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IMPACT OF ENVIRONMENT ON INTERNATIONAL JOINT VENTURES IN CENTRAL AND EASTERN EUROPE

Master's Thesis in
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ABSTRACT

Earlier studies have indicated that environment has an impact on international joint ventures, but there is a need to study the topic more deeply. The goal of this study was to analyse the impact of environment on international joint ventures in Central and Eastern Europe. This study formed more precise criteria than earlier studies have had to determine how developed the investment environment of a country is. Using the criteria, host countries of joint ventures were divided into highly, medium and less developed investment environments, and joint ventures established in different environments were studied and compared. The results support earlier studies, but also produce new information about the impact of environment on joint ventures.

Data on country environments was collected mainly from EBRD Transition Reports. Joint ventures were studied by analysing surveys conducted in 2002 and 2007 at the University of Vaasa. The respondents of the surveys were representatives of Finnish firms that had established manufacturing joint ventures in Central and Eastern Europe. The results of this study indicate that joint ventures established in different environments vary; there are differences in the motives of investing firms, the resource contribution of partners and the performance of joint ventures.

Market seeking seems to be an important motive, particularly in highly developed investment environments, whereas low-cost production seems to be sought more in medium and less developed environments. The less developed the investment environment is, the clearer the division in resource contribution and the more interdependency between the partners, which may encourage firms to maintain their joint ventures. As to performance, joint ventures in a less developed environment seem to have more problems with cost control and efficiency than joint ventures in more developed environments.

KEYWORDS: international joint venture, Central and Eastern Europe, motives, resources, performance

VAASAN YLIOPISTO
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TIIVISTELMÄ

Aikaisemmat tutkimukset osoittavat, että kohdemaan ympäristö vaikuttaa kansainvälisiin yhteisyrityksiin, mutta lisätutkimusta aiheesta tarvitaan. Tämän tutkimuksen tavoitteena oli selvittää, mikä on ympäristön vaikutus kansainvälisiin yhteisyrityksiin Itä-Euroopassa. Investointiympäristön kehittyneisyyden mittaamiseksi laadittiin aikaisempia tutkimuksia tarkempi mittari. Tätä mittaria käyttäen kohdemaat jaettiin pitkälle kehittyneisiin, keskipitkälle kehittyneisiin ja vähemmän kehittyneisiin investointiympäristöihin ja eri ympäristöihin perustettuja yhteisyrityksiä vertailtiin keskenään. Tulokset tukevat aikaisempia tutkimuksia, mutta tuovat myös osaltaan uutta tietoa ympäristön vaikutuksesta yhteisyrityksiin.

Aineisto investointiympäristön määrittämiseksi hankittiin pääasiassa EBRD:n julkaisuista. Yhteisyrityksistä saatiin tietoa Vaasan yliopistossa vuosina 2002 ja 2007 kerätyistä survey-kyselyistä. Kyselyt oli tehty suomalaisille yrityksille, joilla oli yhteisyritys Itä-Euroopassa. Tulokset viittaavat siihen, että erilaisiin ympäristöihin perustetut yhteisyritykset eroavat toisistaan; motiivit perustaa yhteisyritys, resurssien jakaminen kumppaniyritysten kesken ja yhteisyritysten suoritustaso näyttäisivät olevan erilaisia eri ympäristöihin perustetuissa yhteisyrityksissä.

Markkinat motivoivat investoimaan erityisesti pitkälle kehittyneeseen ympäristöön, kun taas halpatuotanto näyttäisi olevan tärkeä motiivi erityisesti keskipitkälle kehittyneessä ja vähemmän kehittyneessä ympäristössä. Mitä vähemmän kehittynyt ympäristö on, sitä selkeämmin kumppaneiden roolit näyttäisivät eroavan toisistaan ja sitä enemmän kumppanit näyttäisivät olevan riippuvaisia toisistaan, mikä voi saada yritykset jatkamaan yhteisyrityksenä pidempään. Mitä tulee suoritustasoon, vähemmän kehittyneessä ympäristössä olevat yhteisyritykset näyttäisivät hallitsevan muita huonommin kustannuksiaan ja niillä näyttäisi olevan ongelmia tehokkuudessa.

AVAINSANAT: kansainvälinen yhteisyritys, Itä-Eurooppa, motiivit, resurssit, suoritustaso

1. INTRODUCTION

1.1. Introduction to the topic

After the fall of the Berlin Wall, Central and Eastern Europe (CEE) has experienced two decades of transition to become market economies. The opening of the markets and the positive attitudes of local governments marked the beginning of a flow of foreign direct investments to the area. However, in the first years, CEE did not attract as many foreign direct investments as other comparable areas, because problems in business environment caused risks for investing firms. Since then, the progress in economic transition and improved political, socioeconomic and economic circumstances in the countries have made the environment more favourable for foreign investors. During the two decades, CEE has received significant amounts of foreign direct investments.

Still, the business environment and markets provide challenges for foreign investing firms, and many firms have ended up looking for a partner that can help them. International joint venture (IJV) has been a frequently used entry mode in CEE, which makes them interesting research objects. CEE countries have developed at different speed towards more a stable and higher developed environment for foreign direct investments. Although the majority of investments have been directed to the countries with higher developed environment, medium developed and less developed environments have also received investments. What kind of opportunities and risks actually arise from those different environments for international joint ventures? Which areas are most suitable for market penetration, which for low-cost manufacturing? How high risks should be taken? What kind of performance can be expected? How fast can one expect investments to pay off?

