Process Perspectives in International Business Research in CEE[1]

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Abstract

- Internationalisation processes have been a core interest of international business research since the seminal contribution by Johanson/Vahlne (1977).
- The unique context of economic transition in CEE directs the attention to dynamic aspects of these processes, and to the interaction with changing environmental conditions.
- This introductory paper reviews the contributions of recent CEE research, and this special issue in particular, to advancing our understanding of internationalisation processes.

Key results

- Research in this special issue advances the IP model by exploring concepts of "opportunity creation", "discovery", "emotions" and "subsidiary roles".
- Future research on these concepts, as well as on the interaction of internationalisation processes of firms and their networks, may further enhance our understanding of internationalisation.

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1. Introduction

The opening of Central and Eastern Europe (CEE) has created unique 'quasi-societal experiments' and thus opportunities to test and advance theories in international business (IB) and management. This research has developed two broad traditions of research, developing 'variance theories' and 'process theories' (Langley 1999). The former aim to explain determinants of variation in corporate performance or behaviour, and are typically tested with cross-sectional data. Process theories seek to explain how businesses evolve over time. CEE research has advanced both agendas of research, with variance theories obtaining most of the attention in top Journals (Meyer/Peng 2005, Wright/Filatotchev/Hoskisson/Peng 2005). The ahistorical, aprocessual and acontextual character of such research however limits its explanatory power (Pettigrew 1990), a concern that applies in particular to research in dynamic contexts such as CEE. Thus, transition economies require indigenous theory-building research as existing theories developed in other context may fail to identify effects and concepts that are important to understanding business under these conditions (Tsui 2004). Thus, in this introductory paper, we aim to provide an alternative perspective focusing on processes in IB.

Variance theories focus on strategic decisions made by managers at a given point in time, and compare the merits of alternative strategies. Theories employed by this type of research in IB, such as transaction costs economics or the resource-based view, focus on how firms minimize costs or maximize revenues under the given circumstances and with the information available to decision makers. Empirical research in this tradition employs primarily cross-sectional analysis of firm-level datasets, and tests hypotheses concerning for instance the determinants of alternative organizational arrangement, or the implications of alternative arrangements for corporate performance. Longitudinal aspects are generally of lesser interest to this research, though some studies control for preconditions such as prior commitments and experiences.

Process theories focus on longitudinal developments, and aims to explain how and why firms advance or decline over time (Langley 1999). This research combines economic theories based on rational actors with behavioural and cognitive theories to explain the expansion and contraction of firms. In addition to internal processes and decision- making, it investigates the dynamic interaction of firms with their environment, and their business networks in particular. In IB research, the Uppsala school has been at the forefront of process research. The internationalization process (IP) model by Johanson/Vahlne (1977) has provided a focal point and directed attention to dynamic learning processes. Its intellectual roots in particular Penrose's (1959) *Theory of the Growth of the Firm* and Cyert/March's (1963) *Behavioral Theory of the Firm*. Scholars investigating international firm growth in this tradition employ primarily longitudinal case research designs, and draw on a variety of theories from disciplines such as sociology, psychology and economics.

Process theories are particularly relevant for analysing IB in CEE because it involves major learning processes, both in the host society and within firms expanding internationally. Foreign entrants learn about CEE markets, as well as about their own resources and potential services they may render if deployed in CEE. Many foreign investors have built new operations essentially from scratch after 1990, and have developed them into major operations within a decade. Few investors had relevant prior experiences in these host economies. The CEE context challenges firms to develop new ways of doing business, and adapt to a local context that is very different from the mature market economies. The institutional and economic environment has since evolved towards the West European model of capitalism, yet some unique features remain. Thus, CEE remains an interesting area to study the adaptation and investment processes of multinational firms. Moreover, local firms operate in the emerging institutional framework and learn to collaborate with the foreign firms. CEE is thus also a fruitful ground to investigate the first steps of IB by local firms with little experience in a competitive market economy.

This paper reviews the state of the art of process-oriented research in IB, and the IP model in particular. In the next section, we briefly outline business challenges in CEE that merit investigation by IB researchers. In section 3, we review the IP model and its potential to explain puzzles emerging in CEE research. In the fourth section, we discuss key concepts developed in the literature with special focus on the contributions in this special issue. We conclude with an outlook on future research.

2. CEE as Challenge for IB Research

Business in CEE has emerged in the early 1990's as a substantively new field of research as institutional reform swept through the region, and created entirely new conditions for firms. The depth of the institutional changes has been unprecedented, and created unique challenges for all economic actors, including foreign investors, existing local firms, and local entrepreneurs.

Institutional Transformation

Rapid change in both the institutional and the market environment characterised the business environment in CEE after 1990. The formal institutional framework has in many ways been built from scratch, as the key coordination mechanism of the old regime, the central plan, was abandoned. This created a legal vacuum that was gradually filled with new laws and regulations that support a market economy (Meyer 2001, Svejnar 2002). The state planning institutions were replaced by spontaneous, chaotic and short-term markets, especially, commodity exchanges (Sedaitis 1997) and informal markets (Hohnen 2004). This institutional change has proven to be a complex process, as predicted by leading institutional economists (North 1994) and organization theorists (Spender 1993), yet often insufficiently appreciated by policy makers and their advisors.

During state socialism, major discrepancies developed between formal institutions and informal social norms. Personal networks and bribery were widely used to mitigate against the rigid laws and regulations, to avoid obligations to the state, to facilitate promotions and to access household assets such cars and apartments that were in a short supply (Ledeneva, 1998). Such attitudes and behaviours carried over into the transition period and created significant barriers to the transformation process. Consequently, a rather unique style of post-socialist capitalism emerged (Stark, 1996). On the surface, it manifested formal institutional ideals from the West; yet social norms developed during the socialism persisted underneath.

