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## Article

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## **The outward Direct Investment from CEECs: Can their Firms compete in the Global Market?\***

*Andreja Jaklič and Marjan Svetličič\*\**

*The article analyses the recent emergence of multinational companies (MNCs) from Central and Eastern European countries (CEECs), especially the Czech Republic, Estonia, Hungary, Poland, and Slovenia. The majority of MNCs from CEECs concentrate their activity regionally, though some global MNCs also exist. Geographical allocation of outward FDI gives evidence that physical distance, cultural nearness and historical ties are relevant in deciding where to invest. Past experience matters a lot, but at least equally important are ambitious plans and constant upgrading of advantages. MNCs from CEECs experienced positive net effect of outward FDI, such as improved market positions, growth of export, higher efficiency, which also enhances their competitive advantages.*

*Der Artikel analysiert das jüngste Auftauchen von multinationalen Unternehmen (MNCs) aus mittel- und ostmitteleuropäischen Ländern (CEECs), insbesondere der Tschechischen Republik, Estland, Ungarn, Polen und Slowenien. Die Mehrheit der MNCs aus den CEECs sind vorwiegend regional aktiv, sie sind aber auch global existent. Die geographische Zuordnung von FDI beweisen, dass die physische Entfernung, kulturelle Nähe und historische Verbindungen relevant für die Entscheidung der Investition sind. Frühere Erfahrungen sind wichtig, mindestens genauso wichtig sind ehrgeizige Pläne und das konstante Verbessern von Vorteilen. MNCs von CEECs erfuhren einen positiven Nettoeffekt von FDI wie verbesserte Marktpositionen, Exportwachstum, höhere Effizienz, die auch ihre Wettbewerbsvorteile erhöht.*

*Key words: Outward foreign direct investment / multinational companies / internationalisation strategies / competitive advantages*

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## 1. Introduction

Countries of Central and Eastern Europe fall within a group of latecomers among direct investors abroad. Transition economies - like in other areas - lag behind also in their internationalisation. Inward foreign direct investment (FDI) is clearly more important than outward FDI, therefore major attention in theory, research and government policy has been concentrated in inward internationalisation. Despite some experiences gained in the socialist period<sup>1</sup>, outward FDI and emerging multinational companies from CEECs are recent phenomena, which really took off only in the 1990s after substantial stabilisation and restructuring took place and when firms started thinking not only of their survival but also how to strengthen their position in the global economy.

This article addresses main characteristics of outward FDI of CEECs and discusses the question of capabilities of their multinational companies for competing in the global market. Firstly we identify what is the volume and direction of outward FDI in order to see where can they compete. Does indeed East go West (Liuhto, 2001) or does East go more eastern or southern? Are host countries equal to their export markets? Are companies from CEECs a link between East and West, through the so-called indirect investors? Are MNCs from CEECs global or regional players?

Secondly, we examine on what basis can they compete? What are the characteristics of companies investing abroad? Do size, age (experience), activity and ownership/foreign capital matter? Do they differ by countries? Do CEECs' firms have sustainable competitive advantages? Does outward FDI help them sustain or even enhance these advantages?

All these questions are very relevant in the changing structure of international competition for the development and growth of CEECs, since the role of FDI for integration into global investment production networks increase significantly. Countries/firms can no longer rely only on export-led growth, in order to keep or even enhance global market shares; they increasingly have to undertake international production abroad if they want to narrow the development gap. This is especially true for CEECs that have to do everything much faster in order to compensate for time lost during the socialist era when they were limited to mutual co-operation. Globalisation has forced them to act swiftly. The international environment has since changed so much that imitating the export-led growth model alone cannot keep and enhance competitiveness in the global economy. Outward FDI has become a necessary complementary strategy and much more appropriate mode for catching-up higher development stages.

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<sup>1</sup> With “*system escape*” investments socialist firms invest abroad before they hosted FDI, for example in Slovenia (Svetličič et al., 1994).

## 2. Methodology

The questions will be addressed primarily through empirical review of outward FDI. First set of questions is going to be addressed by analysing macro data combined with survey results, the second is analysed completely on the basis of survey and interviews among MNCs from CEECs. The survey was carried out from May to October 2001 and included 180 MNCs from five CEECs, i.e. the Czech Republic, Estonia, Hungary, Poland and Slovenia. These countries are expected to be among the first Eastern candidates for the EU accession and are supposed to be internationalised and integrated to a larger extent. Selection based also on theoretical conclusions that outward FDI start after certain level of development of the home economy, after firms reach certain specific advantages, precondition for investing abroad. Estonian firms have the largest weight in the total sample, followed by Slovenian, Czech, Polish, and Hungarian firms (see Table 1)<sup>2</sup>.