Although many researchers studying CEE have noticed the differences between different countries in the area, there are only a few studies that analyse the impact of different environments on foreign direct investments. This thesis continues the work of reseachers, such as Tüselmann (1999) and Hyder and Abraha (2003), and participates in the discussion on how differently progressing transition countries are a different environment for joint ventures. As to the discussion of joint ventures in CEE, this thesis suggests a framework to analyse IJVs and brings a Finnish perspective of as many as 42

joint ventures. Moreover, the determination of development of country environment has been quite unclear. This study formulates more precise criteria with a list of parameters to evaluate the progress of transition countries, as well as grouping countries to highly, medium and less developed investment environments.

1.2. Goals and limitations of the study

The main goal of this study is ***to analyse the impact of environment on international joint ventures (IJVs) in Central and Eastern Europe (CEE).*** The main goal is divided into sub-goals.

The theoretical sub-goals of the study include:

- studying CEE as an environment for foreign direct investments and forming criteria that enable comparing different Central and Eastern European countries in terms of how developed an investment environment each country is

- analysing international joint ventures (IJVs) in different investment environments within CEE by studying:
  - the main motives for forming IJVs in the area and
  - the resource contribution of foreign and local partners

- studying the performance of IJVs in different investment environments within CEE

The empirical sub-goals of the study include:

- using the criteria formed in the theoretical part of the study, determining the investment environment in those CEE countries where Finnish firms have established joint ventures

- analysing the motives that Finnish firms have had as well as the resource contributions of partners when investing to differently developed investment environments in CEE, and finding reasons for possible differences

- comparing the performance of Finnish IJVs in differently developed investment environments

Based on existing research in the area, the theoretical part forms a framework and basis for the empirical analysis. The empirical part tests the framework using data of Finnish–CEE joint ventures.

The relevant variables of the study include motives, resources, performance and macro environment. These variables are frequently analysed in the literature when studying IJVs, for example, in the study of Hyder and Abraha (2003). There are also other variables which influence international joint venture operations and success – such as management, organisational and national cultures, learning and networks – but they are beyond the scope of this study to get a more focused study. The study is limited only to international joint ventures that are located in CEE. In other words, domestic joint ventures are not discussed. Moreover, the study focuses on East-West joint ventures, where one of the joint venture partners comes from a highly developed Western country. In the empirical part, the Western country is Finland.

Although many researchers studying CEE have noticed the differences between different countries in the area, there are only a few studies that analyse the impact of different environments on foreign direct investments. This thesis continues the work of reseachers, such as Tüselmann (1999) and Hyder and Abraha (2003), and participates in the discussion on how differently progressing transition countries are a different environment for joint ventures. As to the discussion of joint ventures in CEE, this thesis suggests a framework to analyse IJVs and brings a Finnish perspective of as many as 42 joint ventures. Moreover, the determination of development of country environment has been quite unclear. This study formulates more precise criteria with a list of parameters to evaluate the progress of transition countries, as well as grouping countries to highly, medium and less developed investment environments. Even though some scholars have listed criteria for grouping CEE countries, they have not specified any parameters for measuring the issues in question. This thesis differs from previous studies by compiling an actual list of parameters for evaluating the development of investment environment in the countries.

1.3. Key concepts of the study

A central concept in this thesis is an *international joint venture (IJV).* It is established by two or more firms, whose home markets are in different countries. Joint ventures can be either equity joint ventures or contractual ventures (Luostarinen & Welch 1990: 158). Only equity joint ventures are relevant in this thesis, so joint contractual ventures are beyond the scope of this study. Joint ventures can be established for different tasks (sales unit, assembly unit…), but only joint ventures that include manufacturing are discussed in this thesis. Moreover, in this study, the term 'joint venture' refers to an international joint venture, as domestic joint ventures are not discussed in this thesis.

An international joint venture is a *foreign direct investment (FDI).* By investments, only direct investments are meant in this study, so short-term investments and portfolio investments are not discussed in this study.

This study defines *Central and Eastern Europe (CEE)* as all the former socialist countries (socialist until 1991) that are located in the European continent. European Bank of Reconstruction and Development (EBRD) divides the area further into three sub-areas:

1. Central Eastern Europe and the Baltic states (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia)
2. South-Eastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Montenegro, Romania and Serbia)
3. Commonwealth of Independent States (CIS) (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine)

Politically, CIS does not belong to Europe, but geographically it does. In addition, the similar history justifies their inclusion in the 'Eastern Bloc countries' of CEE. The area has many names, such as Eastern and Central Europe and Eastern Europe, but Central and Eastern Europe was chosen for this thesis because it is most widely used in literature. Moreover, the former socialist economies that aim to become market economies and thus change their structures are called *transition economies.*

An environment of a firm includes all the uncontrollable things in the business environment and it consists of three parts: the macro environment, the industry environment and the internal firm environment. In this study, the word 'environment' refers to the host country macro environment of the IJV. In addition, the term

investment environment is used to emphasise the aspects of the environment that influence foreign direct investments the most.

