market. Furthermore, there is good preparedness among the employees. Hence, the question is just when Wavin will take the decision to invest. Investing too early would be throwing away money and a decision that was taken too late could hurt the company and its position on the market.

In the present situation the preferred type of investment in Ukraine would be making a green-field investment and building everything up from scratch. Establishing a joint venture, for example, is considered to be too risky due to various factors that make the counterparts less reliable. Widespread corruption and bribing is considered to be a big problem, which could put the foreign company in a dangerous position. Furthermore, cases where western partners are swindled are too numerous to create a safe picture about establishing a joint venture in Ukraine. Foreign investments in production involve large sums of capital and therefore exposing all this capital to high risk is out of the question. However, there are of course also reliable partners in Ukraine, unfortunately they are probably very few. Thus, finding a reliable partner is possible but difficult. There are a lot of Ukrainian firms who are out there looking for western investors, but they usually do not have the facilities and possibilities of being serious counterparts. Their factories and machines they possess are old to such an extent that it would be better to do a green-field investment form the very beginning.

5.6 Case New Holland Poland

The interview relating to CNH Poland was made on 28 October 2002 at the subsidiary head quarters in Płock together with Mr Zdzisław Kalinowski who is hired as an export specialist with responsibility for the Ukrainian market.

5.6.1 Introductory Company Overview

CNH Poland is a wholly owned subsidiary of CNH Global, which is part of the Fiat Group. Since only a few weeks ago the Polish subsidiary, which for several years was called Bizon, is going under the name CNH Poland. Bizon's history dates back to 1992 as the company was created after the restructuring of a state owned producer of agricultural machinery and then in 1998 sold to the present owner. Today, the subsidiary produces and sells mainly grain-harvesting combines as well as other agricultural equipment.

Just seven years ago Bizon employed 5000 people and had an output up to 6000 combines a year. As the transformations process of the Eastern European economies continued the demand on the company's products fell dramatically. Today, CNH Poland employs 680 persons and production is just a fraction of the amount that was produced in the earlier years. Worldwide CNH Global is a market leader. The company's largest and most famous competitor is John Deere. CNH Poland is today independently present mainly in Belarus, Ukraine and Russia in the sense that the subsidiary exports its products to these markets. Belarus and Ukraine are the most important export markets for CNH Poland where 600 and 300 combines have been sold respectively. In addition, CNH Poland has exported a few units to Armenia. The subsidiary's combines are also sold through other CNH units that are present worldwide. CNH Global has an additional European production plant of combines in Belgium.

5.6.2 Entry into Poland

In 1998, New Holland, as the company (CNH Global) was called in those days, acquired Bizon from Bank Handlowy in Warsaw S.A. Before this major decision was taken New Holland had been exporting combines to Poland, however, in very small quantities and through independent representatives. There was never a sales office opened before the acquisition. The motive why Bizon was acquired had to do with the fact that it was considered to be an experienced combine producer with qualified personnel and the company had a pleasing experience and presence in the Eastern European markets inclusive Poland, which are considered to be the future markets for agricultural machinery. Theses countries have very old machine parks that need to be changed. On the other hand, the western markets for combines are saturated and the sales that can be made are only replacement sales whereas the eastern markets are much more promising.

CNH Poland is today geographically the closest producing unit to the eastern markets within the CNH group. The company has also a certain amount of experience from doing business with these markets.

Today the Polish unit produces according to the strategy of the CNH group. This means that combines produced in Poland are mainly exported to western countries where other CNH units are present and creating sales i.e. the Polish unit produces mainly for the needs of other CNH units.

5.6.3 Entry into Ukraine

In the middle of the nineties Bizon created a strategy, which was aimed at expanding into the Eastern European markets. As a response to that Mr Kalinowski took part in a sequence of agricultural machinery demonstrations in Ukraine where the company's harvester was presented for potential clients. The marketing actions were successful and in 1998 Bizon exported 130 harvesters to Ukraine.

However, already in 1996 Bizon had started to cooperate with The Kovel Agricultural Machinery Plant in order to produce combines and to make a commitment on the Ukrainian market. The cooperation did not succeed and thus no Bizon products ever came out of the factory due to problems related to the relationship with the Ukrainian counterpart. The only function that was fulfilled by the counterpart was the distribution and sales of spare parts to Ukrainian customers as Bizon later started to export to Ukraine. Today, CNH intends to give up the commitment in the Kovel engagement.

In 1998 Bizon established a licensing agreement with the Malyshev Plant in Kharkiv to assemble combines from Polish components. According to the contract the Ukrainian plant was first supposed to produce a small amount and then gradually increase production. The Ukrainians were also expected to start manufacturing a certain percentage of the components that were going to be used in the production of the harvesters. A requirement from Bizon was that a certain level of quality had to be maintained, since it was considered to be important in the pursuit of a higher standard. However, the cooperation did not last long and did not work out as planned. Only a small amount was produced within the framework of the contract, which was terminated in 2000. The reason for the failure was that the Malyshev Plant did not fulfill the demanded standards and quality of production.

After the cooperation ended the Ukrainians continued to assemble independently and sell the Bizon combines according to the drawings and know-how they had got from their Polish counterpart. Of course, they had to sell them under another brand name, but the product was the same. The combines are sold by the Ukrainians until today, which creates a problem for CNH since the Ukrainian customers now have difficulties in differentiating among the real ones and the copies. Practically, CNH has to compete with its own products.

Why the Ukrainian counterpart failed to fulfill the requirements is not clear. It is assumed that they perhaps were not technically ready for more advanced production. Moreover, the Ukrainians mentality was perceived as very old fashioned, as a heritage from the communist era. They way of thinking in Ukraine is believed to be as it was during the days of the Soviet Union. People are not bound to their work and feel that they are not part of the company they are working for. Therefore, they do not put effort into their work and the results are poor.

Until today CNH Poland has sold altogether about 300 combines to Ukraine. Present day exports to Ukraine lie in the range of 10-30 combines a year. CNH Poland does not use official distributors nor does the unit have a sales subsidiary in the country, since it is not perceived as necessary at the amounts that are sold. However, there are a few companies that buy from CNH and afterwards sell the combines to other clients i.e. they work as sort of informal distributors. However, their sales are not particularly large. For CNH these companies are seen as ordinary clients among others. The sold machines are serviced by special groups that are sent to Ukraine.

CNH has from the very beginning had a policy of securing all its transactions within the Eastern European markets, while the financial condition of Ukrainian firms is considered to be weak and thus selling to them without having a guarantee of payment would be very risky. CNH Poland prefers to sell less with low risk than more with high risk. Therefore, a Ukrainian firm that wants to purchase combines from CNH Poland has to have a relation to a bank, which can guarantee a payment. This is a prerequisite due to the fact the CNH cooperates with the Export Credit Insurance Corporation in Poland, which poses this requirement, as it has to guarantee its own payment. A problem is that many potential buyers are not able to get a bank guarantee since they lack the assets that could cover such a back-up. Payment in advance is another option, however, not so common. A gentleman's word or handshake can by no means be accepted due to the insecurity of Ukrainian firms. Everything has to be financially secured.

5.6.4 Future Development and Expansion

CNH Poland has in general terms a positive outlook regarding the Ukrainian economy and the financial situation of the local firms. The subsidiary does not aim at conquering the whole Ukrainian market. They will be satisfied with a modest share by selling the amount the subsidiary is producing. A larger market share would require enormous investments in new production facilities.

CNH is in the future ready to try production/assembly again in Ukraine. However, the exported amount today is not considered to be large enough to motivate local production. Making a green field investment is out of the question since it would be too resource demanding. What could be imagined is working together with a Ukrainian counterpart, for example, through a joint venture. The subsidiary is ready for offers from serious companies that possess the right equipment, people and finances. The counterpart would also have to be properly analyzed for its ability to fulfill the requirements of CNH. The assembly would be based on parts that were partly produced by the Polish unit and partly by the Ukrainian plant, with the share of Ukrainian produced parts growing with time. The Ukrainian plant would also in the beginning only manufacture simpler units.

Generally speaking, the major barrier to production is that the Ukrainian firms that would be interested in cooperation are very eager to collaborate, but usually completely lack the capacity to do it and, in addition, are in a bad financial situation. There are numerous amounts of factories in Ukraine today that are looking for a foreign partner to start production with, nevertheless only a very few companies can offer acceptable conditions.

As the Polish unit is today part of the CNH group all decisions about future production abroad are connected to the group management and its strategies relating to production. Thus, the final word about establishing production in Ukraine in the future will be in the hands of the parent company. If the production would concern combine harvesters, then Polish representatives would most likely, in some way, coordinate the operations.

Ukraine is the fastest growing market out of all the former Soviet republics for CNH Poland and its combines. In the future, Ukraine is believed to grow fast and to become one of the largest markets and partners for the Polish CNH unit. One major barrier that limits the relations to Ukraine is corruption, which in fact is a huge problem in all the former Soviet republics. CNH in Poland has a policy of not taking part in any kind of informal agreement, which limits its business opportunities.

5.7 Prim S.A.

Two interviews were made at Prim's headquarters in Lublin on 4 November 2002. The first one with the company CEO Mr. Julian Rakoczy and a second one with an employee within marketing Mr. Jerzy Sawczak who dealt with Prim's entry into Ukraine from the very beginning.

5.7.1 Introductory Company Overview

Prim S.A. is a producer of pre-isolated pipe systems, which are used in the construction of warm water systems. The subsidiary employs about 90 people and has a turnover of about five million USD. Sales activities are driven across many European countries, mainly those that are closely situated to the east and west of Poland. Some sales have also been made to markets in Asia. In recent years exports to neighboring Eastern European countries have increased, most notably to Belarus and Kaliningrad (Russia). Profitability is pushed down by fierce competition from western competitors such as Alstom, a former ABB unit.

