LOCAL EXPANSION PROCESSES OF DUTCH FIRMS IN CENTRAL AND EASTERN EUROPE

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ABSTRACT: Recently, the evolutionary approach to internationalization is challenged by authors who claim that a gradual entry into new markets is not used anymore in the current globalized marketplace. In this paper, the expansion processes of Dutch firms and their local subsidiaries in Central and Eastern Europe are investigated in order to test the evolutionary approach and to explore several dimensions along which expansions evolve. Results of both case studies and survey material show, that firms still expand stepwise, but in more differentiated patterns than predicted by the original model.

Local expansion processes of Dutch firms in Central and Eastern Europe

INTRODUCTION

The decisions that firms take in their international expansion processes are subject of extended research rooted in very diverse theoretical approaches. Starting point of this paper is that the internationalization decisions of firms are dependent on decisions taken before and in other places (Aharoni, 1966). Every expansion is seen as a stepping stone for further expansions (c.f. Kogut, 1983; Wernerfelt, 1984). Firms gather experiences with every step and add to their knowledge base or 'absorptive capacity'. With an increasing absorptive capacity firms are more prone to recognize and internalize new learning possibilities (Cohen and Levinthal, 1990). Experiential learning is the driving force of the internationalization process according to the evolutionary approach (or Uppsala model) of internationalization (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Welch and Luostarinen, 1988). Gathering market knowledge reduces uncertainty and allows the firm to gradually enter an increasing number of foreign countries, using entry modes that are characterized by increasing resource commitments, at an increasing psychic distance to their home country (Johanson and Vahlne, 1977). With respect to growing resource commitment, a number of four stages were distinguished, together called the 'establishment chain', along which the firm expanded in local markets (Johanson and Wiedersheim-Paul, 1975). It has been questioned later, however, whether the steps proposed by the establishment chain are still valid in the current globalizing world (Hedlund and Kverneland, 1983; Nordström, 1991; Turnbull, 1987). Welch and Luostarinen (1988) extended the model by introducing a framework with six dimension along which the internationalizing firm is expected to develop. This framework of is used as a starting point for the current paper, in which I investigate along which patterns Dutch firms have entered the newly opened markets in Central and Eastern Europe. This paper is aimed to contribute to our knowledge of the internationalization process of firms within host countries. I identify the sequential steps taken by Dutch firms in the CEE region and present a test for the establishment chain in the context of modern time and a new market. Data are collected both with open interviews held in local subsidiaries and through mail surveys sent to firms' headquarters. This combination of the rich case histories of a small number of subsidiaries with data gathered through a survey on a larger sample offer both the deeper insight and the opportunity to test hypotheses using more rigorous methods.

The region of CEE offers excellent opportunities to compare the actual steps of firms with different earlier experiences and their local subsidiaries in a new market, with about the same starting point in time. It offers a unique context for investigating internationalization processes, because FDI in the region has only been possible from 1989 onwards (compare Hedlund and Kverneland, 1983, in a study on Swedish entry into Japan after the opening of the market in 1973).

This paper is organized as follows: below, the theoretical background of the internationalization process of the firm as well as empirical contributions will be briefly outlined. Next, hypotheses and research questions following from this background will be formulated. In the methodology section, a sample description will be given of the sixteen cases, as well as an overview of the survey method. Then, results will be presented followed by a discussion and finally, conclusions will be drawn with respect to learning processes in subsidiaries and directons for future research will be given.

THEORETICAL BACKGROUND

The internationalization process of the firm

In the internationalization processes of four Swedish firms, Johanson and Wiedersheim-Paul (1975) discovered two patterns: Swedish firms were able to enter foreign countries consequently with more resource commitments and they were able to enter countries at an increasing ‘psychic distance’ from Sweden. In this paper, I only address the first pattern, reflecting the growth of resource commitment in international operations. This pattern was called ‘the establishment chain’ and consists of four stages, with firms proceeding from no investments, to exporting through agents, to establishing a sales office and finally setting up a production site. Through 'learning-by-doing' firms acquire the necessary market information and capabilities to expand their activities in the host country (Johanson and Vahlne, 1977). Hedlund and Kverneland (1983) raise questions on the slow pace of entry assumed by the early Uppsala model, because the international business environment has changed considerably since the model was launched. They state that modern multinational companies are global in their orientation and that fast entry into new markets is not impeded by a lack of local market knowledge in these global companies. Modern means of communication, Nordström (1991) adds, facilitate easy access to several sources of information that firms can tap into in order to learn how to operate in an unknown market. Johanson and Mattson (1984) assert that the evolutionary approach might not be applicable to markets and firms that are highly internationalized. Uncertainty and a lack of market knowledge are probably more important in the early stages of internationalization (Forsgren, 1990; Johanson and Vahlne, 1990).