*Table 1. The Structure of Sample Companies (by country)*

	<b>Frequency</b>	<b>Percentage</b>
Czech Republic	26	14,4
Estonia	69	38,3
Hungary	22	12,2
Poland	24	13,3
Slovenia	39	21,7
<b>TOTAL</b>	180	100,0

## 3. Volume and Location of CEECs' Outward FDI

In spite of recent growth in outward and inward FDI in CEEC, their share in world level remained modest. In 2000, Central and Eastern Europe hosted about

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<sup>2</sup> The sample varied among countries due to different availability of the data (see Jaklič et al., 2001). Secondary data sources like central bank data, press clipping, ministries, chamber of commerce and trade were used for the formation of the sample (see Zemplerova, 2002; Varblane et al., 2002; Rossati & Wilinski, 2002; Elteto & Antalosz, 2002; Jaklič, 2002). The representativeness of the sample can hardly be assessed in unified criteria due to data deficiency. In Slovenia the sample represent about 9% of all companies with outward FDI and between 15 and 20% of capital invested abroad, while in Poland the sample has covered about 20% of capital invested abroad by enterprises. Much higher is the representativeness of the Hungarian and Estonian sample, in the former sample companies represent about 53% of capital invested abroad, while in the latter about 43% of total outward stock invested by Estonian firms. The most difficult to assess is the representativeness of the sample in the case of the Czech Republic, due to unknown sample framework and especially since only large investors were targeted and since the survey record is often poor (many companies have not responded to several questions). The sample firms represent about 25% of investing firms in terms of number.

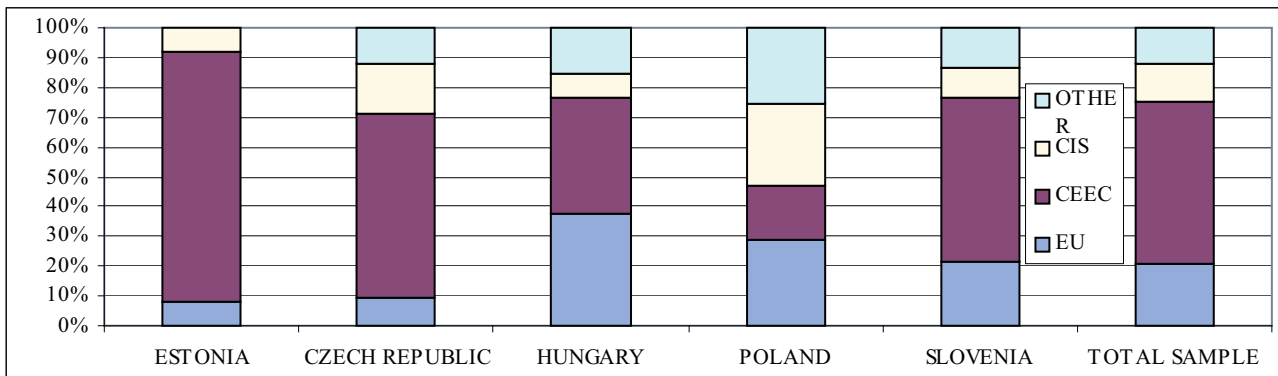
3% of world inward FDI stock and provided scarcely 0.3 percent of outward FDI stock (UNCTAD, 2001). Obviously, CEECs are much less integrated into the global economy via FDI as in terms of international trade (4.1% share in world exports). In spite of rapid changes in international environment that acted as a pull factors and transition process that acted as push factor the internationalisation pattern of transition economies has not changed significantly, but follows traditional sequential/gradual internationalisation in terms of entry modes, functional orientation and also geographical spreading (Jaklič & Svetličič, 2002). The early 1990s brought slow progress in outward investment activities, mostly carried out by existing MNC or large exporters with substantial international experience from the previous regime, while the end of the 1990s (after 1997) speeded up outward FDI by existing MNCs and encouraged also newcomers, large and new firms.

*Table 2. Outward FDI Stocks (year-end stock – total, USD million)*

	1993	1994	1995	1996	1997	1998	1999	2000
Czech	181,0	300,0	346,0	498,0	548,0	804,0	698,0	784,0
Hungary	225,0	291,0	491,0	494,0	900,0	1286,0	1568,0	2012,0
Estonia			50,0	109,4	215,3	198,4	281,2	429,0
Poland		461,0	539,0	735,0	678,0	841,0	1365,0	1491,0
Slovenia	280,6	354,0	489,9	459,5	459,4	608,3	605,0	794,0
<b>TOTAL</b>	<b>686,6</b>	<b>1406,</b>	<b>1915,9</b>	<b>2295,9</b>	<b>2800,7</b>	<b>3737,7</b>	<b>4517,2</b>	<b>5510</b>

Sources: Bank of Slovenia, Bank of Estonia, UNCTAD, 2001.

The geography of CEECs' MNCs confirms that sequential pattern of penetration and proximity matter significantly. Neighbouring countries, countries with strong trade relationships or cultural and/or historical ties (also due to national minorities) have priority in investment location decision by all surveyed countries. Even in the case of global firms they are often chosen as the first foreign market also in order to accumulate some knowledge (the cheapest learning). Slovenian outward FDI are concentrated in the successor states of former Yugoslavia, Czech FDI in Slovakia (due to geographical proximity, historical ties), Hungarian FDI in the Czech Republic, Slovakia and Romania (strong national minority), while Estonian gravitates toward Baltic countries, mostly Latvia and Lithuania. Poland is to certain extent exception to the prevailing pattern, since majority of her outward FDI is located in developed countries markets, but still follows geographical proximity and neighbouring countries. Among the EU countries, the most important host is Germany (except for Estonia), which has been traditionally very strong trade partner of CEECs. Outward FDI from CEECs is to a large extent concentrated in the region of CEE itself, with crossed FDI between neighbouring countries.