A major shareholder in the company is the Norwegian pipe producer Powerpipe Systems, which is mainly active on the Swedish market. At present Powerpipe owns 44 % of Prim's stocks. However, previously it was for several years the majority shareholder. The company employs 50 persons and has a turnover of about 150 million SEK. Its major market is Sweden. Other markets that are supplied are Norway, Finland, Russia, Holland and the Balkans.

5.7.2 Entry into Poland

In 1994, Powerpipe acquired a major share of 55 % of the total stocks in Prim. The main underlying motive behind Power Pipe's acquisition of Prim was that Prim was seen as well established in Poland and other Eastern European markets, which would allow the company to enter theses markets relatively quickly. Prim's presence on the Ukrainian market was a major factor contributing to Powerpipe's interest in acquiring the company. Furthermore, Prim as it was state-owned was looking for a strategic investor and this coincided with Powerpipe's intention to buy an Eastern European pipe manufacturer. During a short period the company raised its share to 60%. Today, Powerpipe controls 44 % of the stocks after several share issues have been made, which have decreased the company's ownership in Prim. Another major shareholder in Prim is Węglostal S.A with a present share of slightly over 48 %.

The cooperation between Power Pipe and its Polish subsidiary was in the beginning supposed to be based on two-way collaboration. The Poles were going to manufacture goods that were labor-intensive and deliver them to Power Pipe, whereas the Swedes were going to produce some type of pipes that the Polish unit did not make. However, these intentions remained largely unrealized since Powerpipe went into bankruptcy not long after Prim had been acquired. The company was later reactivated and today there exists only an intention to start cooperating again.

5.7.3 Entry into Ukraine

Prim started to export to Ukraine in the beginning of the nineties. At first, the exports were carried out by people from Prim's plant in Poland who traveled to Ukraine and installed the pipe systems that had been ordered by Ukrainian clients. The interest for the market grew out of both private and business contacts with Ukraine that resulted in business transactions. Many of the contacts were created at trade fairs in Ukraine. At this time, personal relations were of critical importance since public procurement did not exist and sales were therefore only made with those who personal relations had been built with. Thus, this was considered important due to the fact that the Ukrainian market for pre-isolated pipes was very large and growing. Generally, the good relations to Ukraine are believed to have risen from the proximity of Lublin to the Ukrainian boarder.

At a later stage the exporting activities were taken over by a Ukrainian firm based in Lviv, Energoresource, which was looking for a pipes producer whose products it could distribute and sell. In 1994, Prim established production in Ukraine as it was believed that the sales were large enough to motivate production. This was not long before the major share acquisition in Prim by Powerpipe. The new manufacturing unit was established as a joint venture with Energoresource. In the newly established joint venture and Prim's share of the total stocks was 30 %. The other major shareholder was the Lviv Physic-Mechanical Institute, which held a share of 50 %. The institute was believed to be a strong partner due to its sheer size with over 2000 scientists and its widespread contacts and know-how about the Ukrainian market. A key strength of the Physic-Mechanical Institute was that its contacts were mainly in the sphere of important former communist party members and military personnel. These people remained after the transformation had begun in important positions and thus the newly established venture possessed a huge advantage making things easier for it. For example, Energoresource started to win a lot of public procurement contracts.

By launching production in Ukraine Prim's objective was to decrease the costs and lower the price of pre-isolated pipes that were going to be sold to Ukrainian customers. The ambition was to offer even lower prices than ABB did, which was the only foreign pipe producer in Ukraine except for Prim. At the same time, Prim was supposed to continue exporting additional elements that were not going to be produced at the new plant. Also, at that time a general policy in Ukraine emerged, which advocated that buying from domestic producers was better for the country and should therefore be promoted. This was seen as a chance for Prim. Moreover, in relation to other CIS-markets producing in Ukraine had the advantage that it was easy to convert profits to the desirable currency and to transfer them from a Ukrainian subsidiary to Poland.

Prim contributed by bringing in technological know-how and machines that were later used in the production. The unit developed fast and became the largest producer of pre-isolated pipes in the whole Ukraine. During this time an effort was made to enable Power Pipe in Sweden to export certain products to Ukraine that were not produced by Prim or the local plant. It all came to a turning point as Powerpipe went into bankruptcy. During this time more problems started to occur. One of the major problems was that the customs duties on the products that were exported by Prim to Energoresource were suddenly raised dramatically. The management of the joint venture, which was mainly Ukrainian, had noted that the newly established company had expanded its sales very fast and decided therefore to block the Polish exports with the help of their contacts in Ukrainian ministries and thus make the Ukrainian plant more independent. The result was that Prim's exports of certain goods were not profitable anymore. Gradually, Energoresource started to produce the product categories that had fallen out as a result of the blocking of the Polish exports.

Finally, the joint venture was believed to be on the verge of bankruptcy. Thus, due to a weak Ukrainian economy and low profitability at the Lviv plant a decision was taken in 2002 to sell Prim's share. Today, the plant in Ukraine is fully independent and produces a full product range for pre-isolated pipe systems. What has remained is relatively small cooperation on an export-import basis. Prim imports some goods from Energoresource, but also exports some to its counterpart. The company has no Ukrainian clients that it sells its products to directly.

The main problem during Prim’s expansion into Ukraine was that the Ukrainian clients were very eager to buy, but less interested in paying. Thus, one of the main reasons why Prim started to work with Energoresource was that they had certain connections to different ministries, which allowed them to guarantee payment form Ukrainian clients in an unofficial way that created motivation to pay. Guaranteeing payment was in Ukraine perceived to be more difficult than, for example, in Belarus where all purchases were always centralized and which meant that there was always somebody who was responsible on a higher level who the company could turn to. In Ukraine there was simply nobody to turn to and to hold responsible. Therefore, Prim also demanded that Ukrainian customers in some cases had to pay in advance.

5.7.4 Future Development and Expansion

The Ukrainian market is seen as a future market for the type of products that are sold by Prim. Today, the pre-isolated pipes market is large, about 80 % of the Polish. However, the growth of the market is non-existent because the state does not prioritize projects that would create market opportunities for a new type of pipes that Prim produces and sells today. Furthermore, many companies who would have been clients have gone into bankruptcy. However, in the future when the Ukrainian economy really starts to develop and grow the market potential is expected to become enormous. Therefore, investing in Ukraine is an attractive option for the future.

Prim aims at re-entering the Ukrainian market. However, the future expansion that is going to be made will be in close cooperation with Powerpipe. A general trend that can be seen is that the market for pre-isolated pipes in Ukraine is actually declining. Thus, the foreign pipe producers that are present in Ukraine have started to close their offices and decided to deal only with direct exporting to existing clients. Due to this development Prim has in the near future no intention other than exporting directly to the customers.

Today, Prim produces certain types of pipes that are yet not existent on the Ukrainian market. These products are newly developed and therefore Energoresource does not possess the capacity to develop similar products. The problem is that the Ukrainian market is not mature enough and does therefore not demand these kind of products yet.

Making a green-field investment in Ukraine is in the case of Prim not possible, since the company does not possess enough capital, which would be required for such an undertaking. However, even if there would be a chance to finance a large investment it would imply a very high risk. It is believed that there is no state guarantee in the sense of a legal system that can secure the investment. The political situation might suddenly change and the new government might decide to take over and nationalize an already made investment.

Therefore, as long as there is no secure legal system and stable political system, Prim would not make any green-field investment even if the company would have the required financial sources. Not even strong personal contacts with important politicians are believed to create long-term security for a foreign company. A person who is a minister today might tomorrow not be in the same important situation anymore.

6 WITHIN-CASE ANALYSIS

The within-case analysis aims at making an independent analysis of each case study. This implies that the case findings are categorized according to and compared with the utilized theories. Furthermore, this section includes some comments on certain aspects of interest. It should also be seen as a part explanation to the posed study questions.

6.1 Can-Pack

Can-Pack was established rapidly on the Polish market as high commitment manufacturing was launched followed by the opening up of additional production plants. Poland became the first European market that was entered by the parent company, F&P Holding. The main reasons for the entry were the lucrative market with its future potential and the fact that Poland was considered to be a stable market in the region. Hence, two types of location-specific advantages were fulfilled, market and political conditions, which motivated starting production. Since sales were initially only meant for the Polish market the company pursued a market-oriented strategy.

Even if Can-Pack initially did not have any concrete plans for entering new markets the subsidiary started to grow interest for the Ukrainian market and its clients after it had operated a few years in Poland. Thus, market size and growth opportunities were the main initial sparks that started the subsidiary's entry into Ukraine. Furthermore, geographical proximity was considered to be an important factor that fueled market entry. Since Can-Pack was the only unit of F&P Holding operating in Europe the responsibility for all regional markets was Can-Pack's.

According to the reviewed literature companies that enter Eastern European markets and especially the CIS-markets generally use low commitment modes in order to minimize the high risk of operating on these markets. Furthermore, there should follow a sequence of operation modes with growing commitment. In the case of Can-Pack this is a very obvious pattern. As the company first started doing business in Ukraine it was simply through sporadic exports. At a later stage a sales subsidiary was opened and finally a joint venture manufacturing unit was established.