Turnbull (1987) further challenges the deterministic nature of the sequential stages, since many large multinational firms are found to continue exports or sales agent activities next to production facilities depending on the foreign market served. Johanson and Vahlne (1990) bent this point of critique into a motivation to develop the theory and explore differentiated patterns of evolutionary development. Welch and Luostarinen (1988) developed a framework that can be a starting point for this differentiation: internationalization is predicted to occur along six dimensions. Firms may differ in their growth patterns on these dimensions, but are all expected to develop incrementally on each of them. Two of the dimensions are close to the original model and address foreign operation methods and markets. However, instead of predicting a certain order of entry modes used, Welch and Luostarinen propose that expansion occurs both through deeper committed ánd more diverse operation methods. Further, they add the dimension of sales objects, notably physical goods, services and know-how systems, that firms are expected to offer successively at foreign markets. Finally, their framework adds three dimensions that are related to the organizational capacity: personnel, referring to the development of human resources and internationalization skills, finance and the organizational structure. This final dimension refers to the variety of organizational structures that have risen out of the increasing complexity that come with the firm's internationalization. This variety and the differentiation of subsidiaries' expansion patterns are addressed below.

Empirical support for the pattern of growing resource commitment was found in a number of (case) studies (Buckley, Newbould and Thurwell, 1978; Engwall and Wallenstal, 1988; Hedlund and Kverneland, 1983; Juul and Walters, 1987; Vahlne, Nordström and Torbacke, 1996). The empirical findings of Hedlund and Kverneland (1983) are supportive to the evolutionary model: they found that the 18 Swedish firms in their sample expanded in Japan in sequential steps but often at a faster pace than expected according to the establishment chain. Interestingly, firms with extensive international experience were found to skip stages and enter with the short route entry strategy more often than firms with less experiences. Juul and Walters (1987) achieved similar results in analyzing the investment strategies of 12 Norwegian firms in the UK. Most Norwegian firms started with export activities before setting up sales or manufacturing subsidiaries, though only three firms used an intermediate step. Of the ten firms that started with marketing activities only, five have started production activities as well. Juul and Walters also addressed the dimension of sales objects as proposed by Welch and Luostarinen (1988) but they found no support for a progression from physical goods towards offering services or know-how. Vahlne et.al. (1996) find that Swedish firms started to invest in Central and Eastern Europe with less committing entry modes (e.g. sales) and later extended to more committed modes and activities (local production). Buckley, Newbould and Thurwell (1978) investigated the international behavior of small 43 UK firms and found that although taking all steps of the establishment chain was not the most popular entry strategy it resulted in the highest success rates. Incremental learning through small steps of local commitment was concluded to be "of great value" for Brittish firms abroad. Turnbull (1987) rejected the stages model because the organizational forms used by 24 UK firms in 72 expansions in three host countries were not related to either firm size nor to international orientation (measured as the proportion of export to total turnover).

The internationalization process at the level of the subsidiary

A large body of literature focuses on the development of new structural forms of internationalizing firms (see for instance, Bartlett and Ghoshal, 1989; Prahalad and Doz, 1981). The struggle for firms to find a balance between headquarters' need to keep strategic control over foreign subsidiaries and subsidiaries' desire for autonomy is emphasized a.o. by Prahalad and Doz (1981), Forsgren (1990) and Malnight (1995). Malnight (1995) investigated expansion processes within the firm and found that subsidiaries' roles, and as such their scope of activities, autonomy and network linkages, developed depending on the differentiated expansion processes at the functional level. Subsidiaries' roles grow from appendages, to participators, to contributors and finally subsidiaries become integrated parts of the firm. In the integration stage, headquarters and subsidiary share responsibility over strategy, resources, technology et cetera. Forsgren (1990) also recognizes that foreign subsidiaries gain importance and independence from the mother company through local learning processes during the ongoing process of internationalization. Multinational companies are expected to evolve as loosely coupled systems or ‘multi-centre’ firms, in which subsidiaries that have become centres take strategic decisions on resources that other parts of the firm are dependent on (compare Hedlund's heterarchy, 1986). Subsidiaries that have become a dominant centre are characterized by strong network positions vis-a-vis other subsidiaries within the firm and a strong local network (Forsgren, 1990). Appropriate lateral linkages within the firm and substantial autonomy for subsidiaries’ management teams were further associated with facilitating a good learning environment according to Bartlett and Ghoshal (1989). Ferdows (1997) investigated the upgrading of strategic roles of foreign subsidiaries. He distinguishes among six different roles but emphasizes the same development process as Malnight (1995). Several paths lead a venture to a higher strategic role, but this always starts with assuming production responsibilities. From this overview, I conclude that the expansion processes at the level of foreign subsidiaries is related to increasing autonomy and starts with assuming increasing decision responsibilities.