The speed of reforms and the limited knowledge on the market economy – the stated final destination of the transition process – created high uncertainty. The wholesale dismantling of the political and economic institutions progressed much faster than people were able to learn and adapt. Furthermore, the simultaneous building of new institutions, writing new legislation, and development of social norms was taking time. In addition, the transition process generated phenomena that were totally new to the population, such as high inflation, unemployment, trade unions, international competition, privatisation, and managers rather than bureaucrats as key decision makers. Adapting comprehensive new legislation and building formal institutions were very complex tasks, yet it was even more difficult for a majority of the population to learn, make sense of and apply the new rules in concrete situations. Thus, the emergence of informal social institutions was lagging behind and often diverged from the formal institutions. In short, the cognitive structure of individuals and business organizations did not ‘fit’ with the logic and values underlying economic and political transformation.

As transition progressed, observers and policy makers increasingly came to appreciate the basic insight from institutional economics that economic performance is shaped by a mixture of formal rules, informal norms, and enforcement mechanisms. While the rules may be changed overnight, the informal norms usually change only gradually. Economies that adopt the rules of another economy will have very different performance characteristics than the first economy because of different informal norms and enforcement mechanisms (North 1994). Thus, transferring the formal political and economic rules of successful Western Economies to Eastern Europe is not sufficient to trigger economic prosperity. Notably, privatisation is not a panacea for solving poor economic performance (North 1994: 366).

Thus, transition economies are characterized not only by a higher market uncertainty, but also greater institutional uncertainty, which raises the complexity of IB operations. Building effective institutions demands a long, complex and multi-level process of collective learning. Just like coordinating capabilities of a firm cannot be bought on a market and have to emerge through learning by doing, institutions - as rules of the game in an economy- have to evolve through a similar, but much more complex and lengthy process of experiential collective learning (Spender 1993). Therefore, institutional transitions are always difficult and take time and, naturally, they become a key factor influencing corporate strategies (Newman 2000, Peng 2003, Meyer/Peng 2005).

Foreign investors

For businesses in Western Europe, the transition presented major opportunities to grow their business, but also unique challenges (Meyer 2001). The local markets attracted interest by many firms seeking to expand their market reach, and to establish strong market positions in essentially virgin territory. Thus, expected first mover advantages played an important role for many of the early investors. Moreover, the differential in labour costs in Western and Eastern Europe created new opportunities for offshoring either by splitting the product chain geographically, or by moving entire production facilities.

Yet companies pursuing these opportunities faced unique challenges as institutional imperfections raised transaction costs and increased uncertainty. Thus, foreign investors had to adapt their strategies such as to reduce exposure to markets with particularly high transaction costs, increase strategic flexibility, and access complementary local resources (Meyer/Peng 2005). Moreover, as a consequence of the rapid change, foreign investors generally lacked experiential knowledge – a key driving force of internationalisation according to the IP model. Even those with business relationships before 1990 found that the value of their local knowledge other than language skills rapidly depreciated as a result of the systemic shift (Salmi 1999). Thus, decisions had to be made under a high degree of uncertainty, and knowledge on the CEE had to be rebuilt.

For many small and medium size enterprises (SMEs) in Western Europe, the opening of CEE presented opportunities for international growth as their existing West European markets were saturated while high costs threatened competitiveness. Many SMEs thus entered CEE with limited prior international experience, but recognizing the changing global competition would not allow them to continue with traditional business models, especially in industries with labour intensive production such as textiles, furniture and electronics assembly.

Foreign investors in CEE thus faced unique challenges during the years of radical change in the transition economies. This raises interesting research questions in particular on how they manage learning processes and business networks in the face of institutional change and uncertainty.

Local Incumbents

In 1990, most firms in CEE were state-owned enterprises (SOEs) that were not well positioned to take advantage of the new opportunities for IB. Firstly, strategic management as such did not exist in the central plan regime. SOEs had specific tasks and output targets assigned by the central plan. Thus top managers did not have to think about many of the tasks and decisions associated with strategic management in a market economy, such as the analysis of the market environment and the development and implementation of competitive corporate strategies. The transition from socialism to capitalism changed the role of firms in society, and in consequence their responsibilities and objectives (Newman 2000, Meyer 2001). This required a fundamental shift in the way individuals at the helm of firms have to lead their business. Particularly difficult to overcome were the cognitive dimensions, as managers had to recognize opportunities in entirely different ways, and face new criteria for their performance assessment, namely profits and growth rather than output targets and a peaceful workforce.

Secondly, firms typically had little knowledge of their customers or of IB practices. Even firms that were producing for export had little knowledge of IB because international trade was conducted via state-owned trade intermediaries. Moreover, the central plan regime had discouraged any form of initiative such as finding foreign customers or suppliers. Even decisions over investment in R&D or technological upgrading were taken by governmental branch ministries, often following political rather than economic prerogatives.

In the early 1990s, SOEs thus needed to undergo deep strategic and organizational restructuring. To that end, they engaged in IB in three different ways. Encouraged by reform-minded governments, many enterprises pursued partnerships with foreign investors as a means to facilitate restructuring. Collaboration with Western partners, for instance by forming a joint venture, provided access to financial resources and, possibly more importantly, new technologies and managerial know how. Second, some SOEs tried to replace lost sales in the post-socialist countries by seeking new customers for their existing products in the developed market economies. Thirdly, in the mid to late 1990s, some incumbent firms Hungary, Slovenia and the Baltic States started to expand internationally through outward FDI (Svetlicic / Rojec 2003). Some companies had competed successfully beyond CEE since the 1960s. For example, *Gorenje* from Slovenia ha exported to the West since the 1960s, and restored its competitiveness after deep restructuring following the collapse of the former Yugoslavia (Svetlicic, 2002). Some other companies had developed their brands and customer base as regional multinationals in the socialist bloc, which made it easier for them to maintain or re-establish their positions in the region under market conditions. However, most incumbent companies were ill-prepared to enter international competition in both the liberalizing domestic markets and in international markets, and only after deep organizational change, they began to catch up in the late 1990s.