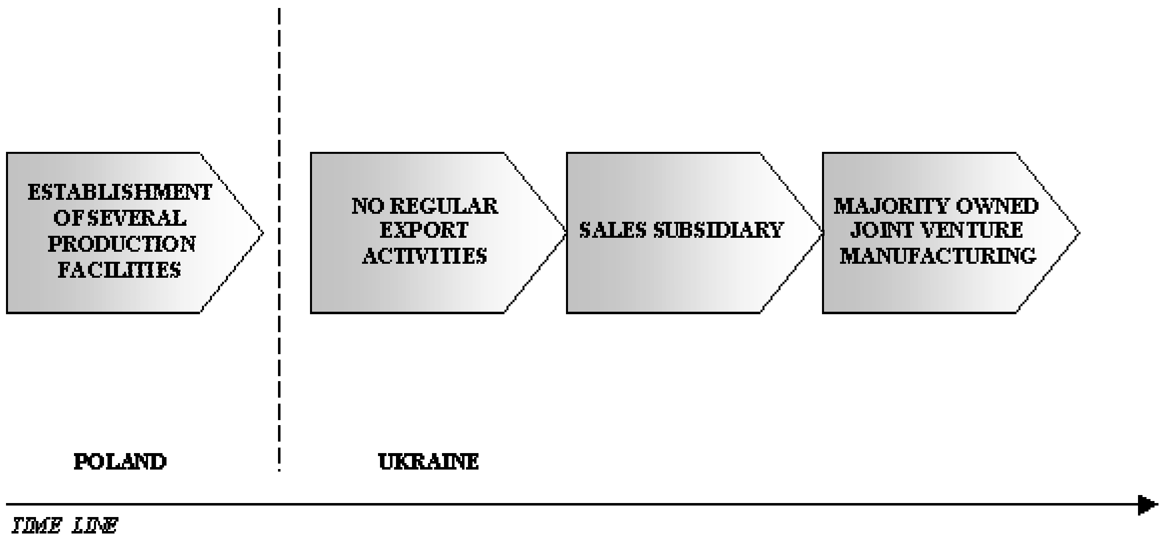

Figure 5 - Operation Modes used by Can-Pack as Entering Ukraine

One factor that slowed down this process was the weak financial situation of the Ukrainian customers who generally prefer lower priced good, which is a segment that Can-Pack does not supply. Therefore, low purchasing power and a weak overall economy can be seen as reasons for the emergence of a whole chain of modes. Moreover, another factor that can be related to the slow process is the uncertainty connected to Ukrainian clients. Since the company could not trust them due to the perceived market situation derived from own research and general market as well as relationship knowledge, it limited their customer base as Can-Pack drove a hard line of securing all sales either by requiring payment in advance or bank guarantees.

Low commitment in the case of Can-Pack becomes apparent when looking at the final operations step. First of all, production was established by creating a joint venture in order to avoid risks associated with the market's hostility to foreign companies, which could have resulted in poor sales. Second, Can-Pack's investment was intended for the production of only one product category and thus the investment was relatively small in size. Ukraine is by the company considered to be an unstable and unpredictable market.

As already touched upon Can-Pack's exports were the result of the company's pursuit of new sales opportunities. As sales grew and the Ukrainian market became more important it was realized that establishing a sales subsidiary would allow the company to control its sales better and increase its presence on the market. Production in co-operation with a counterpart was going to function as a mental bridge to the Ukrainian customers in order to make sales possible. This shows an example of how the market was perceived and how Can-Pack tried to overcome a market barrier associated with ongoing behavioral change by taking advantage of a relationship with a locally established actor, which is common in Eastern Europe according to existing research.

From Can-Packs point of view the major obstacles to further market commitment arise from a weak economy, which holds financially weak customers that limit the size of the market for certain goods and customers that are insecure to the extent that doing business with them means high risk taking. Furthermore, Ukraine is seen as an unpredictable market, which makes the subsidiary aversive towards increasing its market commitment. These findings are in line with previously done research on the business environment in Eastern Europe in the sense that they support the concept of the effects that the transition environment has on foreign companies.

6.2 Delphi Poland

After the Polish market had been supplied by exports for a certain time Delphi made a series of serious commitments as it acquired several factories in the country in an effort to make Poland into a production center for the group on the basis of cheap labor. Since the unit's objective was to supply not only the Polish market Delphi's production strategy could be labeled as supply-based and cost-oriented. The two main reasons why the company started its expansion in Poland were, first, the market opportunities that were attractive due to the existence of several automobile producers. Second, the country was considered to have a lower operating risk than other markets in the region. Therefore, the main location-specific advantages can be referred to as the market and political situation.

The explanation behind Delphi Poland's entry into Ukraine is probably somewhat uncommon. As a result of taking over the activities in Ukraine the Polish subsidiary became fully responsible for the aftermarket activities in the country. In other words, this means that the takeover of the responsibility for Ukraine from Delphi Russia was the main reason for the Polish unit's expansion into Ukraine. Today, the responsibility stretches to all neighboring countries east of Poland.

Since Delphi Poland probably still is in an early phase of expansion into Ukraine no chain of operation modes can be distinguished. However, it can be said that the Polish subsidiary has started its way into the Ukraine in a cautious way. The operation modes that are used in order to reach the market can be seen as low commitment alternatives since the subsidiary practically exposes itself to very little risk by not deploying many resources to the market in the sense that Delphi Poland uses both independent domestic and Ukrainian distributors.

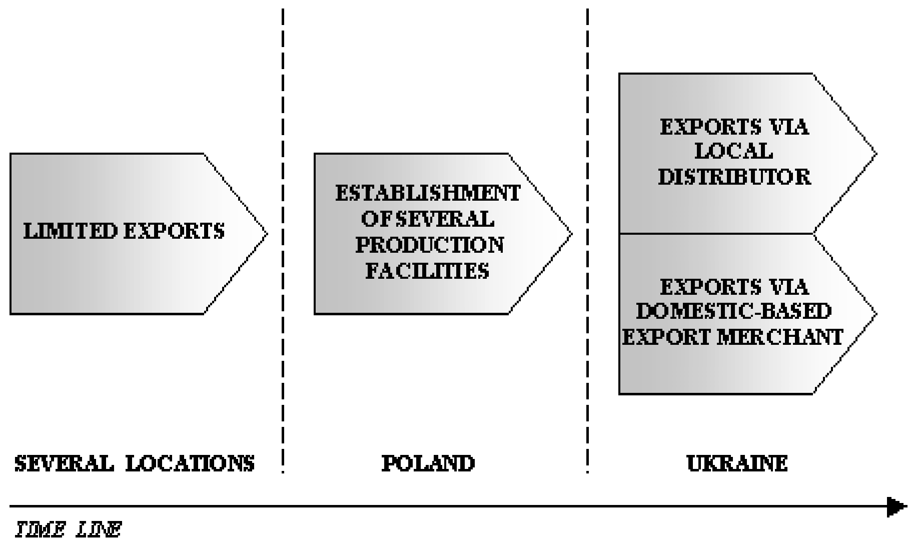

Figure 6 - Operation Modes used by Delphi Poland as Entering Ukraine

What motivated the use of such distributors is basically the high perceived risk associated with operating on the Ukrainian market in comparison to the returns an investment would give. This has made Delphi Poland highly cautious with respect to its commitments and costs of being present on the market. In addition, bad experiences from the Russian crisis have made the company rethink its approach to transition markets.

Working with only one Ukrainian distributor is seen as advantageous due to the fact that it is thought to be easy to work with only one counterpart. The Ukrainian distributor is large in size and manages the distribution according to the Polish subsidiary's expectations. Furthermore, since the distributor has long experience of handling cross-border trade and its specifics that can be related to the effects of transition such as corruption, it would therefore be difficult to take over the tasks. Hence, this is a typical case of using relationships in transition economies as a way of handling the lack of effective institutional regulation. Thus, the case of Delphi Poland illustrates very clearly a rather common occurrence in Eastern Europe. Here it emerges as a barrier to further commitment.

The cooperation with the two Polish-based export merchants started simply as the company acquired a factory and thus created relationships with two firms that were distributing the factory's merchandise to Ukraine. Thus, there was probably no reason not to continue working with them.

Two major barriers to further commitment exist in the case of Delphi Poland. First, the perceived risk on the market is too high and does therefore not justify any major investment. Second, the overall market is too small to make it attractive. If in the future no automobile manufacturer enters the market it is unlikely that the company will make any investment in Ukraine seen from a market-oriented perspective. On the other hand, investing in order to make use of cheap labor is possible.

6.3 Esselte Poland

Esselte's development in Poland has been highly dynamic. From operating a small-scale production plant in the early nineties the subsidiary has expanded its activities enormously. Today Poland houses Esselte's European production center. Due to this and the fact that Esselte's initial investment concerned production that was aimed at the Swedish market it can be said that the company from the beginning principally has followed a supply and cost-oriented production strategy. Since a major reason for the company's entry into

Poland was labor cost the location-specific advantage could be defined as lower production costs. However, later as sales began to develop in Poland it could be said that Esselte's production became also market-oriented.

Esselte Poland's entry into Ukraine can actually be divided up in two phases. The first one would concern the subsidiary's early nineties business as goods were transferred from Poland to Ukraine by the unit's Polish-based distributors that had found customers in the country. This could be said to be an unofficial entry. The second phase of entry emerged as the Polish unit was given responsibility for the Ukrainian and Belorussian market. Now the Polish subsidiary could engage in official business activities with the two countries.

Even tough Esselte Poland still is in a relatively early phase of expansion into Ukraine, as the subsidiary has been officially supplying the market for about four years, a chain of operation modes and gradually increasing but low commitment can already be distinguished. The subsidiary has so far only used an increasing amount of independent actors to reach the market. It seems that instead of going a step further and establishing physical presence in Ukraine Esselte Poland has expanded its activities in a sort of horizontal manner by developing sales through adding distributors. This can be considered as less resource demanding and therefore also as less risky.