*Figure 1. Foreign Affiliations of CEECs' Firms (by region)*

CEEC: Albania, Bosnia and Herzegovina (BiH), Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia, Slovenia, and Yugoslavia.

CIS: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Source: Survey on outward FDI in CEECs, 2001.

Regional concentration is even more evident through distribution of foreign affiliations of MNCs from CEECs (Figure 1). Except for Poland, for all the studied countries the most important host region is CEECs. For Hungary and Slovenia, the EU is the second destination, more important than CIS countries or other countries, while quite the opposite is valid for Poland, Estonia and the Czech Republic. According to the sample data, Hungary, Poland, and Slovenia have the most dispersed (diversified) foreign affiliate network, since several regions are covered by direct presence. Estonia, on the other hand, experienced the highest concentration of foreign affiliates in CEECs.

Among the determinants of choosing location, the main role was given to market determinants, such as size and growth of the market, since market-seeking was the most important underlying motive of outward FDI (Svetličič & Jaklič, 2002). Due to large domestic market, it was a bit less intensive in Poland. Cost institutional determinants appeared to be much less important which reflected also in low importance of labour-costs and resource seeking motives. Surprisingly institutional framework (such as country risk, investment policy, regulation, taxes, administrative procedures and incentives), though considered as important barrier have not de-stimulated firms from investing abroad, as the bulk of FDI outflows went in less developed countries with non-developed institutional framework or even high country risk (as in the case of Slovenia in the region of former Yugoslavia). Firms are primarily looking for business opportunities and possibilities to exploit their ownership specific advantages, which often have limited time duration, and less to institutional environment.

*Table 3. Outward FDI Stock from Selected CEECs (top host countries in %)*

Host	Investing country
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country	Czech Republic		Estonia		Hungary*		Poland		Slovenia	
<b>1<sup>st</sup> host</b>	Slovakia	30	Lithuania	45.0	Netherlands	29.6	Belgium, Luxembourg	26	Croatia	45
<b>2<sup>nd</sup> host</b>	Liechtenstein	17	Latvia	34.0	Czech R., Slovakia	23.1	Great Britain	15	Germany	9
<b>3<sup>rd</sup> host</b>	Great V. Islands	6	Cyprus	9.6	Austria	11.3	Switzerland	14	Macedonia	8
<b>4<sup>th</sup> host</b>	Poland	6	Italy	6.9	Romania	9.9	Turkey	11	Bosnia-H.	8
<b>5<sup>th</sup> host</b>	Hungary, Germany	5	Ukraine	1.6	Denmark, Germany	7.9	Germany	5	Poland	7

Note: \*Geographical breakdown for Hungary is available on the basis of flows only. Stock is estimated on the basis of sum of FDI outflows.

Sources: Bank of Slovenia, OECD, UNCTAD, Elteto et al. (2002), Rossati & Wilinski (2002).

The internationalisation of CEECs' MNCs is focused heavily on the European continent since indigenous CEECs' firms are somewhat restricted by their size, experience, capabilities, and resource base. CEECs remain the most important destination also for planned investment, but the EU is gaining the importance. The reasons for limited internationalisation are mostly inherited from their socialist past and accompanied by transition specific barriers (weak competitive advantages, limited resources, lack of experience, personnel, market knowledge). On the other hand, CEECs' firms can easily re-establish their previous business networks, market knowledge and business experience. This reflects the relevance of evolutionary models, such as investment development path and Scandinavian sequential internationalisation pattern (Welch & Luostarinen, 1988).

Though the pattern predicted in theory and experienced by developed economies repeats in the case of CEECs, the evolution goes faster with some stages being overjumped. Some firms have in spite of all difficulties succeeded to become global firms and reacted very quickly. The most penetrating CEECs' MNCs have over 20 foreign affiliates, for example Gorenje (see Jaklič & Svetličič, 2002). So far the most successful strategy for becoming a global firm is becoming the supplier of a global company. The most global CEECs' firms have succeeded in few years precisely by this strategy (for example Prevent and Kolektor from Slovenia). Such strategy and presence in industrial networks brings firms technological, process, product and functional upgrading. Many of CEECs' globals pushed themselves forward as producer of intermediary products in carefully selected niches. More high tech firms succeeded also through strategic partnerships.

Only highly competitive or 'niche' MNCs from CEECs go to the West or global, while majority of firms go where they are able to; not pursuing their wishes but

first of all their abilities. For transition economies' MNCs, West might not be the first best choice in comparison to the closer (neighbouring) less developed countries, which offer the firms from CEECs also to exploit first mover advantages, apart from previous business ties, experience and good knowledge. As such they are useful also as a learning lesson for penetrating in more distant and less familiar markets. Many of sample firms and interviews confirmed such evolutionary internationalisation pattern.