Most empirical studies that investigate subsidiary level expansion processes are based on case studies (Ferdows, 1997; Malnight, 1995, 1996; Vahlne, Nordström and Torbacke, 1996) or are basically studying strategic roles of subsidiaries (Birkinshaw and Morrison, 1995; Forsgren, Pedersen and Foss, 1999; Jarillo and Martinez, 1990; Nobel and Birkinshaw, 1998).

Vahlne et.al. (1996) conclude from visits to nine case companies in the region of CEE, that although decisions on daily operations are decentralized, Swedish headquarters invest in learning about local operations and affect local decision making seriously. Birkinshaw and Morrison (1995) found that subsidiaries with advanced strategic roles were more autonomous from the firm's headquarters and independent in making strategic decisions. Further, Forsgren, Holm and Johanson (1995) showed that dominant subsidiaries are able to draw division headquarters to a nearby location even if corporate headquarters resist such a move away.

Jarillo and Martinez (1990) developed a framework to distinguish among roles of subsidiaries based on the amount of local activities a subsidiary performs and the degree of integration of these activities with the same activities of other subsidiaries. In a test of their framework among 50 Spanish subsidiaries of MNCs, they found support for this framework that differentiates between receptive subsidiaries (performing only a few activities locally that are highly integrated with the firm's corporate activities), active subsidiaries (many local activities, but closely coordinated within the firm) and autonomous subsidiaries (with many local activities, but less integrated, or relatively independent from the parent company). They also tentatively tested for the evolution of subsidiary strategies and found that though receptive subsidiaries changed little, both active and autonomous subsidiaries converged towards more integrated and less localized strategies. Especially autonomous subsidiaries were found to change fast towards active, i.e. more interdependent, strategies.

RESEARCH FRAMEWORK

In this section, I formulate propositions based on the literature outlined above. The starting point for the development of these propositions is the original establishment chain (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) and the Welch and Luostarinen (1988) framework of internationalization of the firm.

Growing commitment

According to the original model developed by Johanson and Wiedersheim-Paul (1975) the first steps of firms in an unknown market are through exporting and consequently selling through a local agent. These first stages in the establishment chain are characterized by low levels of local commitment, but also by fewer possibilities for local learning because the firm is not actually present itself. Still, the stages of lower commitment enable the firm to gather at least some knowledge about local habits and rules. This little knowledge is the necessary input for decisions on further investments in the host country (Johanson and Vahlne, 1977). Further, initial small investments enable the firm to start working on a local network. The importance of starting with low commitment and small steps is stressed in the literature on entry into the emerging CEE markets (Peng and Heath, 1996; Shama, 1995; Vahlne et.al., 1996). Western firms are therefore expected to use lower commitment entry modes before entering the CEE countries with direct investments.

The establishment chain further suggests that once direct investments are made, in the following stages learning enables firms to extend their local operations by increasing their local commitment further (Johanson & Wiedersheim-Paul, 1975) and by using increasingly diverse operation methods (Welch and Luostarinen, 1988). Carstairs and Welch (1982) emphasize that being physically present in the host country not only facilitates learning by doing but also exposes firms to diverse local opportunities. I therefore expect firms to have expanded by extending their local commitment and using more diverse operation methods since their first entry in host countries. Hence:

P1: Exporting and lower committed entry modes are used as initial entry modes by Western firms entering CEE countries.

P2: Following initial entry, Western firms increase their commitment and use more diverse operation methods in CEE countries.