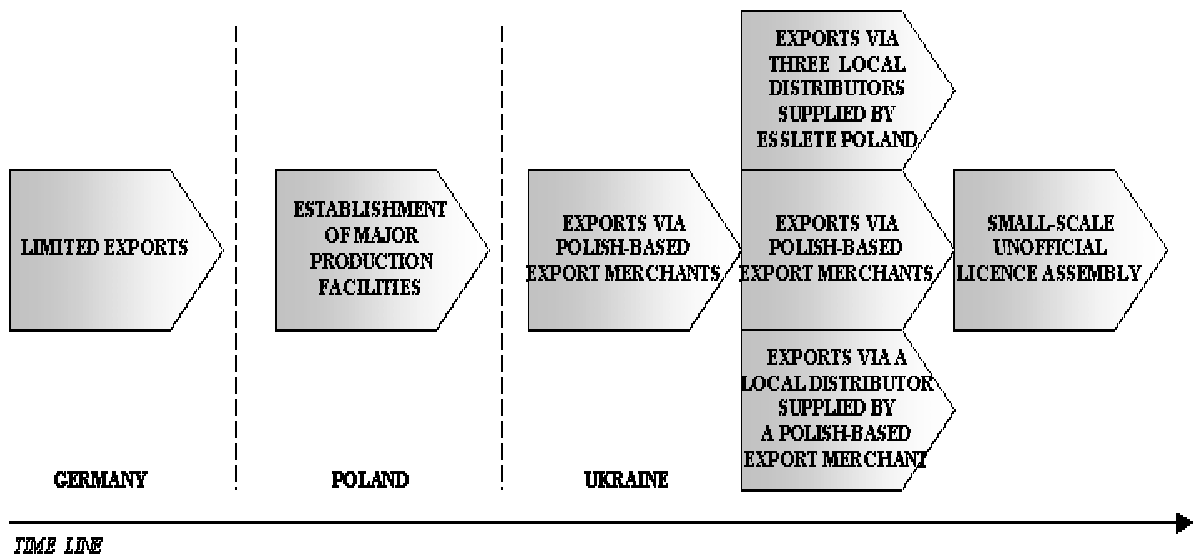

Figure 7 - Operation Modes used by Esselte Poland as Entering Ukraine

The Ukrainian expansion seems to be at least partly out of control for the subsidiary since there are so many independent parties that are dealing with the market. Due to this it is not exactly known how much is sold to the market, a figure that is crucial in the internationalization context. The company is also troubled by the fact that there is no reliable statistical source, which could confirm market Ukrainian market size.

An additional sign of the risk aversion towards the Ukrainian market is demonstrated by the modest assembly operations that have been established in cooperation with one of the official Ukrainian distributors. These projects have probably only been possible due to the fact that no financial risk is associated with them.

The explanation why the Polish subsidiary has used only low commitment operation modes can mainly be referred to the perception of Ukraine being a high-risk and uncertain market environment as also experienced by Esselte France. However, Esselte Poland works also with Polish-based distributors that account for a significant share of the exports to Ukraine. Since these distributors are Polish companies they most certainly offer the subsidiary a less risky form of dealing with Ukraine at least in the eyes of Esselte. Thus, these relationships are used to overcome the insecurities associated with dealing on the Ukrainian market as well as with Ukrainian counterparts.

As Esselte aims to continue increasing its distributor base one of the main barriers will be to establish new relationships due to the intricate firm landscape in Ukraine. Furthermore, since the legal system is perceived to be weak and Ukrainian firms unreliable to deal with, establishing new relationships is expected to be difficult. However, Esselte Poland counts on rising sales additionally with the subsidiary's new commitment in hiring traveling export sales representatives.

6.4 Sapa Poland

Preceded by limited exports from the parent company to Poland Sapa established the company's first and until today only production site in Eastern

Europe on Polish soil. The main reason and the determining location-specific advantage for this establishment was the growing and attractive market for Sapa's products. As the production facilities in the beginning were aimed at Polish customers only this type of production in those days could be classified as market-oriented.

A turning point in the Polish subsidiary's operations came in the later half of the nineties as Sapa Poland started to respond to incoming foreign inquiries and as an export department was initiated. Among these inquiries there were Ukrainian firms that were interested in Sapa's manufactures. Thus, the initial reason for entry into Ukraine came as a response to interest shown by Ukrainian counterparts. Today the Polish subsidiary is responsible for and exports to almost the whole Eastern European region.

The subsidiary has barely begun its Ukrainian expansion. Therefore, no chain of operation modes can be distinguished, at least not yet. But, what can be seen is that the subsidiary's approach towards Ukrainian customers is cautious. Thus, commitment towards them is limited. No sales credits are given to them since own observations and experiences from Eastern European markets have shown that regional counterparts very often prove to be insecure and difficult to build relationships with. In other words, dealing with Ukrainian firms is related to high risk, which is avoided as far as possible.

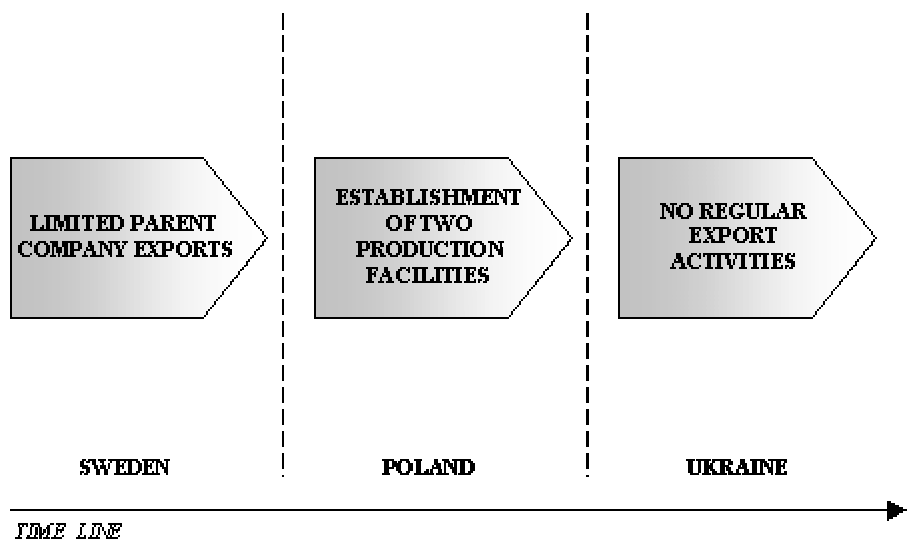

Figure 8 - Operation Modes used by Sapa Poland as Entering Ukraine

An advantage that comes with having the clients take care of the exports to Ukraine instead of doing it independently is that Sapa does not have to deal with the complicated procedures occurring in connection with the boarder controls that are associated with corruption. Thus, the company takes advantage of the Ukrainian firms to get into the market, as they are probably more experienced with such conduct. In this way Sapa can manage the fragile transition environment through its short-term relationships. Moreover, dealing with Ukraine on an export basis allows the Polish subsidiary to make sales without having to be present on the market and exposing company capital to risk, which is believed to emerge from political and economic instability.

At this stage the major barrier concerning deepening the entry is related to the creation of long-term relationships with customers, which is not an easy task since the Ukrainian business environment is highly unstable due to the insufficiencies of institutional control. There is no intention of using independent agents due to the fact that previous experience from other transition countries, which was negative and costly. As long as Ukraine will not be prioritized and only given secondary attention further expansion will probably remain limited.

6.5 Wawin-Metalplast-Buk

Wavin established production in Poland without any preceding operations on the market. The majority owned manufacturing facility that was acquired became the company’s first production engagement in all of Eastern Europe. Since Wavin focused on the Polish market from the very beginning the company was pursuing a market-oriented production strategy. Two location-specific advantages, market and political situation were of crucial matter when the decision was taken to establish production in Poland.

Wavin Poland made its first sales to Ukrainian customers as they arrived at the Polish factory wanting to buy plastic pipes. Thus, the initiatives were taken by the Ukrainian counterparts and not Wavin. Today Wavin Poland has got responsibility for the Ukrainian as well as the Czech market.

Starting with no regular exporting, opening up a representation office and establishing a Ukrainian sales subsidiary makes Wavin Poland an excellent example of gradual firm internationalization according to the Uppsala-model. Hence, these findings also coincide with the proposed sequence of market entry in Eastern Europe. This pattern is believed to have emerged, first, from the subsidiary's unexpected entry into the country and, second, from the perceived high risk of doing business in Ukraine. As further commitment has been made by the Polish subsidiary a solid learning process has been connected to the decision-making.

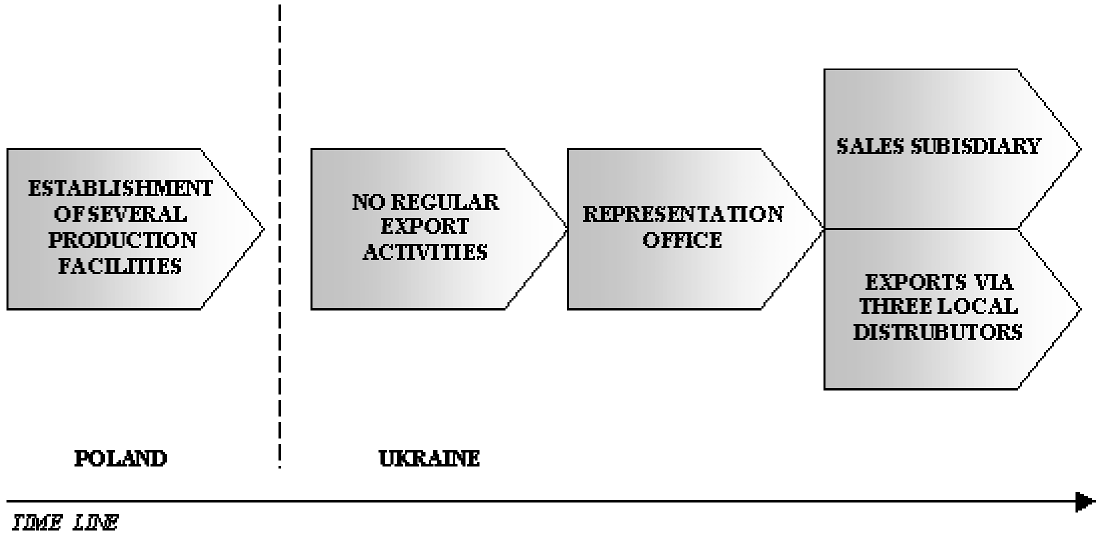

Figure 9 - Operation Modes used by Wavin Poland as Entering Ukraine

Low commitment becomes clear in the sense that Wavin Poland has only hired a small sales force, which is supported by much larger and more important local distributors. Furthermore, the subsidiary had not carried out any kind of marketing activities towards Ukrainian customers before it started to export. Thus, it could be said that even if Wavin has come relatively far in its entry process the approach towards Ukraine has been rather gradual and risk-avoiding.