1.4. Literature review

This sub-chapter outlines key literature sources used for this thesis. Although some scholars have studied CEE joint ventures, it is interesting how small number of studies have studied joint ventures in differently developed areas of CEE. Literature has been searched mainly by using the following key words, both separately and combined: international joint venture (IJV), strategic alliance, motives, resources, performance, Central and Eastern Europe, transition. Literature was searched mainly from the following electrical databases: Nelli, Abi Inform: Pro-Quest Direct, EBSCO host and Tria. Books were borrowed from the library of the University of Vaasa and from the instructor. This introduction chapter focuses only on the most important sources. The titles of the publications are written in italics, and their content and use in this thesis are briefly introduced.

In their book *Strategic Alliances in Central and Eastern Europe,* **Hyder and Abraha (2003)** study international joint ventures and other strategic alliances in differently developed investment environments of CEE. The main focus of the book is highlighting the impact of environment on the operations and performance of IJVs, especially concentrating on differently developed transition countries in CEE. The cases studied included 20 Swedish firms that had strategic alliances (IJVs and other alliances) in eight countries: the Czech Republic, Hungary, Poland, Croatia, Estonia, Lithuania, Russia and Yugoslavia. The present thesis will build on their research; the variables that are studied in this thesis were selected from their framework, and the influence of environment is also the main concern of this thesis. Moreover, the results of Hyder and Abraha's study are used to make presumptions of IJVs in CEE. According to the authors, the environment of an IJV seems to influence its operations and performance to a large extent. A highly developed environment provides significantly different circumstances for IJVs compared to medium or less developed environments. The authors detected differences between various CEE countries in terms of reasons for establishing a joint venture, the resources IJV partners had, and the way the IJVs were managed. Moreover, performance varied depending on the country's progress in development; for example, there were differences in payback times for investments and

the frequency of problems. The research was carried out using the case study method; 20 cases were analysed. This thesis will further test the findings of Hyder and Abraha.

Tüselmann (1999) studied FDIs in differently developed CEE countries. He revealed two clusters in CEE after studying German FDIs. The clusters differed in terms of political stability and progress in the reform process. More advanced countries had attracted over 90 per cent of German FDIs that were directed to CEE, although less advanced countries constituted over 80 per cent of the population of CEE. Furthermore, the motives to invest differed between these clusters. In addition, other researchers have studied the area of CEE as an environment for FDIs, but they have not concentrated on comparing different environments within the area. For example, **Estrin and Meyer (1998)** studied motives for investing in CEE. **Marinova and Marinov (2003)** also studied motives for investing in CEE. Furthermore, they investigated the achievements of the investing firms as well as obstacles and benefits experienced by the firms. The countries included in their study were Bulgaria, Poland, Hungary and Slovenia. These studies are used, like the study of Hyder and Abraha (2003), for developing the overall theoretical framework of this thesis.

EBRD (1997-2007) publishes *Transition Reports* that describe in numbers and text how transition is progressing in Central and Eastern Europe and how other aspects in the country environments are developing. These reports are used in this thesis as sources of data for determining the development stages of CEE countries.

Dunning (1993) writes about motives for foreign direct investments in his book *Multinational Enterprises and the Global Economy.* He argues that the main motives for IJVs and other foreign direct investments are resource seeking, market seeking, efficiency seeking and strategic asset seeking. These motives are used in this thesis for explaining IJV motives but the list is extended with some IJV-related motives. **Hyder and Ghauri (2000)** classify IJV resources in their article *Managing International Joint Venture Relationships – a longitudinal perspective.* According to the authors, the main resources of IJVs are input, capital, manpower, technology and market. This classification is also used in this thesis. **Geringer (1991)** has listed critical success factors of IJVs in his article *Strategic determinants of partner selection criteria*. This list comprises the most important resources of IJVs. The list is specified and extended using other sources. **Geringer and Hebert (1991)** have studied IJV performance in their article *Measuring Performance of International Joint Ventures.* The authors compared subjective and objective criteria, and they tested performance measurements

in a US-Canadian sample. In this thesis, the article works as a basis for measuring IJV performance.

1.5. Structure of the study

This thesis consists of six chapters. The first chapter is an introduction to the study. The topic is introduced, the goals and limitations to the study are set, the key concepts are defined and the most important sources are introduced.

Chapters 2 and 3 form the theoretical part of the thesis; Chapter 2 focuses on environment and Chapter 3 on international joint ventures in the environment. In Chapter 2, the importance of environment for foreign investments is discussed. After that, the special characteristics of Central and Eastern Europe are introduced, mainly issues relating to the transition of the countries from planned economies to market economies. Finally, criteria are developed for analysing the investment environment of a Central and Eastern European country.

In Chapter 3, international joint ventures are added to the discussion. First, joint ventures are introduced by comparing different theoretical approaches to them. After that, joint ventures are analysed in different investment environments within CEE by studying the main motives for forming joint ventures in the area, as well as the resource contribution of foreign investing firms and their partner(s), which are typically local. Then, the performance of joint ventures is discussed in different investment environments within CEE. At the end of the chapter, a figure that summarises the theoretical framework of the study is presented.

In Chapter 4, the methodology of the empirical study is discussed. The empirical study consists of two main parts: grouping joint ventures into three groups according to the development of the host country's investment environment and analysing joint ventures in those groups. First, the method of grouping is discussed and, after that, the method of analysing data on joint ventures. Data on joint ventures was collected by means of survey questionnaires, and the method of finding out information on the key variables is discussed. After discussing the methods, some relevant information of the sample is given. Finally, the reliability and validity of the study are discussed.

