Editorial

Internationalization of Central and Eastern European firms: trends and strategies

The impact of context on firms' internationalization

Over the past 20 years, management research has increasingly recognized the impact of context on corporate strategy and performance (Meyer *et al.*, 2011; Meyer and Peng, 2016; Meyer, 2015). As an illustration of this trend, the 2015 *Journal of International Business Studies* Decade Award was awarded to an article by Meyer and Peng (2005), whose main argument is that mainstream management theories are challenged by socioeconomic transformations in transition economies. Indeed, despite their recent slowdown, emerging and transition economies have experienced massive transformations over the past decades and have become an integral part of global value chains. Their shift from the periphery to the heart of the world economy in the 2000s created a new reality that has led business and management scholars to challenge existing theories. For example, the international expansion of firms from emerging markets (Bandeira-de-Mello *et al.*, 2015; Ciravegna *et al.*, 2016; Dabić *et al.*, 2014) has led to intense debate among scholars with regard to the validity and generalizability of theories concerning multinational firms in different contexts (Cuervo-Cazurra, 2012). The emergence of new international ventures from emerging countries has also spurred theoretical debate among international entrepreneurship scholars (Kiss *et al.*, 2012).

However, despite the increasing interest of international business (IB) scholars in the international operations of firms from emerging and transition economies, relatively few studies have analyzed the internationalization of Central and Eastern European (CEE) firms[1]. In a recent study on emerging- and transition-market firms in 14 top international management journals from 2000 to 2010, Jormanainen and Koveshnikov (2012) identify only 2 articles out of 50 that focused on the international activities of CEE firms. Indeed, although CEE economies have attracted a considerable amount of academic research since they were opened up in the 1990s, most studies have focused on foreign firms' operations in these markets and on the difficulty of adapting to a different institutional framework (Gelbuda *et al.*, 2008). Only a few studies have considered the internationalization of CEE firms, although the topic has gained some momentum over the past few years (Caputo *et al.*, 2016). Most articles on the international operations of firms from emerging and transition markets focus on China, and to a lesser extent on India and Latin America. Of course, CEE economies share several characteristics with emerging or transition economies from other parts of the world. All these economies have made widespread pro-market reforms in recent decades, as analyzed extensively in the economics literature – privatization, enterprise restructuring, price and foreign exchange liberalization, trade liberalization, adoption of a competition policy, banking and financial market reforms and development. Moreover, they are all characterized by significant "institutional voids", that is the lack, or weakness, of market and legal institutions (Khanna and Palepu, 2010), resulting in a high degree of informality in the economy, corruption in the public sector and weak protection of investments. However, as rightly pointed out by Kostova and Hult (2016), although CEE countries present important

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similarities with other transition and emerging countries, they also have unique features, notably in terms of initial conditions and the nature and process of change. "Treating them as the same or even similar could lead to erroneous theoretical assumptions, oversimplification, and less relevant research as a result" (Kostova and Hult, 2016, p. 25). This idea is in line with Hoskisson *et al.* (2013), who argue that "significant diversity of initial conditions, transition paths, and competitive outcomes makes it imperative to move away from the all-encompassing label of 'emerging economies'" (Hoskisson *et al.*, 2013, p. 1298).

Empirical facts

Contextual differences, and how they affect corporate strategy, are particularly important issues when it comes to the international operations of firms. From this perspective, CEE countries have experienced more changes more quickly over the past quarter-century than any other region in the world, as illustrated by several indicators. Table I presents the Fraser Institute Index of Economic Freedom for selected CEE and emerging countries between 1995 and 2013. It clearly shows that market-supporting institutions have improved significantly more in CEE countries than in other emerging countries over the period. CEE countries lagged behind in 1995 but outstripped the rest in 2013. The picture is even more striking when one looks at the most recent World Bank Ease of Trading across Borders Index (Table II): 7 CEE countries out of 16 rank first at world level, and they all rank in the top 20 per cent. This rapid trend toward trade facilitation is especially noticeable, as several parts of the region experienced political disintegration and conflicts at the beginning of the 1990s,