Entrepreneurs

Socialist societies discouraged individual initiative, innovation and creativity. Many believed that lifting unnecessary constraints would unleash a wave of new firm creation that would accelerate economic growth. Yet in retrospect, this optimism seems to have been misplaced. Arguably, entrepreneurship in CEE has gone through four distinct stages. In the old regime, *socialist entrepreneurs* exploited arbitrage opportunities arising in a deficit economy, private or household agriculture and informal household service. In the mid 1980s, new policies were more sympathetic to private initiative, quasi-private cooperatives were legalized, and increased geographic mobility facilitated informal trading across borders and regions. This gave rise to *perestroika entrepreneurship*. In the early 1990s, opportunities to take over control and assets of the state enterprises provided a context for *privatisation entrepreneurs*, including perestroika entrepreneurs, but also managers of the state enterprises, and early foreign investors. By the turn of millennium, privatisation had been completed, and new ownership structures and industry dynamics emerged. Thus, *market entrepreneurs* have to build ventures under more competitive conditions.

Systematic evidence on entrepreneurship in CEE is limited, and even less researched is international entrepreneurship (Estrin/Meyer/Bytchkova 2005). Secondary and anecdotal evidence suggests extensive international entrepreneurship, which helped overcoming the consequences of declining industrial production. In the final years of central planning and during early transition a peculiar *informal international entrepreneurship* emerged as individuals travelled across CEE and even distant markets such as China, and Turkey, carrying small volumes of goods that were in short supply in one region but readily available in another (Hohnen 2004). Similarly, procurement managers of SOEs travelled to visit central and regional planning authorities as well as the supplier factories to secure deliveries of raw materials. Thus, deficiencies of the planning system created opportunities for international entrepreneurship.

The initial gap between CEE and mature market economies in terms of technology, financial capital and especially managerial know-how were huge. Thus, many would-be entrepreneurs considered experience and networks with partners in the developed countries of strategic importance. These “lonely internationals” (Johanson/Mattsson 1988) gained several advantages over domestically oriented entrepreneurs. First, early learning advantages and economies associated with an increasing value of an early successful transaction allows early starters to encounter and exploit a larger number of opportunities. In many cases, the advantages of early learning in international markets and early financial success have become the basis for building a business group or entrepreneurial network (Gelbuda 2005). Thus, in order to build successful new firms, some entrepreneurs sought experience in the mature market economies, despite the high psychic distance separating Eastern and Western Europe at that time.

This corresponds with evidence from mature economies. New ventures that internationalize early with a limited domestic market experience, do not develop routines for the domestic market, which may inhibit internationalisation of firms with longer domestic tenure. Thus, orientation towards international markets eliminates un-learning problem and creates “learning advantages of newness” (Autio/Sapienza/ Almeida 2000). Moreover, new international ventures in transition economies had less socialist organizational baggage, and could more effectively develop new routines for operating in transition and in developed markets economies.

Free from the organizational ’baggage’ of an SOE, some CEE entrepreneurs went international early. The logic of the IP model helps explaining these ’international new ventures’ (also known as born globals) as it points to the need for experiential knowledge embodied in the individuals (or predecessor firms) that come together to form this business. Thus, it is important to understand knowledge accumulation not only at the firm level but also as the aggregate of knowledge contributed by individuals, with each their own individual history prior to joining the firm. While this may also hold for new international ventures in other regions of the world, it makes early internationalising firms a particularly interesting field of inquiry in CEE.

Round Up

Reflecting on their own work, Johanson/Vahlne (1990 pp. 22, italics added) suggest that "researchers should investigate how firm internationalisation processes are related to the *surrounding* processes, i.e. market or network internationalisation, industry internationalisation, technical development, concentration as well as de-concentration processes". All these factors seem to be particularly relevant to foreign entry *into* CEE as well as the internationalisation of firms *from* transition economies. The transition economies thus provide an interesting context for process-oriented research that illuminates the dynamic interaction between environmental and organizational change processes or, in the words of Johanson and Vahlne, the interaction between changing *firm's knowledge* and *market knowledge*. This applies to all types of firms, including foreign investors, local incumbents, and entrepreneurs.

**** Figure 1 approximately here ****

3. The IP model as a Theoretical Lens for CEE Research

The Internationalisation Process Model

The IP model (Johansen/Vahlne 1977; 1990) provides the most common starting point for process research in IB. The IP model is an early contribution to the resource-based theories in strategic management (Meyer/Peng 2005) that share common intellectual roots in the work of Penrose (1959). Yet, Johanson/Vahlne (1977) are closer to Penrose than the resource-based view developed by Barney (1991), as they focus on the learning processes that drive international firm growth. Their focus on experiential knowledge anticipates recent theorizing on knowledge as the key resource in firms, for example in the evolutionary theory of the firm (Kogut/Zander 1993), and the knowledge management literature (Grant 1996).