The results of the empirical study are presented in Chapter 5. First, the investment environment in each host country is studied. It is then analysed what motives Finnish firms had and how partners shared the resource contribution when investing to different environments. Then, the performance of Finnish IJVs in different environments is compared. At the end of the chapter, the different parts of the empirical study are combined.

In Chapter 6, the study is summarised, conclusions are drawn and suggestions for future research are made.

2. INVESTMENT ENVIRONMENT OF THE HOST COUNTRY

This chapter discusses issues relating to the external environment of international joint ventures (IJVs). The chapter is structured as follows: first, reasons to pay attention to the host country environment are provided. Second, the focus of this study – Central and Eastern Europe (CEE) – is briefly introduced, especially the fact that these countries are in a transition process. Finally, a more in-depth view is casted to these CEE economies, and criteria are developed for comparing investment environments in different countries.

2.1. Country environment influences foreign direct investments

There are things that cannot be controlled by IJV partners and IJV general managers. These uncontrollable things form the business environment, which consists of three parts: the macro environment, the industry environment and the internal firm environment. Because IJVs are foreign investments, the macro environment of the host country in particular is worth considering. In the following part of the study, the word 'environment' refers to the country environment that foreign investing firms face in the host country. The environment provides both opportunities and threats to an IJV. Opportunities may help the IJV to achieve competitive advantage and threats may prevent the IJV from achieving competitive advantage. A successful strategy exploits opportunities and counters threats, in other words it matches the resources and activities of a firm to the external environment. (Mellahi, Frynas & Finlay 2005.)

This thesis focuses on IJVs that are located in the transition countries of CEE. Transition countries refer to economies that are changing their old system of planned economy to become market economies. In addition to the former socialistic Europe, another main transition economy is China. Transition economies can be seen to belong to emerging economies. Another group of emerging economies are the developing countries of Africa, Asia, the Middle East and Latin America. Hoskisson, Eden, Lau and Wright (2000) have studied emerging economies and their role in international business. They define emerging economies as "low-income, rapid-growth countries using economic liberalization as their primary engine for growth." So, although this thesis focuses on the transition economies of CEE, a wider connection can be seen to

other emerging economies and it can be discussed as to what extent the environment of other emerging economies is similar to that of CEE countries.

The external environment, CEE, affects IJVs during the whole life-cycle, but especially in the introductory stage. Hyder and Abraha (2003) have conducted extensive research on IJVs and other strategic alliances in CEE. They have divided CEE countries into three groups depending on the host countries' development stage. The authors found significant differences between those country groups when it comes to motives of local partners, the exchange of resources in IJVs, learning in IJVs, network structures, performance and general environment. The authors found out that the environment has a greater impact on operations in a less developed environment than in a highly developed one. According to their results, highly developed countries offer the best returns on investment, at least in the short term. Firms in less developed countries need tolerance, sufficient resources and long-term investments. Highly developed countries have attracted more foreign direct investments because operations are easier and more predictable there. On the contrary, in less developed countries the local conditions need to be taken into account in everything and things still need to be done in the local way to prevent failure. (Hyder & Abraha 2003: 254.)

As a conclusion, Hyder and Abraha (2003) claim that the macro environment has a key role in the operations of international alliances, including international joint ventures, the state of transition being the central issue. The empirical part of this thesis will further test this statement.

2.2. Transition in Central and Eastern Europe

The background of transition economies is very different from that of Western economies, in terms of politics, economy and markets. The Central and Eastern Europe and the Soviet Union experienced decades of socialistic political ideology and centrally planned economy. The economies were strictly centralised, private ownership did not exist and foreign firms could have only minority ownership in joint ventures. Only one party, the socialist party, had power. Moreover, economic growth and productivity were weak compared to the West. The production was planned by the state and prices were fixed. As for the markets, marketing was unnecessary because consumers bought whatever was available due to the undersupply; it was a seller's market that was not

based on consumer requirements. Foreign trade was mostly monopolistic in nature. (Tietz 1994.)

After the fall of the Berlin wall in November 1989, the closed markets of CEE opened. As Western markets were saturated and Western firms had problems with profitability, a rush to the East was experienced. Firms were seeking first mover advantages in the markets that seemed to have a lot of opportunities. In the midst of this chaos, firms often did not do enough market research, which caused problems to some of them. (Hyder & Abraha 2003.)

CEE governments declared that they would develop from planned economies to market economies. The superior role of politics on every field was reduced, and decision makers were no more just politicians but also business people, entrepreneurs and artists (BusinessWeek 1999). Similarly, the driving forces were business and technology rather than ideology and geopolitics (ibid.). The progress of transition in different countries of CEE is followed, for example, by the European Bank of Reconstruction and Development (EBRD). EBRD collects data on each country, which it presents in Transition Reports that are updated annually. Moreover, the reports compare the transition progress of countries by placing countries to the EBRD index.

The way of thinking, however, did not change overnight, since the socialist ways had become part of the culture. The organisational cultures of CEE were relatively similar due to the shared ideology. Organisations were highly centralised and hierarchical, which made decision making processes slow and bureaucratic. Uncertainty avoidance appeared, for example, in formality, and standardisation was preferred. Centralisation and the avoidance of uncertainty prevented private initiative and willingness to take responsibility (Kraljic 1990). Furthermore, organisational cultures were characterised by strong collectivistic attitudes. These attitudes remained on people's mind, even though things were supposedly changed. (Hyder & Abraha 2003: 58–62.)