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

Note: The index is not available for some CEE countries
Source: Fraser Institute

Table I.
Index of Economic Freedom of selected CEE and emerging economies, 1995-2013

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

Source: World Bank, Ease of Doing Business

Table II.
Ease of Trading across Borders Index of selected CEE and emerging economies, 2016

which deeply affected trade flows within the region (De Sousa and Lamotte, 2007; Lamotte, 2012). The two most important of the many reasons explaining this trend are:

(1) the internal reforms made by CEE countries to reduce the cost of international trade and foreign investment; and

(2) their global integration resulting from membership of the World Trade Organization and the European Union (EU) and from the establishment of bilateral and multilateral free-trade agreements since the mid-1990s.

This process of formal integration into the world economy echoes the trends in cross-border trade and investments observed in the region. Table III shows that outward FDI has increased significantly since the nineties and, on average, at a higher rate than that of many other emerging countries. This shows that multinational enterprises (MNEs) from CEE countries are particularly active and successful in investing abroad. However, interestingly, multinationals from CEE are underrepresented in the *Financial Times Top 500 Emerging Markets Firms* ranking; only ten CEE companies are included in the ranking, and the highest-placed of these ranks 189th (Table IV). This reflects the relatively small size of CEE multinationals. As for exports, CEE firms have also reached impressive levels of performance in recent decades (Table V). International operations in CEE are not limited to large incumbent firms. The latest survey by the Global

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

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

Note: Data for Baltic States and Slovenia are for 1995 and 2014
Source: UNCTAD-World Investment Report 2015 and World Bank-World Development Indicators

Table IV.
CEE companies listed in the FT Top 500 Emerging Countries, 2015

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

Note: The companies are ranked by market capitalization
Source: FT Top 500 Emerging Countries

Entrepreneurship Monitor shows that new ventures from the region are quite internationally oriented (Table VI). In Croatia and Slovenia, more than one-third of new ventures make at least 25 per cent of their sales abroad. Examples of internationally successful CEE companies are numerous: Avast, a Czech security software package, has 230 million users worldwide; PKN Orlen, a privatized Polish oil company owns 34 affiliates in nine countries; and the Hungarian pharmaceutical company Gedeon Richter made 89 per cent of its sales abroad in 2015, and it has customers in more than 100 countries worldwide. In sum, despite their small size and limited resources, CEE firms are quite successful internationally. Several reasons explain the international success of CEE firms, including the small size of their domestic markets, trade and investment agreements and their rapid integration in global value chains. In the nineties, Western Europe and US companies responded to CEE privatization by investing massively in the

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

Notes: *Data for 1995; **data for 2000
Source: World Bank Development Indicators

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

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

Note: The measure is the proportion of the adult-age population involved in early-stage entrepreneurial activity who respond that they have 25 per cent or higher number of customers in other countries
Source: Global Entrepreneurship Monitor, Adult Population Survey

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

region, thus benefiting from an inexpensive but highly skilled workforce, a central location in Europe and local government incentives. These foreign investments sometimes resulted in knowledge spillovers and increased productivity for local CEE firms (Damijan *et al.*, 2009), which in turn became more competitive on foreign markets.

Directions for further research

The profound changes that CEE countries have experienced over the past 25years, particularly those related to the context in which local firms developed international operations, contribute to and challenge existing knowledge and theories on firm internationalization. Caputo *et al.* (2016) reviewed all the articles on the international operations of CEE firms published so far, and identified three clusters of research: internationalization behavior, internationalization performance and internationalization benefits. Concerning internationalization behavior, CEE firms are motivated by both their "hostile" environment and by market-seeking strategies. Regarding the success factors of international operations, work on CEE points to the crucial role of networks of all kinds. Finally, international expansion is a source of advantages in terms of know-how, marketing and organizational skills, but it is also a source of risk that may lead some firms to withdraw from foreign markets. Caputo *et al.* (2016) also show that so far, the literature on the internationalization of CEE firms has mainly focused on one type of international development – export activities – and has used two main theoretical frameworks: those of Uppsala (Johanson and Vahlne, 1977) and International New Ventures (Oviatt and McDougall, 1994) approaches. However, many topics have not yet been explored or are still under-investigated, which opens promising avenues for future research.