The IP model explains the gradual expansion of foreign operations as a result of an interactive process of acquiring experiential foreign market knowledge, and an increasing commitment of resources to foreign markets (Figure 1). Following Penrose (1959), Johanson/Vahlne (1977) distinguish between two kinds of knowledge: objective, which can be taught, and experiential, which can only be acquired through personal experience. The IP model is based on the assumption that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business activities in the market. Thus, foreign market experience generates opportunities and, consequently, is a driving force of the internationalisation process (Johanson/Vahlne 1990). Moreover, experiential knowledge is a primary way of reducing market uncertainty.

The internationalisation process model explains typical patterns observed by the authors themselves and their colleagues (Carlson 1966, Johanson/ Wiedersheim-Paul 1975), i.e. the start of business in nearby countries with gradual expansion to more distant markets, and the start with export and non-equity modes of business, with gradual expansion to contractual and joint venture modes, and eventually wholly owned subsidiaries. However, as Johanson/Vahlne (2005) emphasize, this path observed in their empirical study was not intended to show a paths that firms should be following, nor does it describe a deterministic path. Rather, it is an empirically observed path that can be explained by the theoretical logic. Applications of the model in other contexts or other industries, for example in service industries, would be expected to detect different paths, yet driven by the same underlying process of dynamic interaction between commitment and knowledge accumulation.

The authors have over the years extended their original model. Johanson/ Vahlne (1990) discuss under which conditions the IP model has a stronger explanatory power, and point to the evolution of networks as a reinforcing mechanism of the model. Johanson/Vahlne (2003) present a relationship-based model of internationalisation that refines the analysis of experiential learning. Specifically, they describe the interplay between the experiential learning and commitment in the business relationship as a main mechanism for learning, identifying new opportunities and, subsequently, advancement of the IP. Their model shows how learning in relationships enables firms to enter new country markets, where a firm develops new relationships that provide a platform for entering yet other country markets.

New Challenges for the Model

The transition in CEE raises new challenges for research into IB processes. Firstly, CEE research directs attention to the interaction of the internationalisation process and the **external environment**. The original IP model has, arguably, a static and undifferentiated view of the foreign market environment, and CEE research may thus advance the IP model. In CEE, the institutional environment and its relatively rapid change makes it much more prominent in relation to customers, competitors and suppliers. Foreign investors continuously make new 'discoveries' about the local environment (Johanson/Johanson 2005). Thus, external change drives many of the internal change processes in CEE firms, including both local firms (Newman 2000) and foreign investment firms (McCarthy/Puffer 1997, Estrin/Hughes/Todd 1997). Hence, the continuous readjustment to the environment interacts with internal processes of learning and resource accumulation. Future research may further explore the interaction between external and internal change processes by unpacking the concept of environment and analysing its dynamic interaction with firms. Such research may draw for instance on co-evolution frameworks (Lewin/Long/Carroll 2003, Meyer/Nguyen 2005) or the argument in economic sociology that firms co-constitute and are embedded in their environments in four distinct ways: cognitively, culturally, politically and structurally (Zukin and DiMaggio, 1990). Each form of embeddedness may have its own effects on international expansion firms and their behavior in international collaborative ventures.

Second, businesses seeking to enter CEE after the opening of CEE in 1990 could draw on **little experiential knowledge** on how to conduct business in that context. Moreover, firms that had operated in the region experienced a depreciation of their knowledge as the rules of the game changed (Salmi 1999). This context makes country-specific expertise particularly important in transition economies. Entrants lack expertise to overcome administrative and cultural barriers that arise with the specific business culture. Yet despite this lack of knowledge, businesses made major investment commitments, thus accepting a high degree of uncertainty. And in many industries, investors rapidly accelerated their investments (McCarthy/Puffer 1997) contrary to what the IP model might lead us to expect. Thus, while market experience remains critical for international business in CEE, its role merits deeper investigation. Especially the relationships between action, cognition and experience in the context of internationalisation merit further research (Forsgren 2001, Gelbuda, 2005).

Third, many West European firms entered CEE to buy their components, to outsource labour-intensive stages of the product chain, or even to relocate entire production lines. Such **backward internationalisation** has received relatively less attention in the IP literature. The IP model can be broadened to encompass the internationalisation of offshoring to study firms that extend their supply chains to CEE. Here too, one may expect a process of knowledge accumulation and deepening of the operations, moving from sourcing of small parts, to subcontracting of more complex components to fully owned foreign operations in line with the accumulation of relevant knowledge within the firm. International sourcing is also important for many CEE firms, which may have started international purchasing before international sales. With imported components, machinery and knowledge transfers, they could upgrade their technology and skills, such as to manufacture exportable products and acquire knowledge of international business practices. Thus, inward-outward connections (Welch / Luostarinen 1993) have been particularly important for IB in transition economies.

Fourth, research in CEE has described an interesting phenomenon of gradually increasing commitment, namely **staged acquisitions** (Antal-Mokos 1998, Meyer 2002). These are often related to privatisation, as privatisations agencies have initially offered only a minority stake for acquisition by foreign investors. In other cases, they emerged in acquisitions through the stock exchange, or from insider owners unwilling to surrender full control at the outset. Other foreign investors initially brought in a financial investor, such as the European Bank for Reconstruction and Development, as minority shareholder. Thus, increased commitment occurs not only by moving from JV to wholly-owned subsidiaries, but by increasing equity stakes in acquisitions.

Fifth, Penrosian work, and the IP model in particular, tends to focus on growth processes. However, firms occasionally also move the opposite direction and exit from certain markets and countries (Benito/Pedersen/Petersen 1999). In the IP model, learning generates more resource commitment, but more experience and learning may also lead to **divestment**. For instance, Bridgewater (1999) observed that in Ukraine that many foreign investors downscaled their operations or exited the country entirely. Similarly, the case study by Johanson/Johanson (2005) includes an exit from a JV. Such divestment may be caused by environmental changes, or changes in (global) corporate strategy and realization that original objectives were unrealistic. Penrose (1959) herself noted that firms occasionally divest business units. Future research may investigate further the interdependence of international growth and divestment.