Foreign owners, i.e. direct investors in CEECs are also aware of these advantages, which also influence geographical allocation of CEECs' investment abroad. Foreign firms use CEECs as a springboard to other countries. Foreign investors choose the indirect way when a particular country (indirect investing/home country) has certain specific advantages as springboard for investment to some other countries or regions (preferential host countries)<sup>3</sup>. In the case of transition countries analysed, there are certain factors that make them a suitable base for investing in some other countries. Estonia has advantages as a base for investing in other Baltic countries and probably also some of the successor states of the former Soviet Union, Slovenia in investing in the successor countries of the former Yugoslavia, the Czech Republic in Slovakia, Hungary, and Poland in some of the neighbouring transition countries.

## **4. Sources of Competitive Advantages of CEECs' MNCs**

### **4.1. What Kind of Companies Are Direct Investors from CEECs?**

Though often put in one basket, CEECs are rather heterogeneous and have many specialities. Also investors from CEECs could hardly be treated as a homogenous group. The analysis of selected case studies nevertheless shows some common characteristics of MNCs from CEECs, though their significance varies by countries. To a large extent their characteristics can be examined by analysing the sample structure by activity, size, age and ownership structure of companies.

In the total sample of CEECs' firms the manufacturing companies are prevailing (50%). Frequently manufacturing or some other services are combined with trade. Manufacturing is the dominant activity of investing firms in the Czech Republic, Hungary, Slovenia, and Poland (though concentration by activity is

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<sup>3</sup> For instance, the US and Japanese investors often use the UK as a springboard for establishing affiliates in other European countries, foreign companies use Hong Kong as a springboard for investing in China and Austria for investing in CEECs. In the case of Austria, the share of indirect investors in total Austrian outward FDI stock in CEECs was 53.2% in 1991 and 28.8% in 1998 (Altzinger & Bellak, 2000). The beginning of transition process in CEECs diminished Austria's 'springboard' role and more foreign investors have chosen to go directly to transition countries (Altzinger et al., 2002).



there smaller), while services firms are prevailing in Estonia. The sample breakdown by activity is very representative and goes in line with sectoral allocation of investors at the macro level. Manufacturing sector was the first to start internationalisation (in the previous regime already). Manufacturing has the highest export propensity and consequently also the highest outward investment propensity.

The most prominent MNCs from CEECs are mostly older and bigger companies established in pre-transition period with substantial previous export experience and certain international business record. Major exporters in the socialist era were among the first investors after transition started. Their advantages were stocks of resources, strong brand names, steady business ties abroad, and substantial knowledge of some foreign markets. Such characteristics are typical for indigenous (domestically owned) firms. Such cases were often found among case studies in Slovenia (Gorenje, Iskraemeco, and Prevent), the Czech Republic (Škoda), Hungary (MOL Hungarian Oil & Gas Plc.)<sup>4</sup>. The weight of historical background and experience could be traced also on the list of top 25 MNCs from CEECs which is relatively stable; changes are most frequently due to improved data coverage or changes of declared nationality (due to relocation of holding registration) and rarer by displacement of new firms (UNCTAD, 2001).

As regards the size of investing firms, majority of the sample falls within a group of small and medium enterprises (SMEs) with up to 250 employees, though the (non-weighted) average number of employees in the sample is 1213. SMEs are prevailing in Estonia (almost 70%), are close to 50% in Poland, about 37% in Slovenia, while the Hungarian and Czech sample includes mostly large firms (over 60%).

A closer look at the age reveals that companies with outward FDI often have long tradition and experience (including brand name, reputation) and thus confirm the relevance of experience and gradual learning process. As much as 38% of sample companies were established before 1990. The majority of the sample companies established in transition were originating from the first half of the 1990s (from 1991 to 1993, with 1992 as the most plentiful year). The majority of the firms established before the Second World War come from Hungary, which influence that on average the oldest is the sample of Hungarian companies. The majority of the firms established in the socialist time come from Slovenia. In 1945-1989, relatively large share of companies was established also in the Czech Republic (24%), Hungary and Poland (32%). The youngest (on average) are Estonian firms.

Apart from indigenous CEECs' firms, next important stimulus came also from inward FDI. Favourable conditions and policy provided by some CEECs for the

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<sup>4</sup> See also Elteto and Antalotzy (2002).

massive penetration of foreign capital and business practices have played crucial role in the internationalisation. Best examples in this regard are Hungary, followed by the Czech Republic and Estonia, which got significant incentive from indirect investment. In Hungary, one of famous example is Matav, a telecom company, in the majority ownership of Deutsche Telecom and its acquisition over Mactel. Significant influence of foreign capital was also in the case of the Estonian banking breakthrough in the Baltic States. Though the idea and the initial incentive might have been launched from the local management (Elteto & Antalosz, 2002), such decisions were only possible by the financial and management support of the foreign partners. Local knowledge of foreign markets and previous business ties were often worth to be used and financed by so-called indirect investors (Altzinger et al., 2000; 2002).