One area for further research is the interactions between the local context, innovation capabilities and corporate internationalization processes and performance. Several papers have emphasized the impact of the EU integration process on the motives of outward FDI from CEE firms (Jindra *et al.*, 2015) or on the international performance of new ventures (Lamotte and Colovic, 2015). There is also an extensive literature on the internationalization–innovation nexus. However, very little has been done so far to advance understanding of how increased global integration and institutional convergence interact with innovation and internationalization. One exception is Liu and Giroud (2016), who demonstrate how increasing global integration and human mobility influences the knowledge flows and knowledge acquisition of emerging multinationals, which may in turn affect their innovation and internationalization behavior. Very little research has appeared either on interactions between innovation and internationalization in different contexts and institutional settings. Previous research in this area has focused on Western countries, but there is some evidence that innovators from some regions are more likely to penetrate foreign markets than those from others (Lamotte and Colovic, 2013). In the same line of reasoning, few articles have appeared on how the context affects spillovers from foreign FDI and the dynamics of global value chains (Cui *et al.*, 2006). As pointed out by Pavlinek and Zizalova (2016, p. 334): "Potential benefits of FDI for host economies […] strongly depend on the context of the individual countries and are, therefore, highly spatially variegated."

Another area that needs further exploration is the role of the context on managerial choices and on decision-making in international operations. Indeed, existing studies of how context impacts international operations have thus far been conducted at the firm level. However, exposure to a particular context may have a long-term impact on the people's behavior and on their international endeavors. In a recent study, Wyrwich (2013) shows that older East Germans are less engaged in entrepreneurship than their West German peers, who were not exposed to socialism. Wyrwich, therefore, argues that the socioeconomic heritage shapes people's mindset and affects their decisions. In the same line of reasoning, an exciting avenue for further research would be to integrate context into the upper-echelon perspective (Hambrick and Mason, 1984), which posits that firm strategy reflects the values and the cognitive orientation of company leaders. In a similar vein, the recent microfoundations movement (Felin *et al.*, 2015), which explains corporate strategy and performance by adopting a behavioral and individual-level approach to management, also offers a promising direction for further research. Researchers have hitherto largely omitted to analyze corporate internationalization behavior from this perspective.

In addition to these directions for further research, contributing to IB theory by studying the internationalization strategies of CEE firms requires the author to place more emphasis on the distinctive characteristics of countries and firms than has so far been the case. In other words, they must adopt a more sophisticated approach to the role of the context, for example by differentiating between state-owned firms, privatized firms and entrepreneurial firms. Indeed, several authors (Meyer and Peng, 2005; Kostova and Hult, 2016) suggest that the specific characteristics of different companies in terms of resources, capabilities, networks, governance, etc., lead them to follow different strategies. A better consideration of the context would also imply extending cross-country and, therefore, cross-context comparisons. A recent example of this approach is the article by Demirbag *et al.* (2015), who study the impact of corruption on MNEs' strategic decision to reinvest profits across different contexts. Finally, a further integration of different disciplines and fields – such as economic geography, innovation studies, political science, history and psychology – may enlighten and provide new perspectives on the role of the context, and generate theoretical insights for management scholars.

So, the internationalization of CEE economy firms deserves increased academic interest, as it can make significant theoretical and empirical contributions to the IB and international entrepreneurship literature. This special issue of the *European Business Review* aims to draw scholarly attention to this issue and to develop new knowledge in this direction.

Contributions to this special issue

The articles in this special issue address several issues related to the internationalization of CEE-based firms, such as technological innovation; individual-, firm- or context-related drivers of international operations; and cross-border mergers and acquisitions (M&As). It examines different types of firms: entrepreneurial firms, small and medium-sized enterprises (SMEs) and large multinationals. It includes contributions that examine specific economies – Bulgaria, the Czech Republic, Lithuania and Poland – and a comparative study. These contributions add to theoretical and empirical knowledge of the strategies and performance of emerging and transition economy firms.