Sixth, the patterns of internationalisation, to some extent, are analysed independently of each other, that is, increasing resource commitments to one market do not affect operations in the other. This view reflects realities of the 1970s and the focus on early stages of internationalisation. Yet it inhibits recognition of the **interdependence** of operations in different markets, especially the development of global and regional strategies, where resource and market commitments are made on a regional basis. This may be a consequence of the narrow conception of learning adopted by the model builders (Forsgren 2002) and assumption of a stable and home-market-derived competitive advantage. As many MNE adapt a region-wide strategy, CEE provides an interesting field to explore such interdependencies.

4. Key Concepts in Internationalisation Processes

Qualitative research has developed important concepts that help explaining the expansion paths of firms in foreign markets. This includes most notably the extension of the IP model to encompass not only firms but also their "networks" (Axelsson/Johanson 1992, Coviello/McAuley 1999, Meyer/Tind 2002). This special issue advances our understanding of internationalisation processes by refining the concepts of "opportunity creation" (Johanson/Vahlne 2005), "discovery" (Johanson/Johanson 2005), "emotions" (van de Laar/De Neubourg 2005) and "subsidiary roles" (Manea/ Pearce 2005).

Networks

Nordic Management research contributed not only the IP model, but also pioneered work on industrial marketing and purchasing (IMP) to analysing large and often international enterprises. Johanson/Mattsson (1988) introduced the first network model of internationalisation, which significantly differed from the IP model. In addition to industrial marketing insights, they incorporated ideas of exchange theory (Blau 1964) and resource dependence theory (Pfeffer/Salancik 1978). The network approach has been applied to a variety of different firms, even *de novo* entrepreneurs. It is of particular relevance for analysing IB in CEE because – as argued above – networking is particularly prevalent in transition economies.

The network perspective provides an avenue for advancing the IP model (Johanson/Vahlne 1990). The internationalisation of the firm is an evolutionary process of developing IB networks that become bridge into foreign markets. In the network context, a firm may gradually come to know the international partners of its domestic customers, and enter the market. This process of learning may be incremental within network inter-action; yet the leap from the domestic market to a distant market appears "radical" in the perspective of stages models of internationalisation. Thus, the interaction between firms and their networks complements the firm's own internationalisation process (Figure 2).

**** Figure 2 approximately here ****

In this special issue, Johansen/Vahlne (2005) go further and claim that building and changing relationships is so critical that the concept of "country market" may no longer be the relevant unit of analysis. Indeed, from an ontological perspective, a "country market" is an abstraction as internationalising firms do not have any direct, i.e. unmediated connection to a "country market". The interaction between a firm and a foreign market takes place primarily through engaging into inter-firm relationships and networks. Therefore, entrant firms primarily acquire experiential market knowledge through relationships to concrete companies, interest groups and institutions in the foreign market. Such a re-interpretation of the market experience concept suggests that entrant firms may experience the same foreign market differently because they engage into different relationships and business networks. Thus, because of the differentiated foreign market experience alone, internationalisation processes would follow different evolutionary paths.

The network logic thus provides a basis to analyse how the firm's network complements the IP of a focal firm, and how embeddedness of foreign partners may support the joint development of opportunities. Specifically, the network perspective suggests a more differentiated view of the foreign market experience.

**** Figure 3 approximately here ****

Opportunity creation

In their 1977 article, Johanson and Vahlne describe internationalisation as a slow, incremental process driven by experiential learning and risk-aversion. In this special issue, Johanson/Vahlne (2005) provide a more dynamic, proactive and subjectivist, yet still incremental view of internationalization. They thus outline to a broader agenda for further development of IP model that incorporates recent research on social capital (Nahapiet/Ghoshal 1998) and industrial networks, as well as the classic theories of interpretive sociology (Berger/Luckmann 1966) and economics, especially Austrial school (Kirzner 1973).

Johanson/Vahlne (2005) do not fully implement the proposed agenda, but focus on one important, yet little elaborated aspect of the IP model. While the interplay between knowledge development and foreign market commitments has attracted scholarly attention, the reverse impact of commitments on mutual knowledge generation and, subsequently, on opportunity development has been less analysed. To fill this gap, they develop two propositions. First, commitments to relationships generate social capital, which in turns facilitates mutual sharing of existing and creation of new knowledge in the relationship, and eventually leads to opportunity development. Second, opportunity development is positively related to the partner firm's network embeddedness in the market, i.e. to partner's social capital (Figure 3).

These two propositions have direct implications for entry processes into highly volatile environments. In order to build networks and to gain local knowledge, a foreign entrant has to be present in that market, that is, make resource commitments. Thus, foreign firms need to invest in initial commitments to learning or knowledge acquisition in order to generate knowledge and uncover new opportunities. Such initial commitments can only be made on the basis of available general knowledge, i.e. abstract perception of a potential opportunity in a "country market". Thus, objective and experiential knowledge have complementary roles in the IP.

**** Figure 4 approximately here ****

Market discovery

Johanson/Johanson (2005) explore the role of 'market discovery' in an IP. In their earlier work (Hohenthal/Johanson/Johanson 2003), they define market discovery in terms of opportunity and problem discoveries, and in terms of strategic and operative discoveries. Their theoretical model hypothesised that these discoveries would be driven by both exploratory and exploiting activities in foreign markets, and that market discoveries in turn would advance international expansion.