Ownership structure analysis revealed that in the majority of sample MNCs foreign ownership exceeds 10% confirming that outward FDI is significantly influenced by inward internationalisation/FDI. In half of the so-called indirect investors foreign ownership exceeds 50%. The share of indirect investors varies significantly across selected countries (from 37 in Poland, 43 in Slovenia, 53 in Czech Republic, 63 in Estonia to 82% in Hungary). With the exception of Poland the share of indirect investors goes along with the country inward FDI and inward outward FDI ratio. Most frequently foreign investors come from the EU, rarely from the USA, or CEECs and the CIS.

These characteristics themselves confirmed the relevance of evolutionary models. As the most penetrative CEECs' MNCs are mostly older, with rich export experience, of bigger size, and from manufacturing, this reflects sequential pattern in terms of entry mode and gradual learning. Sequencing is also found through significant influence of inward internationalisation, as predicted by investment development path.

#### **4.2. Firm/Ownership Specific Advantages of MNCs from CEECs**

According to Dunning's OLI framework, ownership-specific advantages are a precondition for outward investments. Companies invest only if they have specific advantages, if they found better locations for them than at home and if internalisation is best way to maximise returns on such specific advantages. They are a necessary but not a sufficient precondition for outward FDI.

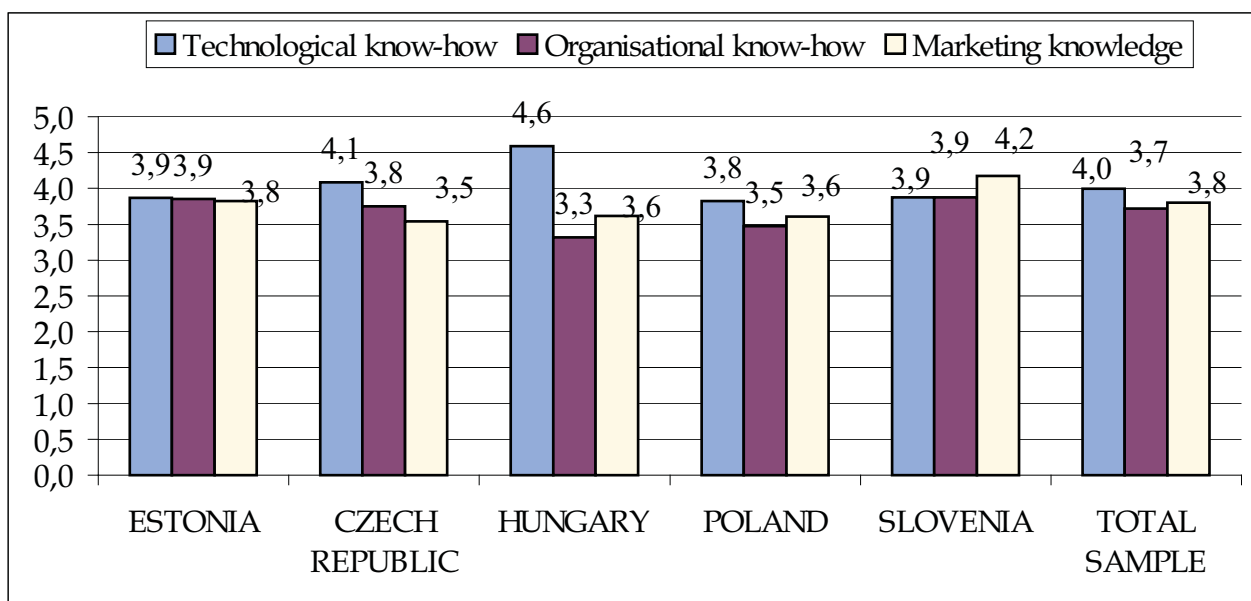
CEECs' MNCs from evaluate their competitive advantages<sup>5</sup> very similarly. Small (and insignificant) differences were also found between different fields of

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<sup>5</sup> Competitive advantages can serve as a proxy for ownership-specific advantages. The assessment is based on companies' perception of their position in comparison to their close competitors. The grade reflects the position of a sample company according to its competitors in domestic as well as in the host-countries' market(s). When interpreting the results, we have to take into account the geographical concentration of CEECs' outward FDI.

know-how. Competitive advantages found are mostly intangible, based on knowledge how to do business in selected areas. Often they are declared also as technological based on own R&D. All multinationals estimate that their competitive advantages are substantial in marketing, organisational and technological know-how. The Slovenian firms feel the strongest in marketing knowledge, while the Hungarian<sup>6</sup> and the Czech ones feel the strongest in technological know-how.

Figure 2. The Strength of Competitive Advantages of CEECs' MNC



Source: Survey on outward FDI in CEECs, 2001.

There is no systematic evidence on the kind of such technological advantages; are based on new products or new technologies or they are based more on adaptation of products and processes to local conditions and such a basis their materialisation through outward FDI in countries at similar level of development as predicted by hypothesis of the fourth product cycle stage. Interviews and case studies however provide some evidence that it is primarily not in new product and process technology but more appropriate and adapted technology and cheaper products like branded generic drugs, which are the basis of competitiveness of CEECs' investors.