Changing the very profound rules of CEE economies, the transition is not an easy process. The countries experienced a major decline in GDP in the first half of the 1990s, and even in the early 2000s the GDP of many countries was lower than in 1989. Russian export declined, because previously communist countries were now free to buy from the West. (Hyder & Abraha 2003.) The first years of transition brought poverty and wider disparities in income. In the early 1990s, Poland was the only CEE country with a

growing economy. The situation improved during the 1990s and by 1997 most of the CEE economies saw positive growth. (EBRD 1997)

In the first ten years of transition, countries were mainly liberating markets and privatising small-scale business. According to EBRD, these market-enabling reforms form the first phase of the reform process. The second phase consists of market-deepening reforms such as large-scale privatisation and financial reform. Finally, the third phase, market-sustaining reforms, includes reforms on governance and enterprise restructuring, competition policy and infrastructure. Some countries moved on to the second phase in the late 1990s, especially countries that were moving toward European Union membership. Poland, Hungary, the Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Slovenia joined the EU in May 2004 followed by Romania and Bulgaria in January 2007. The new EU member states have practically completed the second phase, but other countries in CEE still have a long way to go. In 2007, the more advanced transition countries had proceeded well into the third phase, while less advanced countries had barely begun that phase. Economical growth of CEE countries rose; for example, in 2006 the average economical growth of CEE countries was 6.9%, hitting a new record since the beginning of the transition process. Economies even showed signs of overheating, with high inflation of wages and prices. (EBRD 2007). However, in 2008 and 2009 the growth slowed down dramatically because of the global financial crisis. Although new EU members are very far in the transition process, they still struggle to meet the requirements of the European Monetary Fund, except for Slovenia and Slovakia.

Business environment in the transition countries creates constraints to firms operating in those markets. In 2005, 2002 and 1999 the EBRD conducted surveys in CEE countries to study constraints for doing business in the area, and comparative data was gathered in other areas of Europe and Asia. In the studies, business environment was defined as consisting of business regulation, taxation, institutions and property rights, infrastructure, finance, macroenvironment and labour. The results varied across countries and different types of firms. However, the most significant constraints could be named across the area. First, costs of business regulation were high; for example, a lot of permits were needed. Second, institutions were of poor quality and property rights were weak. Third, the instability of macro environment caused risks. Finally, gaining access to finance was hard, especially in smaller firms and firms outside major cities. The surveys showed that transition countries were still a long way behind mature market economies, although improvements had been made. (EBRD 2005)

Problems in the business environment cause risks for FDIs, and in the early years of transition, FDI inflows to CEE remained relatively low (Brouthers, Brouthers & Nakos 1998). During 1990s, FDI inflows to CEE increased. CEE countries welcomed foreign investments because they speeded up the process of transition as well as brought prosperity to the countries. Local companies alone did not have enough hard currency to make necessary investments. Actually, in the communist era, barter trade had been common due to the lack of hard currency. What made CEE attractive for investors was, first of all, the vast market with large natural and economic resources. In the 1990s the market was also virtually untapped and thus offered opportunities. Foreign investments were also promoted by the attitude of local officials towards economic transition. (Jain & Tucker 1994.) For Western European countries, CEE is attractive also due to its close location which keeps transportation costs low and facilitates timely delivery of goods and services (Hyder & Abraha 2003).

Despite the fact that all countries in CEE have set a goal to develop to become market economies and have faced significant economical and social changes and development while pursuing that goal, there are differences in progress between countries. One explanation for differences in the reform pace are historical reasons. Although all CEE countries had a planned economy ruled by a communist party before 1989, the starting point to the reformation was different in different countries. A slow reform process had namely started as early as in the 1960s, and countries already showed some signs of market economy, to different extents (Tietz 1994). Hungary had progressed the furthest in transition, and in the early 1990s, it also attracted over half of the foreign investments of CEE (Estrin & Meyer 1998). In the mid-nineties Poland and the Czech Republic followed it (ibid.). The purchasing power for more expensive goods also increased in these countries, for example car sales in Poland increased by 30 per cent in 1997. Russia, on the contrary, suffered from a drastic fall of exports after 1989, being used to having less competition in the Eastern block markets because Eastern countries did not buy from the West.

The reasons for slow or rapid development are not central in this thesis. Rather, this study focuses on what kind of environments differently progressed countries offer for foreign investors. FDI inflows vary a lot between different countries in CEE. Countries that are more advanced in transition tend to attract more FDIs, although only less than 20 per cent of CEE's population lives in those countries (Tüselmann 1999, Hyder & Abraha 2003, EBRD 2007). The environment of these countries is perceived as more

favourable to business, one reason for this being that those countries enable firms to be productive and competitive (EBRD 2005).

Indeed, advanced transition seems to attract more FDI inflows. And investments, in turn, support transition. Privatisation, as part of transition, attracts FDIs because it brings opportunities for first mover foreign firms to acquire local firms. Another first mover advantage is possibly gaining access to local networks (Estrin & Meyer 1998). Other issues that have influenced target country choice in CEE are, for example, the attitudes of host governments towards foreign investments and special ties to certain countries (historical ties or short geographical or psychological distance). (Marinova & Marinov 2003.) Naturally, each of the CEE countries has a unique national culture formed even before the socialist era. This national culture is, however, not discussed in this study, as was stated earlier.