Each step in the sequence of operating modes that have been used can be related to inadequacies caused by the transition process. First, the opening up of a representation office had as purpose to overcome the lack of reliable financial institutions that could verify customers' economic conditions. On the other hand, launching a sales subsidiary helped Wavin to reach those customers that did not want to buy large quantities of goods. This can be referred to the fact that the Ukrainian economy is still small and the purchasing power among firms as well as individuals is low.

In addition the case of Wavin shows preference towards the use of multiple actors when it comes to the establishment of sales in Ukraine. Instead of increasing the subsidiary's own local sales force, independent local distributors are used intensely to cover the market. This is seen as a part of Wavin's attempt to reduce risk in an insecure environment.

A major problem that affects Wavin's operations in Ukraine is the changing legal framework, which blurs the regulations and procedures in cross-boarder trade. Since Wavin only exports and has no production in Ukraine this is the subsidiary's weak point. This is also seen as a threat that could trigger the establishment of production in Ukraine.

Another barrier to further commitment or threat concerns the insecurity of dealing with Ukrainian firms. Again, the underlying problem can be derived from an instable legal framework. Wavin Poland has no agreements with its distributors, since such documents are considered worthless. Naturally, this increases the risk level related to the Ukrainian market. Moreover, because Ukrainian firms are generally speaking economically and structurally weak as well as perceived as unreliable it hinders Wavin from establishing long-term relationships with them. Thus, engaging, for example, in joint venture manufacturing is not even considered as an alternative. However, Wavin Poland will probably at some point in time establish production in Ukraine. It is a question of time and future market size that has to motivate such a commitment.

6.6 CNH Poland

CNH Poland represents a slightly different and more complicated version of the process of internationalization through subsidiaries in Eastern Europe due to the fact that the subsidiary previously was an independent firm, which after a certain degree of internationalization was acquired. In order to take advantage of all case data both the pre- and post-acquisition phases are taken into account in this analysis.

Before CNH Global took the step to acquire an Eastern European producer of grain harvesters the company had exported harvesters to Poland to a certain extent. Through the acquisition the company took over large production facilities in Poland and became engaged in production in Ukraine. The main location-specific advantages of starting production in Poland were market potential not only of Poland but also other Eastern European countries as well as valued human resources at the acquired factory. Since the acquisition was aimed at conquering several markets in addition to the Polish the production strategy can be defined as supply and cost-oriented.

It is clear from the figure below that it does not represent a chain of operation modes with increasing levels of commitment that would resemble the establishment chain. The pre-acquisition actor tried to establish itself on the Ukrainian market by launching production from the very first beginning. Even a second attempt was made, which also failed. However, a commonality is that all the steps that were taken were of low commitment character. This might also to some extent explain the sequence of modes used. Since the attempts to start production did not involve large resource commitments it seems that they were only put up for trial; as if the company wanted to test if it was possible to enter the market in a rapid way without taking significant risks. Thus, basically there still exists a chance that a chain of operation modes with increasing levels of commitment will appear.

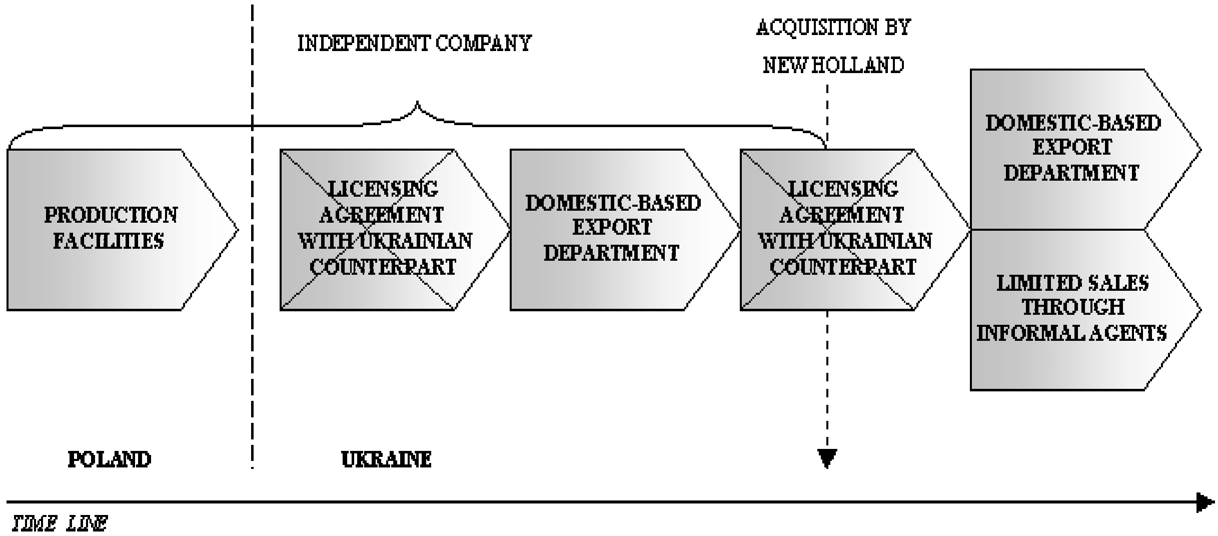

Figure 10 - Operation Modes used by CNH Poland as Entering Ukraine

The case also reveals an interesting finding concerning the distribution of goods in Ukraine. Apart from CNH's own domestic based export department there are also a few informal distributors that develop the Polish subsidiary's sales, although this is done to a limited extent. These relationships are not the result of a cautious strategy but from customers' attempts to sell CNH's combines.

Today CNH is back to step one as the subsidiary's only engagement with the Ukrainian market is through exporting. Since sales are still relatively small there has been no incentive to search even for an independent distributor.

Interpreting the case of CNH it is obvious that the major barrier to entry can be related to the creation of relationships with Ukrainian-based counterparts. This concerns basically the pre-acquisition phase. The findings show that none of the intended long-term co-operations succeeded due to shortcomings by the Ukrainian partners. The main problems were related to the lack of technical as well as mental preparedness to engage in serious cooperation. These weaknesses can most certainly be related to the economic and behavioral changes that have been created by the transition process.

As CNH Poland has limited amounts of capital to its disposal making larger investments is not an alternative. Thus, the subsidiary needs to establish a partnership in Ukraine if it intends to start producing locally. Hence, a difficult task waits in finding a reliable partner.

A further barrier has emerged from a weak legal system, which has had its effects on the protection of intellectual property rights. As a result of the earlier co-operations CNH's combines are today being sold on the Ukrainian market under another brand name. This will cause problems for the subsidiary when it will make an effort to gain a larger market share.

6.7 Prim

The case of Prim is also an illustration of an independent Polish company, which is acquired and thus becomes a subsidiary of a MNC. Powerpipe's decision to acquire a major share in Prim and thus engage in production activities was mainly based on the location-specific advantage market potential, which concerned Poland and other Eastern European countries inclusive of Ukraine. Since the output from the overtaken factories was going to be sold to several markets it should be considered as supply and cost-oriented. In the pre-acquisition phase as the still independent company entered Ukraine the main reason were the contacts that had been established with Ukrainian companies.

The underlying reason for Prim's first entry into Ukraine is based on the proactive approach the company had towards the market, as it was taking part in trade fairs. These operations resulted in new customer relationships that became the bridge to the market.

Looking at the sequence of entry modes that have been used by Prim in the establishment process as illustrated below, it becomes obvious that the subsidiary has approached the Ukrainian market step by step with growing resource commitment to the undertaking. At first, Prim started with ordinary exporting from the home base. This was followed by the creation of a contact with a Ukrainian company that became the local distributor. Later the relationship was extended and the distributor became a partner in joint venture production. However, a setback in the relation to the Ukrainian counterpart forced Prim to terminate the joint venture and step down its activities in the country. Thus, today the two companies have only a limited relationship and Prim is back to an exporting level of commitment. This cautious approach can be explained by two causes. First, Prim is capitally weak meaning that there is no room for rapid and risky commitments. Second, the Ukrainian market is perceived as a highly risky business environment since the political and the legal system are believed to be too insecure and unstable to create an investment friendly climate.

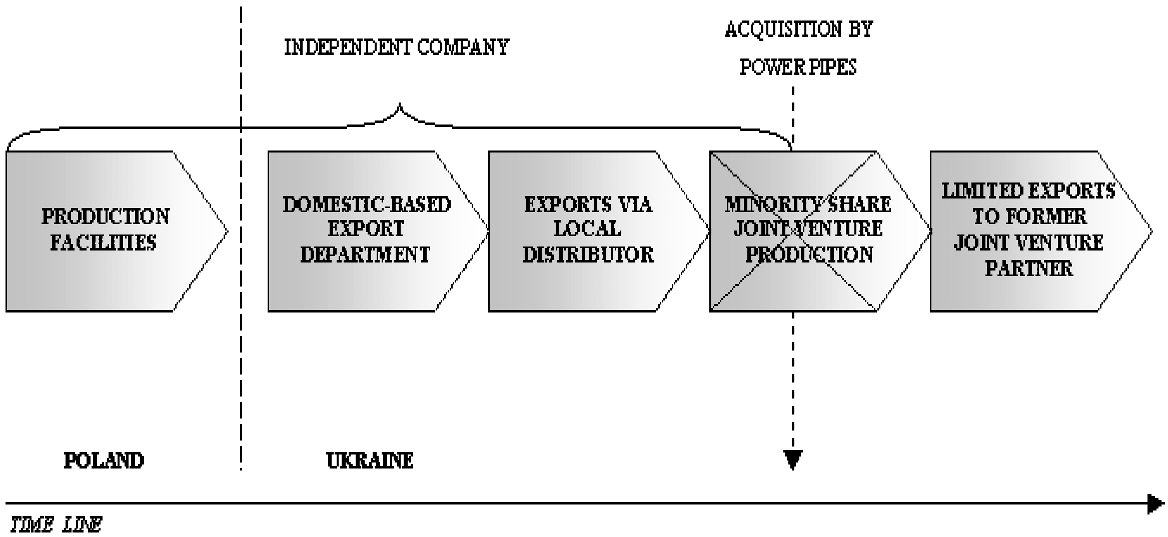

Figure 11 - Operation Modes used by Prim as Entering Ukraine

The employed operation modes are characterized by low commitment, which is normally the case when companies enter CIS-markets. As exporter, Prim never created its own sales subsidiary nor distribution channels. Instead a local actor's resources were used in order to make sales. Most notable as regards low commitment is the fact that Prim engaged itself in joint venture production when deciding to start production in Ukraine. This also concerned only a minority stake.