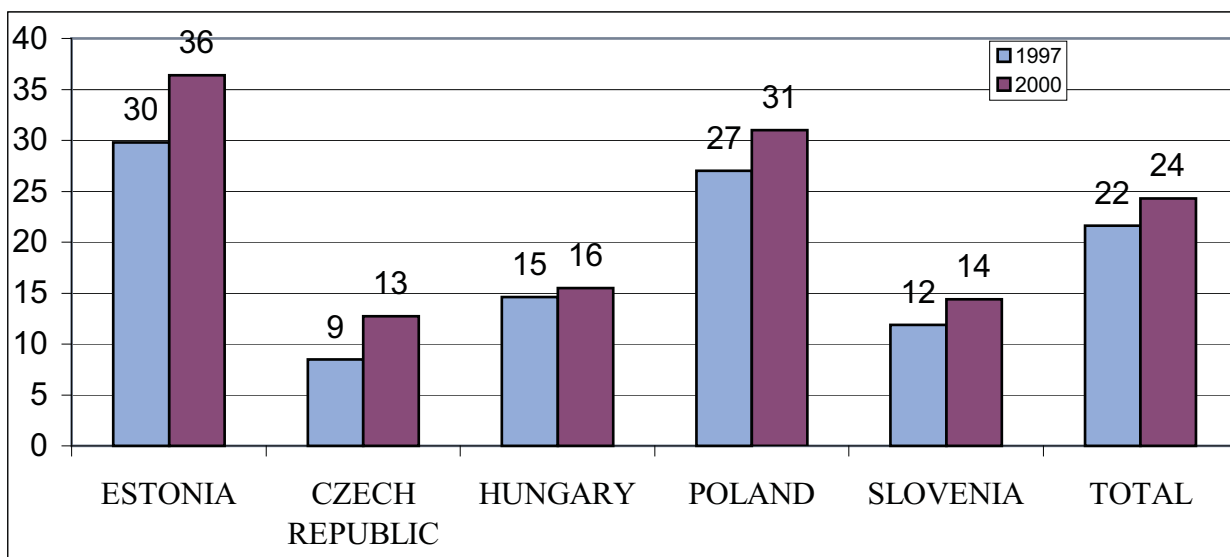
How did they achieve these advantages and what are the implications? Firstly by investing more in R&D than competitors and secondly by higher skill intensity and better educational structure. All three types of advantages can only be based on own R&D efforts and experienced personnel, improved and further

<sup>6</sup> In Hungarian case, it can be explained by the fact that in many investing firms there is important participation by large MNCs possessing stronger technological advantages as compared to firms from other CEECs.

developed by imported technologies and foreign know-how in the field of marketing and organisation<sup>7</sup>.

General characteristic of investing firms are above average and increasing investments in R&D. The share of R&D expenditures in sales revenues in CEECs' MNCs on average amounted to 3.3 in 2000. The differences among countries are not significant<sup>8</sup>. Except in Poland, where average R&D expenditures were the highest in 1997 (this ratio is still much higher than the economy-wide average R&D to GDP ratio of 0.7%, R&D expenditures on average increased (see Rosati et al., 2002). The most significant is the rise in the Czech Republic and Estonia (explained largely by modest starting level).