2.3. Criteria for studying different investment environments within CEE

This sub-chapter compares different environments within the area of Central and Eastern Europe (CEE), focusing especially on aspects critical to international joint ventures (IJVs) as a form of foreign direct investment (FDI). As the above described development of CEE demonstrates, the countries can be divided into different country groups, the criteria being how fast the reformation of economy and other circumstances advances in the country.

Many researchers have noticed differences between different countries of CEE and noticed that different countries attract FDI in different volume. Tietzt (1994) has divided CEE countries into three groups paying attention to economy of the country, population issues and acceptance of foreigners. Tüselmann (1999) revealed two clusters in CEE after studying German FDIs. The clusters differ in terms of political stability and progress in their reform process. More advanced countries had attracted over 90 per cent of German FDIs directed to CEE, although less advanced countries constitute over 80 per cent of CEE population. The most recent grouping of these three is in the study of Hyder and Abraha (2003). Building especially on the grouping of Tietz (1994), Hyder and Abraha (2003) separated three country groups paying attention to the transition of the economy from planned to market structures, political situation in the

countries, variation of market and socioeconomic structures and economic growth rates. The groupings of these authors are presented in Table 1**.**

Table 1. Different groupings of CEE countries.

Source		**Tietz (1994)**	**Tüselmann (1999)**	**Hyder & Abraha (2003)**
Criteria for grouping	*Transition of economy*	Included	Included	Included
	Socioeconomic well-being	Included (parameters of population)	–	Included (socioeconomic and market structures)
	Political stability	–	Included	Included
	Growth of economy	Included	–	Included
	Other	- Acceptance of foreigners	–	–
Time period		Around 1990	Until mid 1990s	1990s, early 2000
Highly developed investment environment		- Hungary - the Czech R. - Slovakia	- Hungary - the Czech R. - Poland	- Hungary - the Czech R. - Slovakia - Poland - Slovenia
Medium developed investment environment		- Poland - Bulgaria - Former USSR		- Estonia - Latvia - Lithuania - Croatia
Less developed investment environment		- Romania - Albania	- Russia - Romania - Bulgaria	- Russia - Romania - Bulgaria - Albania - Yugoslavia - Macedonia

The development on which groupings are made has different names in different studies. Tüselmann (1999) calls country groups '(less) advanced reform countries' whereas Tietz (1994) lists simply 'top, middle and bottom group'. Hyder and Abraha (2003) use the term 'adaptation' to describe the state of CEE country environments. The countries *adapt* at a different speed to the structures of market economy. In their study, the term 'adaptation' also refers to other developments of countries – towards Western socioeconomic and market structures, political stability and economic growth. The idea behind grouping CEE countries in all these studies can be perceived as describing different groups as different environments for foreign direct investments. The

investment environment is either highly developed, medium developed or less developed in each CEE country. The number of groups also varies between different studies: Tietz (1994) and Hyder and Abraha (2003) have three groups, whereas Tüselmann (1999) only has two groups. In this study, three groups are formed in order to get a more exact picture of different CEE country environments:

- countries with a **highly** developed investment environment
- countries with a **medium** developed investment environment
- countries with a **less** developed investment environment

As presented in Table 1, these groupings were made in different times. In over a decade, some countries moved from one group to another as the situation in the countries changed. For example, Poland was considered to be in the medium group in the early 1990s (Tietz 1994) and in the most advanced group in late 1990s. Therefore, the grouping needs to be connected to a certain time.

As can be seen in Table 1, the criteria used for grouping countries are partly the same in different studies. Actually, the criteria of Hyder and Abraha (2003) include those of Tietz (1994) and Tüselmann (1999), except for 'acceptance of foreigners'. Even though the scholars have listed the criteria for grouping, they have not specified any parameters for measuring the issues in question. This thesis differs from previous studies by compiling an actual list of parameters for evaluating the development of investment environment in the countries.

In addition to using Hyder and Abraha's (2003) four criteria, this study adds two criteria to the list: FDI inflows and corruption. Even though they were not in Hyder and Abraha's list, the authors discussed them in their book. Moreover, these two criteria are major elements in EBRD Transition Reports. Therefore, in this study, the development of the investment environment of a country is considered to consist of six criteria (Table 2).

A highly developed country has progressed far in most of these areas. The economy's shift to market economy is far progressed. The country provides its citizens with good socioeconomic conditions. The country is politically stable, and its economy is growing. Furthermore, the country attracts foreign direct investments and corruption is low. On the contrary, a country with a less developed investment environment receives poor scores in regard to most of the six criteria. A medium developed country is in the middle of the two extremes.

Table 2. Different investment environments in Central and Eastern Europe.

Criteria	Less developed	Medium developed	Highly developed
Transition to market economy	Limited	Medium	Far progressed
Socioeconomic well-being	Limited	Medium	High
Political stability	Unstable	Medium	Stable
Economic growth	Slow	Medium	Fast
FDI inflow	Limited	Medium	High
Corruption	High	Medium	Low

In the followings paragraphs, the six criteria of investment environments are clarified and certain parameters are established under each dimension. After that, all criteria are shown in Table 2. The first criterion, transition to market economy, is directly adopted from Transition Reports published by the European Bank of Reconstruction and Development (EBRD). The reports evaluate the transition progress of each CEE country, presenting the results in numbers, charts and texts. The parameters in this criterion are privatisation, enterprise restructuring, price liberalisation, trade and foreign exchange system, competition policy, banking reform, securities markets, and infrastructure. Some or all of these criteria are also mentioned in other studies; for example, Fahy, Shipley, Egan and Neale (1998) state that infrastructure is one important prerequisite for foreign direct investments. Moreover, Dunning (1994) uses the following criteria: speed of economic reform, infrastructure reform and other transition related criteria.