The article "Technological innovation among internationally active SMEs in the Czech Republic: role of human capital and social capital of CEO", by Wadhwa, McCormick and Musteen, examines the factors that foster technological innovation in internationally active Czech SMEs. Drawing on the "upper-echelons" perspective and on the international entrepreneurship literature, and based on an empirical study of 153 firms, the authors show that two characteristics of CEOs are likely to impact their firm's technological innovation: their functional background (throughput vs output functions) and their international experience with foreign customers. These results improve understanding of how the CEO's human and social capital influences the strategy of SMEs in transition economies.

In "Inducing the internationalization of family manufacturing firms from a transition context", Marinova and Marinov examine why and how family firms in a transition economy induce their internationalization. The authors build on the international new venture theoretical framework to investigate internationalization inducement through a qualitative analysis of nine Bulgarian firms. Their findings suggest that the early internationalization of these family firms was driven by the manager-owners' international orientation and commitment, through their social contacts. Moreover, in contrast with most of the literature on the topic, they point out that family ownership and management, resource limitations and newness liabilities and outsidership did not hamper the early internationalization of the sample firms. Interestingly, the authors also argue that the contextual combination of home and host countries inspires Bulgarian firms to enter foreign markets: the institutional deficiency and volatility of the domestic market encourages them to export to countries with more stable and market-oriented institutions.

The article "International acquisitions by Polish MNEs. Value creation or destruction", by Nowiński, builds on the literature on the internationalization of emerging market multinationals and that on cross-border M&As to investigate value creation (or destruction) in cross-border acquisitions by Polish multinationals. Based on an empirical analysis of 104 M&As, he finds that cross-border acquisitions carried out by Polish multinationals create value for shareholders. Interestingly, his results also show that acquisitions by Polish multinationals create more value when the targets are emerging/transition economy firms than when they are from advanced economies. One explanation for this result is that financial markets believe that acquirers from an emerging/transition economy can better exploit their capabilities in similar institutional and economic environments than in different ones. This contributes to the recent literature showing that emerging multinationals may perform better in emerging countries.

In "Factors leading to early internationalization in Central and Eastern European emerging economies empirical evidence from new ventures in Lithuania", Sekliuckiene draws on the international new ventures literature to explore the drivers of early internationalization. Based on an in-depth analysis of six high-tech firms, the author identifies entrepreneur-, firm- and context-level factors. Two entrepreneur-level characteristics enhance the internationalization of new ventures: previous international experience, and involvement in informal networks. At the firm level, technological capabilities, product uniqueness and lower resource costs compensate for the lack of resources of entrepreneurial firms that wish to deploy operations abroad. Surprisingly, the characteristics of the Lithuanian market and institutions do not seem to have a significant impact on early internationalization. The results of this study, confirming some previous research in the field while contradicting other work, highlight the fact that the drivers of early internalization of entrepreneurial firms may significantly differ across countries and industries.

The article "Signaling legitimacy in global contexts: the case of small wine producers in Bulgaria" by Castellano and Ivanova studies how firms in transition environments overcome the liability of origin when seeking legitimacy to operate in global markets. The authors draw on institutional theory, and more specifically on the process model of organizational legitimacy, and conducted interviews of different actors in the Bulgarian wine industry. Interestingly, they find that a common pattern among Bulgarian wineries is to rely on local normative and cognitive signals of legitimacy developed before the transition period. However, with regard to regulatory legitimacy, they highlight a difference between large firms, which try to conform to global standards or create their own standards, and small firms, which reject such standards.

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Note

1. In management literature, the Central and Eastern Europe (CEE) region has referred to different and changing geographic realities over the past 25 years. Interestingly, the definition of the region seems to depend on the institutional dynamics of each country. Until the mid-2000s, CEE frequently included all countries that had experienced communist ideology and central planning in Europe and part of Asia (Meyer and Peng, 2005; Hoskisson *et al.*, 2000). Recently, most studies refer only to former communist European countries that are members of the EU or that have initiated a process of EU membership. In this article and in this special issue, we use this latter definition of the CEE region.

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