*Figure 3. R&D Expenditures as a Percentage of Sales Revenues (by country)*

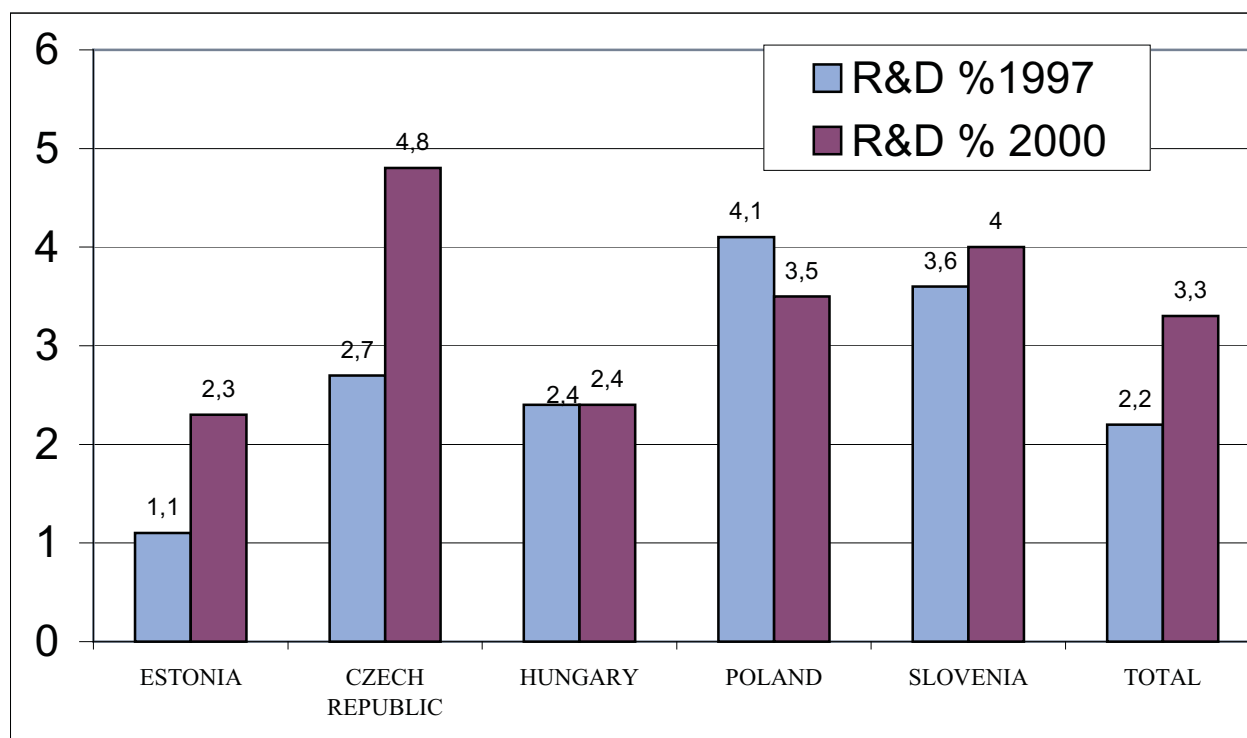


Source: Survey on outward FDI in CEECs, 2001.

<sup>7</sup> The Slovenian case studies have clearly demonstrated that firms with their own R&D capabilities, exporting early to Western markets have been able to overcome even major crises in their development and those without such capabilities and mainly oriented to local market did not (Jaklič & Svetličič, 2002).

<sup>8</sup> Neither in 1997 nor in 2000, Bonfferoni test was used.

*Figure 4. The Share of Employees with University Education (% of total personnel)*



Source: Survey on outward FDI in CEECs, 2001.

The second important source of firm specific advantages is stronger human capital base compared to non-investors. The share of employees with university education was 24.3% in 2000 (increase from in 1997). Case studies and interviews even stronger reinforce such a general conclusion. Not only that investors have better educated personnel they also attribute to training very high importance, more than non-investors. Nevertheless some of the most internationalised firms claimed that much more training in holistic internationalisation issues is needed. Dynamically more important than existing shares are the trends in R&D spending and education. As demonstrated MNCs have strengthened their human capital and R&D base.

Differences between countries in the share of university educated employees are statistically significant in both years and in this respect much more pronounced, as other characteristics of investors. Estonian MNCs have the most skilled personnel and reached also the highest rise in 1997-2000 period. The Polish sample also illustrates well above average educational structure. The Czech Republic, Slovenia, and Hungary are very similar in this regard. Differences can be partly explained by the general features and structure of outward FDI. The figure for Estonia is so high, firstly due to very high general educational level. The share of active population with third grade of education is almost 41% in Estonia compared to 16% in Slovenia and Hungary. Secondly, services firms are

dominant in Estonia. Banks are the major investors abroad and consequently have higher educated employees than average or manufacturing firms.

Very similarly was evaluated organisational know-how, surprisingly assessed as the least important. Firms claim they have developed specific management advantages partly as result of faster privatisation compared to major destination countries (former SFRY in case of Slovenia, the Baltic States and Russia with less developed banking sector in case of Estonia, Romania in case of Hungary or Slovakia in case of the Czech Republic). Case studies indicate that important competitive advantage has been the knowledge about 'how to do business' in other transition economies due to former ties, established business networks, knowledge of language and culture. The implication of this type of advantage is temporality. Firms have to exploit it fast, before other competitors can catch up or outperform these advantages with other stronger competitive advantages.

The analysis showed that investing firms are a very vital part of national economies and have comparative advantages over the rest domestic firms. Their success abroad is based on good products, improving quality and adaptation, flexibility, technological and organisational know-how, knowledge of some foreign markets, but often also on first mover advantage in close, neighbouring and less developed markets. Firm specific advantages are therefore strongly combined by location specific advantages.

#### **4.3. How Do Investing Firms from CEECs Sustain Competitive Advantages?**

Competitive advantages are not lasting guarantees, but highly changing assets. Especially those originating from first mover advantage can evaporate as soon as new competitors enter the foreign markets. Therefore, competitive advantages should be exploited soon, and they should be simultaneously and constantly upgraded. FDI was found as an instrument through which firms and economies are being integrated at the level of production into the globalising world economy by bringing package of assets, including capital, technology, managerial capabilities and skills, and access to foreign markets.

It is crucially important to be first mover and to use such a 'time out' for upgrading other advantages parallel with erosion of this passing type of competitive advantages. If the only competitive advantage were know-how to do business and marketing knowledge, they could evaporate as soon as the first mover advantage disappeared. Such advantages are unsustainable if not upgraded in other fields. Above average R&D expenditures and higher shares of university educated in investing firms and their growing trends promise that the so far prevailingly location driven advantages will gradually be replaced by ownership-advantage-driven internationalisation. Internationalisation is strengthening firm specific advantages, which can in the future gradually enable the more aggressive internationalisation to encompass also other markets.