Local activities and sales objects

With P1 and P2 I do not test for a predetermined order of stages or operation methods that firms use in expanding abroad. Firms are able to use a shorter entry route and skip stages, especially if they are experienced in international operations (Hedlund and Kverneland, 1983; Nordström, 1991; Turnbull, 1987). But even if firms use direct investment modes at once, without local experiences in less committed entry modes, they might still start to concentrate on a few activities only, for instance marketing and sales and later extend these activities (Juul and Walters, 1987; Vahlne et.al. 1996). Similarly, expansion within certain product lines or extension into product lines that demand more tacit knowledge, like services and know-how, is only possible after learning about local preferences and local culture (Juul and Walters, 1987; Welch and Luostarinen, 1988). Conform with the sales obejcts dimension of Welch and Luostarinen I expect:

P3: Foreign subsidiaries of Western firms in CEE countries expand incrementally with respect to the activities performed and the sales objects offered.

Autonomy of the local subsidiary

The structure of the internationalizing firm has to be adapted to the growing complexity the firm has to cope with (Bartlett and Ghoshal, 1989). In the expansion process, subsidiaries can often extend their own responsibilities and decrease company headquarters' involvement with respect to an increasing number of activities or an increasing geographic area (Birkinshaw and Morrison, 1995; Ferdows, 1997; Malnight, 1996). When evolving towards more advanced strategic roles, subsidiaries extend their responsibilities first with respect to daily operations, and eventually, subsidiaries with most advanced strategic roles assume responsibilities over strategic decisions (Malnight, 1995; 1996).

P4: Subsidiaries of Western firms in CEE countries extend their responsibilities over time, firstly with respect to operational, then strategic decisions.
P5: Subsidiaries of Western firms in CEE countries extend their responsibilities over time, firstly considering local and later regional activities.

METHODOLOGY

Data collection methods

This paper is part of a larger project on entry processes and organizational learning, for which I gathered data through mail surveys and semi-structured interviews. The analyses presented here, are mainly based on the qualitative part of the data, for which I visited thirteen subsidiaries of Dutch firms in Poland, Hungary and Russia and interviewed local General Managers (in most cases) in order to trace back expansion processes of the local subsidiaries. The quantitative data, gathered through a survey among Dutch firms with subsidiaries in CEE countries, is used in this paper in order to support findings based on the interviews with quantitative data and techniques. Both data collection procedures will be explained below, in the chronological order in which they have taken place, though the survey method is only briefly addressed (more details are available upon request).

For the quantitative part of data collection, I identified 242 Dutch firms with more than 100 employees and with subsidiaries in one of six selected countries: The Czech Republic, Hungary, Poland, Romania, The Russian Federation and Ukraine. All 242 firms were approached by telephone for verification of the information found in the selection research and in order to be connected to the responsible manager. A large number of firms had to be excluded for various reasons and a total of 159 firms was left to meet all criteria.

In Spring and Summer of 1998 the questionnaire was sent to the respondents selected in the telephone interviews and was accompanied by a personal letter with a very short introduction to the research project and the aim of the questionnaire. Of the 159 respondents that were sent a questionnaire, 84 completed and returned their forms (i.e. 53 % response rate), providing information on 220 entries. I excluded five observations because of incompleteness of the data, leaving 215 usable observations.

The qualitative stage of data collection was meant for providing deeper insight in the expansion processes at the subsidiary level and the chosen approach leads to a broad set of data on a small number of cases. Thirteen cases are selected that are different with respect to the industries they are active in, their size, the host country and the activities they perform locally. After thirteen subsidiaries had been contacted, it was felt that a satisfactory variety was reached. In July and November 1998, I visited all the case subsidiaries at the site and conducted the interviews locally. Semi-structured field interviews were chosen because they offer opportunities to discuss the topics of interest, to clarify the meaning of questions and to adapt further questions to the specific situation. The thirteen General Managers of the local subsidiaries were approached by telephone or fax, in a few cases after consultation of the Dutch Headquarters. None of the contacted managers refused to co-operate in the research, but because of absence during the time of my visit, two interviews were done with Marketing managers and two with Financial managers. All respondents were functioning in that position since the start of the subsidiary or else long enough (more than two years) to have considerate knowledge with respect to the subsidiary' s expansion history. Respondents were both expatriate managers and local managers; interviews with local managers and non-Dutch expatriates were held in German or English, depending on the managers’ preferences. I sent a list of topics to be covered by the interview in advance, including the organisation of the subsidiary from the start till the interview date, the linkages of the subsidiary with other subsidiaries, firms and institutions, both within the host country as well as outside of it, and the use of experiences and the development of new capabilities within the subsidiary. The interviews took between one and four hours, with an average of one hour and 45 minutes. During the interviews, I made extended notes and processed and rewrote them into complete case descriptions within 48 hours. The case descriptions were sent for approval to the respective respondents (only two respondents had comments that resulted in minor adjustments) and are the basis for the analyses reported on in this paper.