In the case of Prim the choice of operation mode has depended highly on the fact that the company has sought relationships with counterparts who have been able to support the company in the insecure transition environment and minimize the company's need to make any commitment to the market in order to avoid risk. A good example of the first is when Prim teamed up with Energoresource to take advantage of the network of relationships it had with authorities in order to secure payments.

A major obstacle for a company such as Prim when establishing itself on new markets by developing and relying wholly on relationships with local firms is that the company becomes completely dependent on the counterparts it works with. Especially in a market environment such as a transition market, which is very unstable, relying on other firms is hazardous. Thus, the main problem for Prim is and seems to have been the creation of secure relationships with counterparts. The same relationship that helped the company to expand in Ukraine became its main threat and was the cause of its setback.

The lack of capital or resources is a factor that more or less forces Prim to continue building its presence in Ukraine on relationships with local distributors and other counterparts. Therefore, making green field investments is not an option. Even if the company had the possibility the business environment in terms of the political and legal situation is considered too risky.

7 CROSS-CASE ANALYSIS

The cross-case analysis aims at bringing up commonalities and differences of the individual case analyses as a means of making it possible to draw conclusions across cases and thus answer the questions that were posed in the introduction of this study in more a general character. The analysis is divided into the three stated research questions in order to provide a more thorough and structured analysis. Generalizing to theory and previous finding is also carried out here.

I. How and with what intentions was the initial market entry into Poland made?

A commonality for all the investigated companies is that they entered Poland *relatively rapidly* by establishing *high commitment* production facilities without following a long sequence of operation modes. The majority of the initial commitments involved *high capital investment* and therefore all of the groups except for Powerpipe can be found among the *300 largest investors* in Poland until 2002 (Polish Agency for Foreign Investment, 2002).

All cases show that the establishment of production in Poland was of special character, since it put Poland in the *center of the groups' activities* in Eastern Europe. First, Poland was in some cases either the group's *first market* or *only production facility* in the Eastern European region or even on a broader geographical scale. Second, some cases showed that the Polish operations very early emerged as a group *regional* or *global production center* of a large product scope or single category as defined by the respondents.

The two cases of Delphi and Esselte reveal that even if Poland initially was not meant to be the main market for the output produced by the Polish unit the importance of the Polish market grew rapidly as the company was present in the country. Still, the majority of the companies that entered Poland and went on to Ukraine came at first place because of a large and attractive internal Polish market. Therefore, it could be said that the case study companies were in the beginning of their operations in Poland mainly *market-oriented* when it comes to their production. However, later as the foreign-owned Polish-based subsidiaries started to internationalize, among all to the CEE and CIS markets, their production-orientation became more *supply and cost-based*.

Two cases showed that *political stability* compared to other Eastern European countries was, in addition to market attractiveness, a major reason for entering the Polish market. Only the case of Esselte points at *production cost* as the main explanation. However as stated, the Polish market became or was important as an output market for all the companies that at a later stage entered Ukraine.

II. How and why does a foreign-owned subsidiary in Poland establish and develop a market position in additional transition markets?

There is *no common* explanation why the subsidiaries of the foreign-owned firms became internationalized and what explains the subsidiaries presence in Ukraine. This study has shown a variety of alternatives to such initial market entry.

First, one subsidiary was *proactive* in the sense that it opened its eyes for the neighboring country market and started to look for customers after having operated on the Polish market for several years.

A second explanation is that subsidiaries have *responded to inquiries* from Ukrainian firms and thus have been *pulled* into the market without having any plans of entry.

Third, there have been subsidiaries that have taken on a new *responsibility role* as suppliers to a market. The explanation behind this outcome proved to be that the Polish subsidiary had created a large production center where a broad range of products were produced in geographical closeness to the Ukrainian market, which allowed lower transportation costs. A distinction has to be made between this form of entry and the situation when a subsidiary gets the responsibility for a market that it already has been supplying.

A fourth explanation can be referred to the relationships that have been built with *counterparts within networks of the subsidiary's country of origin*, Poland. As the case of Esselte Poland shows, the subsidiary initially entered Ukraine through its Polish-based distributors that had established customer relationships there.

A final explanation to why a subsidiary became internationalized is shown by two cases were a MNC *acquired* a formerly independent Polish company that had expanded its activities into Ukraine. Hence, the firm became an internationalized subsidiary of a large corporation.

The majority of these explanations can be well understood if related to existing theory about network internationalization or the Uppsala-model. Most initial market entries have, however, emerged from various sorts of new network relationships with various counterparts, both subsidiary internal and external. However, some of them represent occurrences that are not typical to firm internationalization at least in the more generally accepted internationalization models.

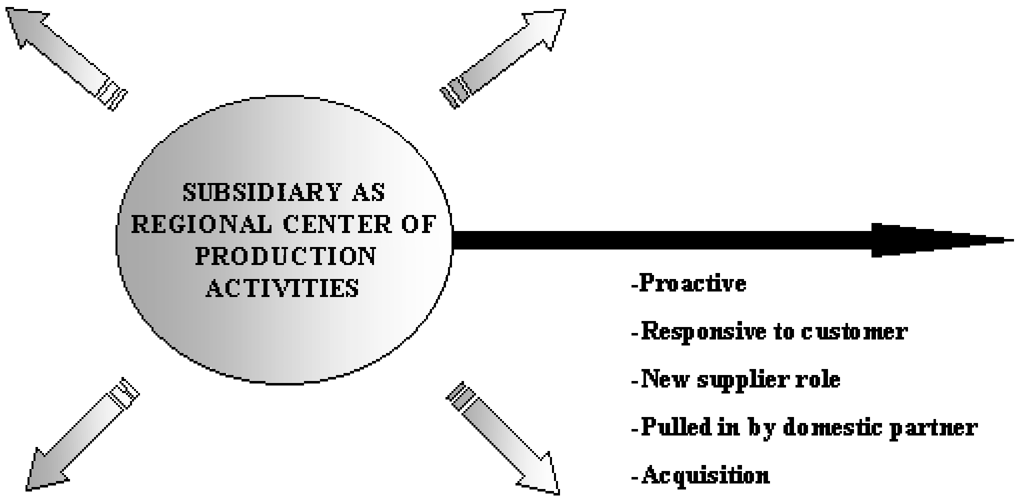

Figure 12 – Foreign-Owned Subsidiary Market Entry Explanations

How the foreign-owned subsidiaries internationalize was in this thesis initially tackled with the propositions that they would do it in a *gradual step-by-step process* and through the use of *low commitment modes*. Furthermore, it was expected that the subsidiaries would *take advantage of relationships* with local Ukrainian actors, which is a common phenomenon especially in the CIS markets.

The empirical findings and each individual case analysis have shown that all the propositions, that were based on previous findings of Eastern European business and market entry corresponded with them. All the cases reported first of all that *low commitment* was a general character of the employed operation modes.

Gradual commitment was also seen in all cases except for in the case of CNH Poland, where the expansion into Ukraine at that time of an independent Polish company was initiated by establishing a licensing agreement with a Ukrainian counterpart. However, since the Polish company became a foreign-owned subsidiary first after the contractual agreement had been signed, this case and the one of Prim have to be given special consideration.

There are a whole lot of factors that lead to low and gradual commitment in the operations of the investigated subsidiaries. The author believes that this is especially true to the investigated actors simply due to these *being subsidiaries* and the *implications* this has on an economic actors operations. Thus, there should be a qualitative difference in how a subsidiary and an individual firm enters a market. Several cases revealed that because of a *lack of resources* as being a subsidiary there is not even a possibility of making any larger engagements or rapid expansions. One case showed how the parent company assisted the subsidiary in establishing a foreign investment by supporting the financing and thus allowing it to continue its expansion.

Furthermore, it was noted that since the Polish subsidiaries' manufacturing facilities had *grown large* and *handled the supplies* satisfactorily there was no point in making any further investment or commitment in the region. Thus, it is in those cases considered to be enough with being present on the market through different modes of exports. This was emphasized by the fact that all the Polish-based subsidiaries exported or dealt with *several markets* other than Ukraine, including western markets. Since Ukraine was not always considered to be a *priority market* little resources were deployed to it. Here a case when a subsidiary is pulled into the market without being ready for such operations can be considered as a good example.

Otherwise the major reason why the subsidiaries have operated in a gradual manner and low commitment modes is the *high risk* that is associated with Ukraine. All investigated subsidiaries perceived Ukraine as a high-risk market in one way or the other.

First of all, most of the subsidiaries perceived the Ukrainian *political, legal* and *economic* situation as untenable. Since the political and legal scenery is constantly changing it is not known what will happen. Therefore many of the subsidiaries reported that for them it is impossible to predict the future and thus the risk level. Naturally, if the risk level is unknown it must be perceived as very high. Several cases revealed that economic uncertainty had risen from the devastating consequences of the Russian crisis, which made the subsidiaries reflect over their commitments.

Two other explanations related to high risk as well as low and gradual commitment arises from *institutional inadequacies* and *firm behavioral factors*. Experienced problems of corruption at the Polish-Ukrainian border are the result of corrupt customs officials and police force that have become institutional victims of the transition. Furthermore, Ukrainian firms have shown to behave in an unpredictable way by being reluctant to pay for purchases or by trying to double-cross their foreign partners. These are situations that are the outcome of conflicting interests and demonstrated the pursuit of short-term profit maximization among Ukrainian firms.

Furthermore, several cases showed that due to a *weak Ukrainian economy* many of the customers had *low purchasing power* and therefore market size could not always be considered to motivate further commitment.