Johanson/Johanson (2005) explore the role of discovery in a longitudinal case of a Swedish multinational company that had at times multiple operations in Russia. This company repeatedly readjusted its strategies on the basis of new discoveries about the local business environment. The firm made operative discoveries mainly through its general business routines. In contrast, strategic discoveries were generally associated with active search, or with improvisation. The authors furthermore explore how routines, search and improvisation are grounded in the state of internationalisation of the firm in terms of commitment and knowledge.

This longitudinal process analysis leads to a refined model of discovery in internationalisation processes that illustrates the complexity of experiential learning in turbulent markets, and the important role of discoveries in these processes. Moreover, the case provides evidence in support of one of Johanson/Vahlne's (2005) propositions, namely the generation of opportunities grounded the partner firms' embeddedness into the local market. Karlsham's distributor in St. Petersburg had strong business and institutional networks, which enabled Karlsham to discover new opportunities and expand operations in Russia. This raises interesting questions concerning the search for and commitment to a partner firms. Potential partners may vary in their embeddedness and their social capital, which in turn would moderate future opportunities in the business relationship.

**** Figure 5 approximately here ****

Emotions

Human behaviour and decision-making are driven by three broad motivations, namely, self-interest, values and norms as well as emotions (Flam, 1990). Following economics, the mainstream IB literature has been dominated by self-interest considerations while institutional theory has introduced norms and values. However, this literature has been silent on the role of emotions, although they are an important part of everyday experience and have a prominent role in economic sociology and psychology. Van de Laar/De Neubourg (2005) integrate emotions into economic theory by including emotions in the utility function of individual decision makers, which in turn is included in the optimisation function determining investment decisions.

We propose that the concept of emotions could be incorporated in the IP model as emotions moderate several aspects. First, emotions are closely linked to learning (Fineman 2003), which is a driving force of the internationalization. Positive emotions may reinfornce learning and triger motivation for further growth abroad, while negative ones inhibit. Secondly, emotions are intimately linked to personal experience, which includes foreign market experience. Positive emotions would thus enhance cognition and, subsequently, resource commitments. Moreover, emotions may be related to the psychic distance, because what is *close*, *foreign*, and *uncertain* often depends on the personal or collective emotions and perceptions, not that much on macro dimensions such as a psychic distance. In consequence, emotions are at least in part endogenous and provide an important feedback link between firms' prior investment and future commitments. This effect complements the knowledge accumulation mechanism examined by Johanson/Vahlne (1977).

In Figure 5, we thus interpret Van de Laar/De Neubourg (2005) in a dynamic perspective. In their empirical analysis, they model emotions as a function of personal relations, personal involvement, personal interest, personal experience and language competences. We contend that these factors, especially personal involvement and experience are influenced by prior business experiences. In consequence, investment decisions enhance business experience and thus emotional attachment to a project, a business relationship, or a country. For example, managers' emotional attachment to their own creations, or pet projects, provides a reason for continued investment.

Hence, emotional attachment reinforces the growth process of foreign business operations. We thus encourage scholars working with the IP model to investigate the emotional dimension of internationalisation processes.

**** Figure 6 approximately here ****

Subsidiary roles

The work by Johanson and Vahlne and most of their followers has focused on the early stages of internationalisation, analysing for example how firms progress from non-equity modes to joint-venture, and to fully-owned equity modes. The IP model has been shown to be a powerful tool to analyse these early steps of internationalisation by smaller and less experienced firms. There has been comparatively less work on the evolution of higher levels of internationalisation, i.e. firms that are already present in a large number of countries, and operations that are fully owned.

However, subsidiary roles also evolve over time as subsidiaries gain or loose global mandates that extend their responsibility beyond the local market (Birkinshaw 2001). Manea/Pearce (2005) analyse how foreign investors progress from initial market-seeking or export processing to larger operations with a higher degree of integration in the local economy. They contend that higher level operations, namely knowledge-seeking FDI projects, also engage in more intensive interaction with local business partners, and in consequence generate more spillovers for the local host economy (Figure 6). Seen in the network IP perspective (Johanson/Johanson 2005, Johanson/Vahlne 2005), network relationships deepen over time, thus creating new opportunities for *both*, the foreign investors and local business partners. Thus, internationalisation process are not only of interest to business scholars but also to economists and policy makers interested in facilitating the positive contributions that FDI may make to economic transition and development.

5. Conclusions

The collection of papers for this special issues shows that there is still lots of life in the IP model. Research in the CEE context raises a number of issues that merit further investigation by scholars studying IB processes. This includes in particular six challenges outlined in section three: the interaction of environmental change with firms' IP, the entry in locations where little experiential knowledge is available, the IP pertaining to sourcing and offshoring, the staged acquisition of local firms, the divestment of foreign operations, and the interdependence of IP in different foreign markets. This special issue advances our understanding of the IP model by introducing or refining the concepts such as networks, opportunity creation, discovery, emotions and subsidiary roles.

Johanson and Vahlne anticipated many concepts that later became popular in IB research such as of knowledge, resources, commitment, experience, current activities (action) and opportunities. In this special, they modestly note that they were lucky to use the concept of knowledge, yet in our view they have demonstrated a great foresight. The simplicity of the IP model and the early focus on a fundamental process of learning as a driving force of internationalisation have greatly contributed to the impact of the IP model, and will continue to do so in the future. In part, the success of this work may be attributed to their conceptual imagination, yet it is also a result of process-oriented historical longitudinal research in their case companies. Scholars aiming to contribute to theory may want to follow their steps not only in terms of contents, but also in terms of research methodology, especially, conducting more qualitative process oriented research (Piekkari/Welch 2004).