The surveyed companies with outward FDI have generally experienced a positive net effect of outward FDI and the related success was mostly in line with the expectations. Trade and competitiveness effects were far more important than any other effects. Market-seeking investments - that was the most frequent among MNCs from CEECs - resulted in increased market shares, growth of exports, and domestic production levels (Svetličič & Jaklič, 2002). Consequently, outward FDI enhances efficiency and restructuring, although these were not the initial motives. Investing companies introduce new products, product differentiation and increased quality. Direct presence in a foreign market has helped them respond to customers' needs more rapidly. By investing abroad, firms also achieved other positive asset-creation effects. They have improved their image and enhanced and broadened their marketing, management and organisational skills. Technological learning has on the other hand been modest since the majority of host countries are less developed. However, they have still introduced more technological novelty than non-investing firms.

Positive effects of outward direct investment reflected in improved market position and success experienced by the majority of the sample CEECs confirm outward investing also as an instrument of enhancing competitive advantages and competitiveness of multinationals from CEECs.

## **5. Conclusions**

Due to systemic reasons and limited international economic co-operation in the socialist period transition economies lag behind in internationalisation process and also regional integration. With the beginning of economic transformation their internationalisation was more pooled than pushed. Confronted by the increased need for internationalisation in a globalised world economy, the lack of relevant experience<sup>9</sup> makes such internationalisation under the pressure of time a significant challenge. To cope with international competition and to benefit from globalisation, CEECs have to internationalise themselves in a much shorter period. This shortness of time prevents firms from CEECs benefiting gradually from the cumulative learning process of sequential internationalisation (from inward internationalisation and less advanced entry modes) like their predecessors in developed countries once did. They have to do it in a much shorter time to keep pace. Since a lack of outward internationalisation could undermine a successful transition to a market economy, this issue has especially high relevance. The national (local) specific production networks will not be able to integrate in the global (regional) production networks without

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<sup>9</sup> Experiences of operating abroad accumulated in socialist times are hardly applicable due to the different rationale of the then investing state monopolies, although they did have to adapt to local conditions. Secondly, managers or those involved in such operations of old state monopolies may no longer be managing the related privatised companies.

development of FDI interrelationship, which connect three sources of governance – markets, government, and firms.

In analysing where they compete, we found out that outward investment activity is concentrated in Europe. Great majority compete in less developed markets. Geographical allocation of outward FDI gives evidence that proximity matters and that physical distance, cultural nearness (knowledge, minorities) and historical ties are relevant in deciding where to invest. Neighbouring countries have absorbed far the most of outward FDI of the Czech Republic, Estonia, Hungary, Poland, and Slovenia. Even more so, outward FDI is concentrated on those neighbouring countries where some additional ties exist. Thus, 80.4% of the Estonian end-June 2001 outward FDI stock is located in Latvia and Lithuania, 64.5% of the end-2000 Slovenian outward FDI stock is in the territory of the former Yugoslavia, 30.4% of the end-1999 Czech outward FDI stock is in Slovakia. Since they compete mostly with standardised products, most likely less developed markets offer greater opportunity. These markets are less occupied with foreign competition and provide learning process also for spreading to more distant and/or developed markets. Often advantages arise from being first mover in certain market. Especially in less developed markets such first mover advantages (limited on certain geographic regions) might evaporate if not exploited and upgraded as soon as other competitors enter these markets.

Though MNCs from CEECs are young and geographically concentrated, some are truly global. Not all MNCs combine their firm specific advantages with location specific advantages of less developed markets. Some highly competitive niche firms or very experienced firms have proved already that they can compete in the global market, since they have significant and sustainable competitive advantages. Those are also successful in creating new assets. However there is no guarantee for their permanent stable position in the global market and increasing competition. Their firm specific advantages need to be constantly upgraded.

MNCs from CEECs compete on the basis of marketing, organisational and technological knowledge and highly skilled personnel. They have mostly above average R&D expenditures and above average share of university educated employees. Past experience matters a lot – what was clearly confirmed by countries and by survey results. But at least equally important are ambitious plans and constant upgrading of advantages, such as increasing R&D expenditures and skills of employees, which are precondition for developing firm specific advantages. This is the only way to take them off temporality and make their competitive advantages sustainable. Next important factor of success is appropriate combination of these firm-specific advantages with location specific advantages.

Internationalisation strategies of CEECs' MNCs can offer some universal lessons. Existing MNCs have used outward FDI as an instrument to get out of crisis situation that combined the loss of previous markets with the crisis of transition per se. Though risky and difficult investing abroad is very appropriate for staying competitive (i.e. surviving) not only in foreign but also in the domestic market. However, internationalisation patterns of transition and developing economies' firms are namely similar to firms of developed economies in spite of the substantial differences seen in development and the degree of internationalisation. Globalisation as a key novelty in the external environment in which outward FDI is taking place today has modified the ways and means of outward internationalisation, but not to such an extent that sequential internationalisation is put in question. It has only speeded it up. Firms have to start it earlier than in the past, they have to jump over certain former early stages. Globalisation has deprived firms of the time to benefit from a gradual learning process. Mistakes can therefore be expected to be more common in the future, but should not scare managers from CEECs firms to avoid advanced internationalisation modes. The only way to minimise them is to improve knowledge and information about internationalisation. Both firms and governments still have a lot to learn to improve global competitiveness and progress in internationalisation.

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