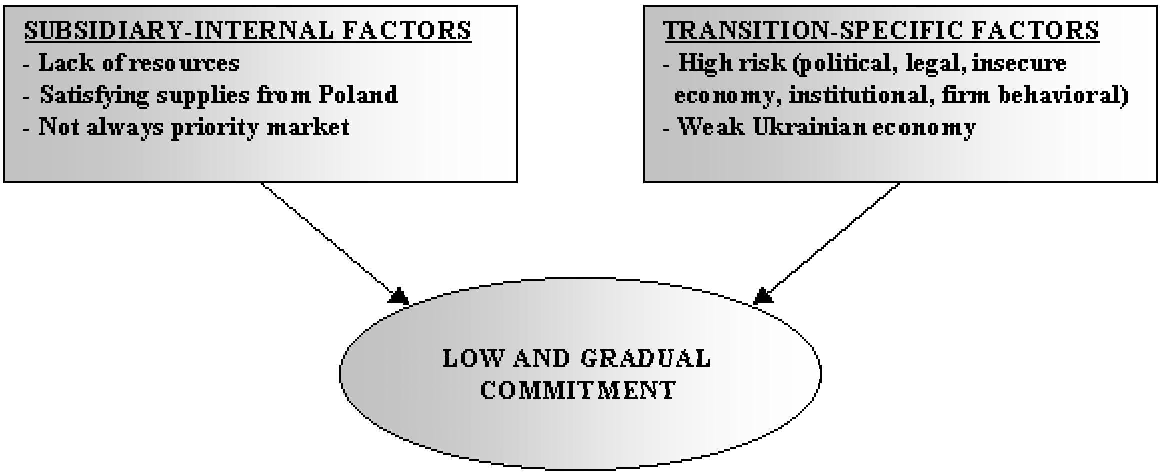

Figure 13 – Foreign-Owned Subsidiary Commitment in Ukraine

Making use of *network relationships* by the Polish-based subsidiaries in Ukraine has proved to be done in order to *avoid* the whole range of previously mentioned risk factors and to *manage* the subsidiary on the market. Thus, this way of behavior is in line with the earlier proposed statements and previous findings in this area.

Actually, all operating modes used by the Polish-based subsidiaries were based on established *relationships* with primarily Ukrainian but also Polish counterparts. Thus, none of the subsidiaries was present in Ukraine fully independently, neither the exporting nor the ones that have made investments.

Breaking up such relationships means that the subsidiary would have to self-manage the high risk and tasks that previously were carried out by someone else. Therefore, this is probably not popular. As a matter of fact, instead of terminating such relationships and becoming more independent there seems to be a tendency among some exporting subsidiaries towards *increasing the amount* and *deepening the character* of such relationships. The most obvious example is provided by Esselte Poland, which uses a very large amount of both Polish and Ukrainian distributors.

In the exporting phase three operation modes were more frequently used than others. First, *local Ukrainian distributors* were often used as the subsidiaries' main extension to the Ukrainian market. Second, relationships that had been created with *domestic export merchants* served in most situations as supplementary distribution channels with the purpose of increasing sales. Third, *domestic-based export departments* were a common mode employed often in the beginning of the exporting activities. The Ukrainian customers themselves often carried out transportation of the goods from Poland to Ukraine, since the Polish counterparts were not prepared for such operations.

The only modes of investment used by the subsidiaries in Ukraine appeared to be *joint ventures* and *contractual agreements*. Worth to note is that even if all the seven subsidiaries have been active in Ukraine for approximately 5-12 years no single *green-field investmen*t or *larger capital investment* was reported among them. In addition, none of the establishments that involved manufacturing in Ukraine was *self-supporting* meaning that all the Polish-based subsidiaries that had made any kind of investment were still exporting to Ukraine.

III. What are the major operational barriers and how do they affect further expansion into the transition markets in the near future?

The major obstacles to further commitment of the subsidiaries lie in the same explanations that lead to low and gradual commitment i.e. the *financial weakness* of being subsidiaries, *high risk* and a *weak Ukrainian economy*.

However, given that every single one of the studied subsidiaries is active in Ukraine through a counterpart, which reduces the barriers to a certain level, the key to further entry is dependent on the *development* and *future* of these relationships. This statement is based on the fact that the subsidiaries cannot *afford* to make deep capital engagements and expose themselves to high risk.

Most subsidiaries intend to expand their activities in Ukraine. Many of them have already concrete plans for a next level of commitment. However, in the near future the subsidiaries will probably continue to generate *low commitment investments* and use *low commitment modes* since the process of transformation is *slow*.

The author believes that in a long-term perspective as the political, legal and economic situation improves as well as the market potential, which is highly dependent on the economic development the foreign-owned subsidiaries will probably be able to become more *independent* in Ukraine. This would be possible due to a *lower risk level* and thus making new investments would probably become more common, especially since parent companies would be more comfortable in supporting their subsidiaries regards to investments. Consequently, green-field investments and higher commitment modes could start to appear. However, this is probably an issue that will become reality not until a rather long-gone future.

8 CONCLUSIONS AND RECOMMENDATIONS

This last chapter concludes the most important findings from the within-case and above all the cross-case analysis. Furthermore, the implications of the findings on theory and the possibility of generalization to other situations are discussed. The remaining of this section is dedicated to giving recommendations to foreign-owned subsidiaries in Poland and further research in the investigated area.

8.1 Conclusion of Major Findings

This study has demonstrated how and why Polish-based foreign-owned subsidiaries become established in Ukraine through exporting or production engagements. The issue of what can be expected from the future has also been touched upon. The author believes that being present in Ukraine through some form of exporting is today most common since this process is still in its early phases. However, the future should generate more investment related commitments as the subsidiaries become more engaged in the Ukrainian market.

It has been shown that the enterprises that were involved in this sort of operations had entered the Polish market and made substantial investments in production. Common for these actors is also that they have usually entered the Polish market relatively *rapidly* and engaged themselves deeply into the market through *substantial investment* in *market-oriented* manufacturing facilities and *high commitment* modes.

The outcome of these intense actions has been that Poland or the Polish unit has emerged as a *center* for the companies' activities in the region. This has been emphasized by the fact that Poland either was the *first market* in the region that was entered by the foreign company or it became the *only established regional production facility* with only group sales subsidiaries in other Eastern European countries. Furthermore, the center characteristic could have emerged from the fact that Poland was built to house a *group production center*.

Explanations to why these subsidiaries at a later stage have entered the Ukrainian market diverge from each other. Altogether, the seven cases revealed five reasons of market entry. First, a subsidiary could be proactive in the sense that it started to perform marketing activities in Ukraine with the purpose of attracting new customers. Second, entry was possible due to Ukrainian customers who ordered goods from the subsidiary in Poland, which pulled it into the market. Third, a subsidiary could take over the role as a supplier of a market that housed no independent group unit. A fourth explanation to entry came from a situation where a local counterpart had expanded into Ukraine and started to sell the subsidiary's products. Last but not least, a reason why a subsidiary became established on the Ukrainian market was because it used to be an independent Polish company, which had entered Ukraine before it was acquired by a MNC.

An interesting remark is that out of the five cases where the foreign-owned subsidiary made its market entry into Ukraine only one was proactive i.e. was trying to create new sales through marketing activities. Thus, presuming that the investigated Polish-based subsidiaries would have at the group headquarters had an outlined master plan or strategy for further penetration of Eastern European markets they were certainly not proactively fulfilled by the subsidiaries. This study revealed that at least the respondents were not aware of such comprehensive plans. Instead they pointed out the Polish market size and political stability as the main factors leading to entry into Poland.

Studying the subsidiaries' commitment levels revealed that extremely *low* and *gradual* commitment was the standard case. There are both subsidiary-internal as well as external factors explaining why such commitment emerged. First, lack of capital, satisfying supplies from Poland and the fact that Ukraine was not always considered to be a priority market were the internal causes. Externally, high perceived risk and a weak Ukrainian economy led to the described development.

Compared to how the investigated groups entered Poland and their subsidiaries expanded into Ukraine, it becomes obvious that the Ukrainian expansion has really been of low and gradual resource commitment. This comparison is especially interesting and revealing since it is made within the group.

As a way of overcoming market insufficiencies all subsidiaries were reported to use either domestic or local network relationships. Making use of more than one relationship or one entry mode was an increasing and common trend. The most widely used exporting modes were

- local Ukrainian distributors
- domestic-based export merchants and
- domestic exports managed by local Ukrainian customers.

Interesting is that Polish distributors in some cases took part in the exporting activities as *supplementary actors*. This development is believed to have risen from the geographical closeness of Poland to Ukraine and the fact that several Polish companies have established themselves in the neighboring market.

When establishing production in Ukraine the use of *joint ventures* and *contractual agreements* was most common. No green-field or large capital investments had been realized by the subsidiaries.

Two cases showed that the result of a subsidiary's internationalization was an acquisition of a previously independent company that had expanded its activities into Ukraine. Even though these subsidiaries at the time of their entry into Ukraine where independent companies their behavior was almost identical to the other actors' performance. This is probably true because Polish companies as originating from a transition economy generally should be resource poor. Since these subsidiaries' whole Ukrainian expansion processes have been studied, i.e. from the independent company's start to the situation today, two phases of their internationalization have been analyzed separately - the pre and post acquisition phase of expansion into Ukraine.

In a long-term perspective more subsidiaries should come to a point of expansion where the question of establishing production in Ukraine would become an issue. Before this will become reality above all the political, legal and economic situation in Ukraine have to improve. As a result the quality of Ukrainian counterparts should also increase. However, the improved Ukrainian market environment and hence a more stable as well as lower risk environment could be the start of more independent activities from the point of view of a subsidiary.