Future development of IP model may move towards a dynamic network-based view of internationalisation with experiential learning, mutual commitments and social capital playing key roles. Furthermore, a major challenge for further development of the model is to conceptually re-allocate the core concepts of IP model from an anonymous firm-environment interaction framework, based on the behavioural assumptions, to a firm-network interaction framework, based on a more subjectivist philosophy. Some preliminary efforts have already been made (Gelbuda 2005, Johanson/Vahlne 2005), but a lot of exciting work is still ahead.

Moreover, Johanson/Vahlne (1990, pp. 22, emphasis added) suggest that "researchers should investigate how firm internationalization processes are related to the *surrounding* processes, i.e. market or network internationalization, industry internationalization, technical development, concentration as well as deconcentration processes". All these factors seem to have direct relevance to the internationalization of firms from transition economies, yet very little of such research has been produced. The contributions to this special issue point to the importance of history in the development of institutions, and the role of embeddedness in the adaptation and internationalisation of companies. We may need new theoretical approaches that are more historical, contextual and processual in character than currently dominant ones to advance IB as a research discipline. In addition to economics, such research may draw upon theories developed in other social science, such as organizational and economic sociology. CEE provides a formidable research laboratory for such work.

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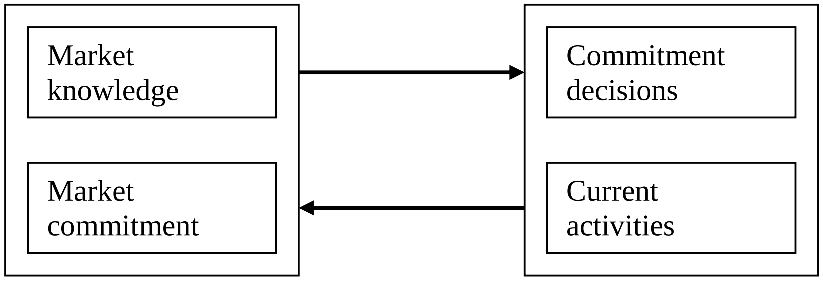
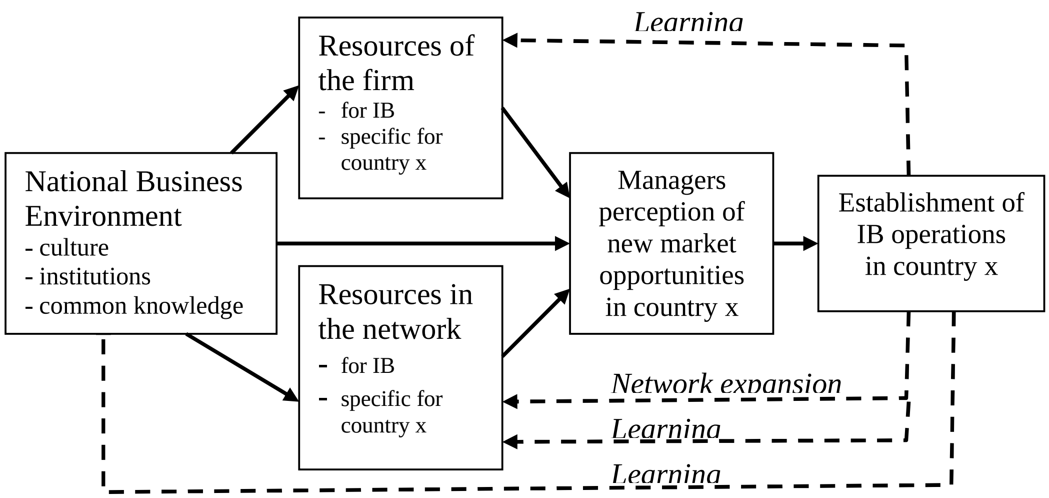
Figure 1: The basic Mechanism of Internationalizaion – State and Change Aspects



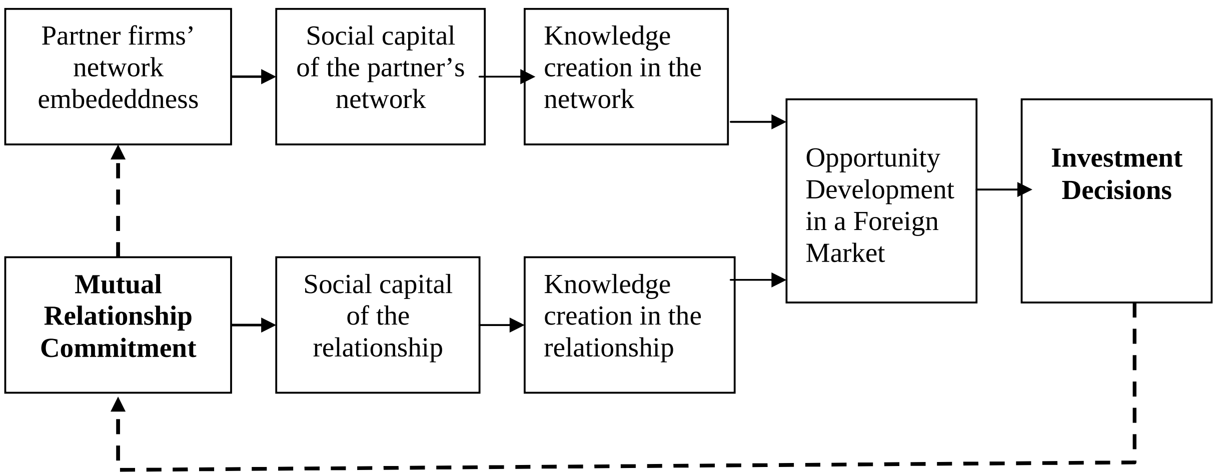
Source: Johansen/Vahlne (1977)