SAMPLE DESCRIPTION

The sample consists of 13 subsidiaries (of 10 Dutch firms) in three Central and Eastern European countries: 4 in Poland, 4 in Hungary and 5 in Russia, set up between 1989 and 1995. Table 1 summarizes some key features of the case subsidiaries. Four subsidiaries are active in either chemical or electronics: Power, Pharma, and Chemo, of which I visited two subsidiaries. Five firms produce food and beverages: Black and Brown who are competitors, Childcare, Sweet and finally Beverage and Bottle that are both owned by the same Dutch mother company. Garden and Greens are horticultural firms; I visited Greens ' subsidiaries in both Poland and Hungary. Three subsidiaries are not fully owned by Dutch firms: Black and Childcare are Joint Ventures of with a local partner, and Bottle is a partly acquisition by a Dutch firm. The case subsidiaries are of very different size: seven subsidiaries are larger than 100 employees, while the smallest subsidiaries employ less than 10 persons. The 'official' starting years are given in Table one. In most cases, it is the year in which direct investments were made resulting in sales subsidiaries or production sites.

Table 1: Key features of the 13 case subsidiaries: country, industry, starting year and size.

	Poland	Hungary	Russia
Chemical / Electronic	Chemo Poland ('92)[a]	Power ('89)	Chemo Moscow ('91), *Pharma ('93)*[b]
Food & Beveridge	*Childcare ('93),* *Bottle ('92)*	*Beverage ('91)*	Black ('95), Brown ('95), *Sweet('93)*
Horticulture	Greens Poland ('94)	*Garden ('93),* *Greens Hungary ('92)*	

[a] Starting years between brackets

[b] Names in *italics* are subsidiaries with more than 100 employees locally, underlined names refer to subsidiaries with less than 10 employees

RESULTS, case studies

From first contacts to initial entry

Entry processes always start (sometimes long) before the official date of entry is determined and the official entry is made public. All but one subsidiaries in my sample were preceded by export activities in the countries of interest (See Table 2). Only Childcare started through co-operative marketing activities with a local company. Many of the exporting activities were stopped or taken over when direct investments were made and a local subsidiary was established. The early exporting activities were combined with other operation methods, like licensing agreements with local state owned trading companies. This was common in the horticultural firms in our sample and in Power: they have all built their current activities from contacts with the former local state trading companies, the only companies who were allowed to do business with western companies. These contacts go back many years: the Polish General Manager of Greens even mentioned historical ties from the 19th century. All four persons that were responsible for the trade with the Dutch companies before 1989 are now the General Managers of the local subsidiaries. Chemo Poland had more extensive contacts before 1989 as well, but these were dependent on the individual contacts of different business units.

Other firms, that started their contacts after 1989 have also extended their exporting activities by establishing representative offices or sales offices, mostly in the first half of the nineties. Few firms started co-operations with local distributors or producers next to their exporting activities and became physically present with a representative or sales office only after these co-operative activites.

Table 2: Entry mode patterns of 13 Dutch firms in Central and Eastern Europe

Complete (Black, Garden, Greens Hungary and Greens Poland)	export	licensing / co-operations	(representative >) sales office	production
Complete, but no production (Brown, Chemo Moscow)	export	licensing / co-operations	(representative >) sales office	
Skipping stages: from export to sales office (Chemo Poland, Pharma, Power)	export		(representative >) sales office	
Skipping stages: from export to sales office to production (Sweet)	export		(representative >) sales office	production
Skipping stages: from export to production (Beverage, Bottle)	export			production
Skipping stages: from co-operation to production (Childcare)		Licensing / co-operations		production

Increasing resource commitment and local activities

The increase in resource commitments as proposed in P2, appears to be related to two processes. Firstly, an increase of the share of ownership by the Dutch firm and secondly, an extension of the local activities of the subsidiary. The first process took place in both Beverages and Bottle, but also in the horticultural subsidiaries. These latter three were all brought under full ownership with the establishment of a sales office, or, in Greens in Poland, with some steps during the stages of sales office and production venture. In Bottle a minority share of 24 % was extended to a majority share of 75 % in several steps between 1996 and 1998. Beverage changed a 50 % -plus one- share into full ownership in two steps in 1993 and 1994.