But, some companies will probably never make further engagement than exporting, due to various reasons such as Poland being a regional production center or satisfying supplies due to geographical proximity. Therefore, the author expects that not all subsidiaries will end up having a chain of operation modes as proposed by Vahlne et al (1993) and the Uppsala-model of internationalization. In addition, in some cases when the Polish-based subsidiary has come to the verge of making an investment in production it might become completely realized by the parent company and thus never even appear in the statistics or become part of the Polish subsidiary's operations.

8.2 Theoretical Implications

To the author's knowledge there is no framework about what leads to the internationalization of subsidiaries, apart from the general explanations that are presented by firm internationalization theories. This is even more plausible in the context of transition economies. Thus, no such theory was applied in the study.

Studies that came close to this phenomenon had to do with what is termed as *"internationalization of the second degree,"* a concept that had been initiated by the Swedish professors Forsgren et al (1992). However, this research area does not deal directly with internationalization processes. Instead the researchers have identified internationalized subsidiaries and been looking at how the MNCs are affected by this phenomenon.

In continued search for any related theory the author managed to get hold of professor Lawrence Welch, a recognized international business researcher. He was contacted since there was a suspicion that he might have developed a related theory in the past. However, professor Welch had never claimed such a theory but had only infrequently referred to an article by Juul and Walters (1987), which brings up a discussion about firms undertaking a "bridging policy." Their study revealed that some Norwegian subsidiaries in England had created a wider role in developing the parent company's business in other foreign markets. Although this role was only limited to mainly *information collecting* and *establishing contacts*.

Maybe the academic world has taken for granted that subsidiaries internationalize exactly the same way as parent companies do. Another explanation could be that this phenomenon has not drawn much attention to itself since it is probably globally seen a limited form of action. The present well-established theories about firm internationalization do not make any distinction between how or why the two separate entities expand their cross-border activities. The author thinks, however, that there should be a separate explanation, especially since the prerequisites for subsidiary internationalization are somewhat different to that of the generally discussed actors. The case where a subsidiary internationalizes as an outcome of a structural change in the delegation of responsibility to market supply is thought to be an interesting explanation as well as the lack of resources.

The author's belief is that the explanations to subsidiaries' internationalization can be explained with existing theories about firm internationalization. However, there is no framework that covers and discusses the specifics of subsidiary internationalization.

Since it has been showed that subsidiaries use low commitment modes in their cross-border expansion due to several other reasons that do not have to be related to the Eastern European context nor just foreign-owned subsidiaries in Poland (e.g. lack of resources, non-priority markets), it is believed that these finding could be useful even in other situations and contexts. Hence, it is probable that the characteristics of low commitment and maybe also gradual commitment are common to internationalizing foreign-owned subsidiaries worldwide.

Otherwise the studied processes seem to be in line with the applied theories in this thesis. A remark of special interest is that the Uppsala-model, which has been claimed to be outdated in many respects, seems to have high applicability in the Eastern European context due to its explanation power of a gradual market commitment process. In addition, the studies that were made by Vahlne et al (1993) correspond to the formulated conclusions.

8.3 Generalization

An interesting question is how valid the findings of this study are to a wider population of foreign-owned subsidiaries in Poland that have entered the Ukrainian market. Generalizing from the seven cases presented here should be done with carefulness since the studied sample of the population has been small. The share of exports of the subsidiaries presented in this work in relation to the total of foreign subsidiary exports is just a fraction, which means that there are probably hundreds if not more foreign subsidiaries exporting to Ukraine. But, out of the 200 Polish investment related engagements in Ukraine, probably only a small amount is in the hands of foreign subsidiaries due to the lack of capital and extremely low commitment that has been demonstrated among the foreign-owned subsidiaries in this thesis.

The strength of the case study is, however, that it allows generalization to theory as a means of increasing the validity of a study. In this study this has been done in relation to previous findings about Eastern European business. Convincing and well-supporting evidence has been found for the behavior of the investigated foreign-owned subsidiaries in relation to the general concepts of market entry and development in the region. Since conclusions such as low as well as gradual commitment modes and use of network relationships concerned all investigated subsidiaries due to the highly influencing transition environment and because they were replicated case after case, there should be a good platform for generalizing about how the Polish-based subsidiaries internationalize eastwards.

Hence, it becomes tempting to conclude that a majority of the foreign-owned subsidiaries in Poland with extensions to Ukraine and other transition countries would behave rather similarly to the conclusions that have been drawn from the cases of this study. At least the findings should be most generalizable for Ukraine. However, to what extent the findings are applicable for other destination countries and especially to other transition countries is more uncertain. Since the CIS-markets are at least according to theory relatively similar to each other it ought to be possible to generalize these findings also to them with some reservation for market variations. However, as the transition process progresses and the differences between the CIS-countries increase this conclusion will gradually lose its relevance.

8.4 Recommendations to Foreign-Owned Subsidiaries in Poland

The studied cases and previous research about Eastern European market entry and development indicate that the business environment, whether seen as the market or network relationships, in transition countries is risky and difficult to handle.

For foreign-owned subsidiaries of MNCs the environmental burden becomes even more striking since they are not in a position where they can take high risk or make heavy investments. Thus, they are as shown in the case studies forced to make use of network relationships with firms that are active in Ukraine. Managing and developing these relationships therefore becomes a key issue.

The established relationships can either be developed into a solid base of entry or as some cases have shown become a major setback for a subsidiary's operations in the market. Low commitment attempts associated with production in relation with a counterpart in Ukraine seem to be less successful due to the problems that arise with the counterpart that the subsidiaries have chosen to work with. Extensive contractual agreements, licenses and minority stakes in joint ventures should thus in the case of Ukraine be considered as high-risk operation entry modes.

The subsidiary that succeeded in entering Ukraine and staying on the market on the level of production did in fact acquire a majority stake in its joint venture, which prevented it from being pushed out from the cooperation. Therefore, a suggestion to companies that are about to make a major commitment decision such as launching production in Ukraine would be to *avoid being inferior* to its eventual counterparts. Due to this the most appropriate entry forms would be the ones that make the subsidiary *independent* such as total or majority ownership of subsidiaries. Of course, these types of entries require resources and thus many subsidiaries could not afford to enter Ukraine this way. Thus, another strategy would be to continue entering Ukraine gradually and developing sales to a point where high capital investment could be covered by generated profits or where the parent company could be motivated to support the financing of, for example, a green-field investment or a majority stake in a joint venture.

On the exporting level it has been showed that financial risk is hardly even taken since all exports are either secured by export credit insurances or payment in advance. This seems to be one of the main barriers in the initial stages of entry since it limits the sales, as some potential clients are not in the position to fulfill the requirements that are demanded in such situations. One solution to bridging this problem is shown in the case of Wavin where trustful relationships have gradually been built with distributors allowing the Polish-based subsidiary to overcome the payment issue. However, even in this case the subsidiary exposes itself to a certain amount of risk.

8.5 Recommendations to Further Research

During the course of this investigation it has become clear that there has been little or no research done in the area of how and why subsidiaries of MNCs internationalize. Previous research that concerned subsidiary internationalization has not dealt with the internationalization processes as units of study. Researchers have probably for several reasons disregarded these issues and instead concentrated on the effects and outcomes of subsidiary internationalization on the structure of MNCs.

However, this study has concluded that the prerequisites of subsidiary internationalization are different from those that concern parent companies. This implies that subsidiaries internationalize in a unique way, which should be given more attention to in future research. Thus, more research about the specifics behind how and why subsidiaries internationalize is recommended. As this study has been limited to the Eastern European transition context it would also be interesting to investigate how subsidiaries expand their cross-border activities in other business environments.

More specifically, an interesting question that could be raised and focused on is what is the role of the parent company in these processes. Since the focus in this investigation was mainly on the subsidiary itself, an attempt to answer this question was only made from the perspective of the subsidiary i.e. the parent companies were not questioned about reasons and future prospects of market entry into Poland nor Ukraine. The present study concluded, however, that the operational outcomes of the subsidiaries' behavior were rather reactive outcomes, since even if there were plans for further entry into Ukraine they were not pursued proactively,.

In conclusion, there are plenty of issues that can be raised about the internationalization processes of foreign-owned subsidiaries. One idea that was not the main purpose of this study is to do research on how subsidiaries reach the level of 2nd degree internationalization, as defined by Forsgren et al (1992), which is a question that has been raised in the past but so far remained unexplained at least from a longitudinal process perspective.

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APPENDIX

Interview Questions

Basic parent company and subsidiary information

- Size – turnover, employees
- Ownership
- Products and services
- International presence

Entry into Poland

- When did you enter the Polish market and what was the underlying motive?
- What entry modes have been used?
- For what market/s does the Polish unit produce?
- Does Poland function as a base for entry into Ukraine/CIS? – In what way is it used?
- Was it a conscious strategy in the beginning to enter Ukraine?

Entry into Ukraine

- When did you establish the initial business activities on the Ukrainian market and why did you do it?
- What entry modes have been used?
- Why have you used certain operation modes?
- What resources have been committed to Ukraine?
- How has the responsibility for the expansion into the Ukraine been shared between the Polish subsidiary and the HQ?
- Why has the Polish subsidiary been responsible for the expansion into Ukraine?
- What product categories are sold in Ukraine? – Everything or just certain products?
- How has the width of activities evolved over time?

- How do you perceive Ukraine in terms of politics, economy, institutions, and business culture?
- How do you perceive the risk level in Ukraine?
- What are your major problems in Ukraine?

Exports

- How have your exports into Ukraine developed?
- What are your distribution channels?

Production

- Size of investment – in money value or by describing facilities?
- Production aimed at what market/s or purpose? – How much is sold and where?
- Is the Ukrainian production more market- or cost- and export oriented?
- Do you have established supplier relationships in Ukraine?

Future Market Expansion

- What are the main reasons why you have not made any further market commitment?
- What do you expect from the Ukrainian market in the near future – politically and economically and in terms of sales potential?
- How do you intend to respond to the new market conditions?
- What are your plans for Ukraine?
- Can you imagine yourself investing in Ukraine in the future?

Supplementary Questions

- Do you know other western subsidiaries active in Poland that have invested in or export to Ukraine?
- E-mail and telephone number?