As Hyder and Abraha (2003) had socioeconomic structures as one criterion and the issue is also considered in Transition Reports (EBRD), it is used also in this thesis under the name of socio-economic well-being. GDP is often used for measuring the standard of living, but other criteria are used to get a more comprehensive view. Education is highlighted by Fahy et al. (1998), so it is included in this thesis. EBRD Transition Reports offer this data, as well as data of poverty and health. Thus, socio-economic well-being is measured in this thesis by GDP per capita, share of population living in poverty, government expenditure on health, and government expenditure on education. These scores can be found in EBRD Transition Reports.

The next criteria, political stability and economic growth, are also included in Hyder and Abraha's (2003) criteria. As to political stability, Root (1994: 151) and Fahy et al. (1998) also state that political stability is important for FDIs. Perhaps the most well

known journal continuously publishing data on political risks is *Euromoney*. The fifth dimension, economic growth, can be measured by real GDP growth (%) and inflation rate. Inflation tends to be high in transition countries (EBRD, Tietz 1994).

The remaining two criteria, FDI inflows and corruption, are not directly stated in the criteria of Hyder and Abraha (2003) but were mentioned in their book. EBRD Transition Reports also highlight these measures as signs of progress in transition countries, and they provide scores of each transition country in these aspects. FDI inflow differs somewhat from the other five criteria: The other criteria form a good environment for FDIs, whereas high FDI inflow is already a sign that the country is considered to be a potential target country. Low corruption provides a healthy environment to do business in a country. Table 3 presents the six criteria and the parameters used to evaluate each criterion.

Table 3. Criteria for evaluating the investment environment of a country.

Criteria	**Parameters**
1. Transition to market economy	- Large scale privatisation - Small scale privatisation - Enterprise reform - Price liberalisation - Trade and foreign exchange system - Competition policy - Banking reform - Reform of non-bank financial institutions - Infrastructure reform
2. Socio-economic well-being	- GDP per capita (USD) - Population living in poverty (%) - Government expenditure on health (% of GDP) - Government expenditure on education (% of GDP)
3. Political stability	- Political risk (rating of *Euromoney*)
4. Economic growth	- (Real) GDP growth (%) - Inflation
5. FDI	- FDI inflows
6. Corruption	- Scores of the EBRD

As Hyder and Abraha (2003) acknowledge, countries develop from less developed to more developed investment environments; for example, Poland was considered to be in the medium group in the early 1990s (Tietz 1994) and in the group of highly developed investment environments in late 1990s. Therefore, the grouping needs to be made in the context of a certain time. In the empirical part of this thesis, CEE countries are grouped to less, medium and highly developed investment environments separately in four time periods: 1988–1992; 1993–1997; 1998–2003 and 2004–2006. When studying IJVs in different investment environments the time around IJV establishment is particularly relevant. According to Hyder and Abraha (2003), the impact of environment on IJV operations reaches its highest point in the introductory stage of IJV.

2.4. Summary

In this chapter, issues relating to the external environments of international joint ventures (IJVs) were discussed. First, the importance of external environment to IJVs was discussed. Then, the focus of this study – Central and Eastern Europe (CEE) – was briefly introduced, the transition process of these countries in particular. After that, a more in-depth view was casted on these CEE economies, and a framework was built to analyse them. Moreover, criteria were compiled to evaluate the advancement and development of different CEE countries. Table 3 summarises the contents of Chapter 2.

3. JOINT VENTURES IN CENTRAL AND EASTERN EUROPE

The transition economies of Central and Eastern Europe (CEE) provide a unique setting for firms operating in these countries. The area attracts foreign investments, and a frequent entry mode is establishing a joint venture with one or more local or foreign firms. In this chapter, key issues regarding international joint ventures (IJVs) are discussed. At first, joint venture as an entry mode is briefly introduced. After that, three key variables are discussed: motives to establish an IJV, resource contribution of partners to the venture, and finally, the performance of joint ventures. A special emphasis lies, of course, on CEE joint ventures.

3.1. Theoretical approaches to international joint ventures

In the literature, there are different theoretical approaches to IJVs. The most popular approaches will now be introduced. Emphasising dynamism and process-view, the network approach sees an IJV as firms cooperating to develop long-term relationships that are connected to a network of relationships (Håkansson & Snehota 1995, Hyder & Abraha 2003). Moreover, a relationship with a local partner can offer, for example, access to local distribution channels. Another theory that cannot be overlooked when considering IJVs is the resource-based view (Barney 1991). It claims that IJVs exist because firms want to obtain access to other firms' critical resources and learn from their partners (Hyder & Abraha 2003: 20). The resource-based view emphasises more internal firm and manager characteristics – and explains poor performance, for example, as a result of poor management skills. (Hoskisson et al. 2000.)