The second process, extending local activities, took place in five cases: the Greens subsidiaries, Garden, Black and Sweet started out as sales offices and later changed into production subsidiaries. Table 3 gives more details on the local activities of the case subsidiaries: there is a tendency to start with marketing activities, in as many as six cases accompanied by sales activities at once. Marketing activities only followed sales activities in Brown, while its competitor Black never performed marketing activities itself.

The local distribution of products is only taken care of by few subsidiaries (in-house, that is) and is mostly started with soon after the first activities are started up. In many cases, organizing distribution in-house is judged to be too risky, especially in Russia. Most distribution activities are arranged with local distributors, because of their network ties and knowledge of the 'local ways'.

Production activities are only performed in half of the subsidiaries and, interestingly, none of the chemical and industrial product firms in our sample have started to produce locally. The same is true for food and beverage subsidiaries without a local partner. Firms in this industry that do have a partner or started with one, in acquisitions as well as in new subsidiaries, are all active in local production. In the acquired subsidiaries, production often took place before the acquisition and the production process was only adapted to western quality standards and sometimes changed to producing the acquirers brands. These production sites are often set up at the same time as the marketing and sales offices, see for instance Beverage and Bottle, or very soon after that, as in Black and Childcare. Only Sweet has set up a production site without a partner, but has only installed packaging lines so far. All production activities of these food and beverage subsidiaries are for the local market.

Table 3: Assumption of activities by thirteen Dutch subsidiaries (order by industry)

	marketing	sales	distribution	production	R&D
Chemo Poland	’92	’92	’96		
Chemo Moscow	‘91	‘92	’97		
Pharma	‘91	‘93			
Power	‘90	‘90			
Beverage	‘91	‘91	‘91	’91	
Bottle	‘93	‘93	‘93	‘93	’93
Brown	‘96	‘95			
Black		‘95		‘96	
Childcare	‘91	’93		’93	’93
Sweet	‘93	‘97		’98 (packaging)	
Garden	< '89	< '89	’92 – ‘98	< '89; restart ’92	’93
Greens Hungary	< '89	< '89; restart ‘91	‘91	< '89; restart '91	’97
Greens Poland	‘85	‘94	’91 – ‘94		> ’94

The horticultural firms in Hungary are also active in local production, in all cases seed breeding, and later expanded these activities throuhgh establishing local cleaning and processing factories. The Hungarian subsidiaries were both producing and developing products for global and not only local use, while the Polish subsidiary only breeds for the local market.

Research and Development is done in Greens' Polish subsidiary and in Childcare and Bottle, and is directed at the local market. Only in the two Hungarian horticultural subsidiaries R&D activities are pursued for global market purposes.

Sales objects

Proposition three not only mentioned the expansion of local activities, but also expected subsidiaries to expand through the sales objects they offer. It turned out that the most obvious way in which all subsidiaries expanded their sales objects was by broadening the product range offered at the local market. In some subsidiaries this was the only way to grow, especially in smaller subsidiaries, such as Black in Russia. Some larger and more experienced companies, however, also introduced new products stepwise, for instance Childcare and Sweet. In five cases, the Greens subsidiaries, Power, Garden and Chemo Moscow, the expansion of the product range was the consequence of a company merger. In many food and beverages subsidiaries, but also in Greens in Poland, products are adapted specifically to local market tastes and sometimes to legal requirements. A pattern of expanding sales objects from products to services and know-how is not found in the thirteen cases.