Figure 2: Internationalization processes with network based feedback loops



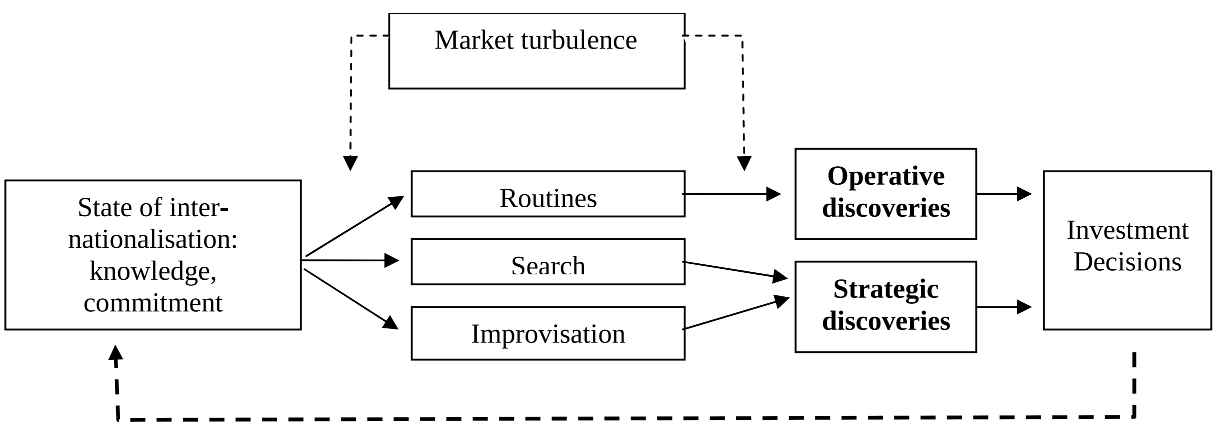
Source: based on Meyer/Tind (2002)

Figure 3. Opportunity Development in the internationalization process



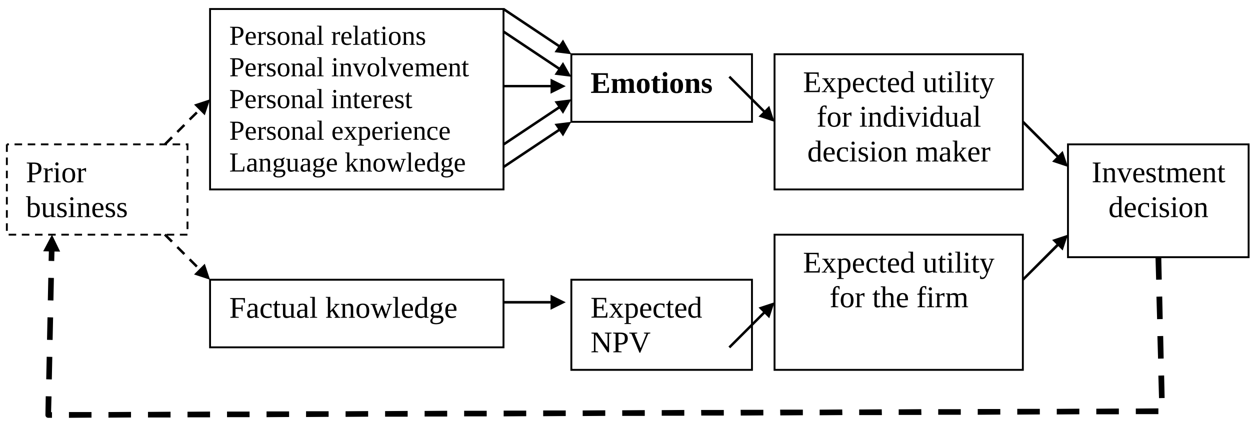
Source: Inspired by Johanson/Vahlne (2005)

Figure 4: Internationalisation and Market Discovery



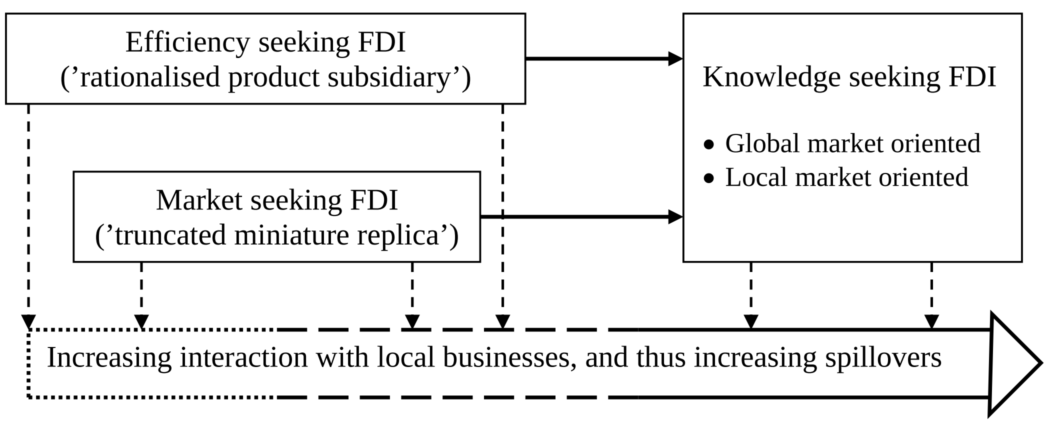
Source: based on Johansen/Johansen (2005).

Figure 5: Emotions in an Internationalisation Process



Source: Inspired by Van De Laar/De Neubourg (2005)

Figure 6: Higher Stages of Internationalisation



Source: Inspired by Manea/Pearce 2005