Division of responsibilities among Headquarters and local subsidiaries

According to proposition 4, subsidiaries will extend their responsibilities over time, firstly with respect to daily operations and later with respect to strategic decisions. The extension of local responsibilities is visible in the formal structure in only three cases. In Greens in Hungary, “permission had to be asked for almost anything” while direct responsibility for the daily operations was still in the hands of a regional exports director. When a new export manager arrived, autonomy was felt to increase, because “he let go of decision power and asked for monthly reports only”. With the promotion of the local deputy manager to local Managing Director the subsidiary gained even more autonomy. In Chemo Poland, the promotion of the local manager to General Manager also increased local autonomy: the General Manager stated that since his promotion he is "free in using budgets as long as the results are good". In Childcare the establishment of a regional office resulted in thinner ties with Headquarters in The Netherlands, illustrating the subsidiary's "growth towards adulthood" according to the General Manager.

In at least four cases, growing autonomy as experienced by the respondents was illustrated with a decrease in the number of visits by Dutch Headquarter representatives. Generally, these subsidiaries are able to take decisions on daily operations themselves, but they still need approval of Dutch Headquarters for strategic matters. However, most of the subsidiaries in the sample are (still) controlled also with respect to operational decisions by Dutch Headquarters. This means that all their plans have to be sent to the headquarters for approval and several respondents in these subsidiaries further added that they are financially very dependent on company resources.

Geographic area responsibilities

Proposition 5 predicted an increase in responsibilities with respect to regional activities. Although we have seen that production is meant for selling at the local market in almost all cases, many subsidiaries report that they have extended their responsibilities across the borders. Though none of the subsidiaries in Russia are responsible for activities in countries outside of the former Soviet Union, most Russian subsidiaries experienced stepwise geographical expansion, from Moscow region and St. Petersburg to other large cities in the Russian Federation and sometimes even beyond. Brown in Moscow is for instance also responsible for activities in Byelorus, while the responsibilities of Chemo and Sweet extend over the whole territory of the former Soviet Union, to Kazachstan, Azerbeidzjan and even Mongolia in case of Sweet. The larger subsidiaries in Hungary and Poland, except Beverage and Bottle, have also extended their regional responsibilities in neighbouring countries. Greens in Poland, for instance, was made responsible for activities in the Baltic States and Byelorus, while its larger Hungarian sister expanded its responsibilities firstly to Czechia and Slovakia and later to Romania, all former Yugoslav countries, Moldova and Ukraine.

RESULTS, survey data

In this section, I present the results from the survey among 84 Dutch firms with 215 subsidiaries in six countries in CEE. The survey data only offer longitudinal data with respect to entry modes and operation methods and are used only to test P1 and P2.

Table 4 presents initial operation methods and 1998 operation methods. Exporting activities were used as initial entry mode in more than half of the 215 entries. Less popular were low commitment modes, as licensing and co-operative agreements. More than sixty % of all first operation methods were through direct investments, in 71 cases even wholly owned subsidiaries. Exporting was often used next to other operation methods: in 10 entries exporting was combined with low commitment modes, and in 15 entries with direct investments. Low commitment modes were used together with direct investments in 21 entries. In 14 cases, all three classes of operation methods, exporting, low commitment modes and direct investments, were used in combination.

Table 4: Operation method(s) used initially and currently (1998 data) in 215 subsidiaries:

	export	**Licensing, co-operation**	**minority & 50/50 JV**	**majority JV**	**WOS**
Initial entry mode	113	40	16	17	71
1998 operation mode	40	23	18	21	130
Difference	- 73	-17	+2	+4	+59

In 1998, less than 20 % of all cases are still active in exporting and in almost all entries exports are combined with low commitment entry modes (6 cases) or direct investments (22 cases). Low commitment modes are also used less in 1998 (and in only four cases it is the sole method of local operations), while numbers of minority and majority participations slightly increased over time. The number of wholly owned subsidiaries has increased most: up to 60 % of the 215 entries. In total 78 % of the activities in 1998 were through direct investments. Only 8 observations are found to combine the three classes of operation methods.

Table 5: Change of operation method(s) over time in 215 subsidiaries:

	Exporting '98	**Licensing, co-operation '98**	**minority & 50/50 JV '98**	**majority JV '98**	**WOS '98**
exporting[a]	34	8	5	12	68
Licensing, co-operation[a]	11	15	7	12	18
Minority & 50/50 JV[a]	-	1	13	2	1
Majority JV[a]	4	5	-	10	7
WOS[a]	7	7	-	-	67

[a] these are initial entry modes; row and column sums are not the same as in Table 5, because different operation methods are used next to each other.

In Table 5 initial entry modes are compared to 1998 entry modes in more detail. The table shows that in many entries more committed operation methods have followed less committed modes. In eight cases low commitment methods are preceded by exporting activities, while in 85 of the 169 cases that invested directly in the host countries by 1998 exporting was used as initial entry mode. Thirty-seven out of 169 cases used low commitment entry modes before entering through direct investments. Only in 10 cases, subsidiaries were able to enlarge their share from minority to majority or full ownership, or from majority to full ownership. All observations below the diagonal refer to 1998 activities that are preceded by more committed initial operation methods. In all but three cases, these numbers refer to entries where several operation methods were combined in starting the local activities and therefore are no real change of activities, or they refer to cases where exports or low commitment modes were added to initial direct investments. However, in three of the 215 observations, firms initially used operation methods characterized by more commitment than they did in 1998. Two entries were direct investments that were taken back to low commitment modes and in one entry a firm started its activities by combining co-operative agreements with exporting, but then decided to cut the co-operations and only continued its exporting activities.

CONCLUSIONS

In this paper, I investigated expansion processes of firms in Central and Eastern European markets. These newly opened markets are an excellent context to test for the questioned validity of the Uppsala stages model of internatiolization. The globalized business environment was thought to have speeded up internationalization processes and firms were not expected to take all steps predicted in the estblishment chain (Hedlund and Kverneland, 1983; Nordström, 1990; Turnbull, 1987). However, I expected that the underlying mechanism that increasing market knowledge allows firms to expand in foreign markets will also explain internationalization processes nowadays. Therefore, I formulated propositions with regard to different dimensions along which firms and their local subsidiaries grow without presupposing a certain order of stages (cf. Welch and Luostarinen, 1988).

I found that the first steps that Dutch firms took in Central and Eastern Europe are characterized by low local commitment. Most firms started local activities through exporting, licensing or other co-operative agreements, supporting P1. With P2, I expected firms to increase their local commitment in the CEE host markets following their initial entry. This proposition is supported by the entry processes of the thirteen cases as well as the survey data on 215 entries of Dutch firms. The extension of local commitment was done through using operation methods demanding more commitment, especially direct investments, as well as through extending the ownership share in local participations. Patterns with respect to expanding local activities are less obvious: in most cases, marketing and sales activities were started with and production activities followed later, if at all. In subsidiaries where distribution activities were organised locally, this followed upon sales and marketing activities. In other subsidiaries, however, distribution activities that had been organised by the subsidiary itself earlier were now left to external distributors. Only few subsidiaries are active in R&D and these activities often started in the same year as production activities. With respect to sales objects, the sixteen cases expanded stepwise, but only by adding new products and not conform the expectations of Welch and Luostarinen (1988). Finally, I expected local subsidiaries to expand by increasing local autonomy (P4). Though several respondents expressed that their local subsidiary extended its responsibilities, in most cases however, they referred to decisions on local operations and not on strategic matters. But even with respect to operational matters, many subsidiaries need approval of the company headquarters. P4 therefore received little support from the thirteen cases. The expansion of geographical responsibility (P5) is more conform my expectations: several subsidiaries adopted responsibility over neighbouring markets within the region stepwise.

In all, P1 to P3 considering the most visible dimensions of expansion, received enough support to conclude that the learning model of the internationalizing firm did not loose its validity for explaining entry processes of firms in new markets, even in the current globalized environment. The thirteen cases do support the expectations that firms are able to enter new markets via short routes (cf. Hedlund and Kverneland). The fact that P4 received only little support can be the result of the time consuming character of extending responsibilities: all case subsidiaries are still young and in the early stages of establishment.

The data support Johanson and Vahlne 's (1990) plea for differentiation of the internationalization patterns of firms. Future research should further explore the dimensions along which firms expand internationally. Many questions relating to expansion processes of local subsidiaries could not be dealt with in this paper. The autonomy of the local subsidiary and the geographic expansion of its responsibilities are only partial operationalizations of the aspects of changing structure in internationalizing firms and the expansion processes at the level of subsidiaries. Future research can benefit from combining the literature on subsidiary's strategic roles, network approaches and learning theory. Finally, this paper tried to combine the insights from case study research with data gathered through a larger scale survey. In this paper the survey data are only used to support findings from the case studies. I encourage future research to test hypotheses on expansion patterns using large scale (preferably longitudinal) data.

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