Other theories traditionally used when explaining IJVs are transaction cost theory (Williamson 1975) and resource dependence theory (Pfeffer & Salancik 1978). The former concerns the manager as an economically rational actor that enters an IJV in order to minimise the costs of expansion to a foreign country. Joint venture partners share the costs and risks of investment (Root 1994). Furthermore, opportunistic behaviour is central in the theory, i.e. firms have self interest with guile, for example firms may aim at stealing a partner's tacit knowledge or delivering substandard products (Das & Teng 2002). The latter, resource dependence theory, suggests that firms are tied together because they depend on each other's resources. However, the theory overlooks

all the other influencing aspects. Competitive advantage theory (Porter 1990) includes aspects from both of these theories; according to Culpan and Kumar 1994, it includes both the cost minimising aspect of transaction cost theory and sourcing aspect of resource dependence theory. A joint venture can help a firm to gain superiority over its competitors (Culpan & Kumar 1994).

There remains one theoretical approach worth mentioning, the institutional theory. The theory emphasises the changing nature of environment and behaviour of managers and adds a cultural, historical and network analysis to economic decision making. The theory is, however, not very widely used in IJV research. (Randall 1995.) Hoskinsson et al. (2000) highlight the institutional view as a useful theory when trying to understand business in emerging economies, because the institutional context is crucial there. The institutional view explains, for example, the significant role of government for the business. As a country develops, other things become more significant: "It is anticipated that as markets emerge, institutional theory first becomes most relevant, followed by transaction cost theory […] and then by the resource-based view." (Hoskisson et al. 2000.)

3.2. Motives for establishing a joint venture

The theoretical approaches discussed above help to understand motives for establishing joint ventures. Motives are important because to understand a joint venture, it is necessary to investigate why it was formed, why the partners felt the need to establish it (Hyder & Abraha 2003: 81). This sub-chapter discusses these motives for forming IJVs. Mainly motives of Western firms are discussed, because this study is conducted from that perspective. Motivations for establishing joint ventures are approached from two angles. First, establishing a manufacturing joint venture is a foreign direct investment, meaning that a firm invests in a foreign country instead of just exporting there. Second, a joint venture is a specific entry mode that is based on cooperation between two or more firms. Motives for establishing a joint venture are next discussed from both of these angles.

Why do firms want to invest in foreign countries and produce abroad? Establishing a manufacturing unit is a significant investment and shows that a firm is committed to stay in the country for a longer period of time or at least so long that it gets back the

money invested (Root 1994). Dunning (1993: 54–56) reminds that firms are motivated by the interests of their stakeholders, which include shareholders, managers and employees. All stakeholders must be compensated for their contributions, and the owners' profit should be satisfactory. Profit maximisation is, however, not the only concern: a firm needs to think about the future, too. To yield profits also in the long-run, issues such as avoiding new competition or unwelcome government attention become important. Actually, promoting the firm's long-term profitability is the main motive for foreign direct investments. When it comes to measuring the profitability of a foreign direct investment, there are two different issues that should be considered. First, there is the profitability of the subsidiary itself, and second, the effect that the subsidiary has on the profitability of the investing firm. (Dunning 1993: 54–56.)

Within the motive of profitability, firms have different sub-motives for making foreign direct investments. Dunning (1993: 56–61) has divided firms into different groups based on their principle motivation (extension of Behrman 1972):

1) resource seekers
2) market seekers
3) efficiency seekers
4) strategic asset or capability seekers

However, many firms belong to more that one of these categories. Next, these different FDI strategies are briefly introduced.

Resource seekers may seek physical resources, labour or special skills. IJVs are often established in CEE to ensure the supply of resources (Hyder & Abraha 2003). Physical resources include minerals, raw materials and agricultural products. Access to cheap raw materials has been one motive for entering CEE; for example, Russia has rich natural resources of petroleum and forest (Hyder & Abraha 2003). Labour seekers mostly seek cheap and unskilled or semi-skilled labour. Special skills that firms seek may be technological, managerial or marketing-related. Usually the most skilled experts are not sought in emerging economies. For example, the skills in marketing and management are often behind West. (Dunning 1993: 56–61.) However, the opening of Central Eastern Europe offered a chance to get relatively skilled low-cost manpower (BusinessWeek 1998). Privatisation also offers local resources to foreign investors (Hyder & Abraha 2003).

Market seekers invest in foreign markets in order to supply goods or services to that market. The target country may require an investment when entering the market. Other

reasons for being present in the market may include adapting the product to the local taste or reducing transportation costs. In addition, competition may motivate to be present in a certain market.(Dunning 1993: 56–61.) CEE markets offer opportunities to investing firms, and perceived market opportunity was especially high immediately after the fall of communism. It is also common, at least in rapidly adapting countries that an IJV serves as a base for accessing other, neighbouring countries. (Hyder & Abraha 2003.)

Efficiency seeking is very much associated with globalisation: a multinational firm moves its production to countries where factors of production are best accessed and costs are lowest. Moreover, economies of scale can be sought. (Dunning 1993: 56–61.) Central and Eastern Europe offers opportunities for low-cost sourcing and production, but labour productivity still lacks behind the west in some areas.

Strategic asset seekers often make partial or full acquisitions in order to gain a better long-term competitive position. In emerging economies like CEE, strategic asset seeking is more unusual (Dunning & Narula 2004: 106; Mellahi et al. 2005). However, entering the networks of a partner can be seen as a strategic asset. Moreover, joint ventures themselves can be seen as a way to achieve strategic benefits.

Joint venture is an entry mode, where partners share the ownership of the venture, including the risks, profits, and resource contribution to the venture. This brings both advantages and disadvantages. Sharing risks and capital investment is clearly a benefit. Knowledge is also shared between partners, at least to some extent. Especially valuable knowledge for a foreign investing firm is knowledge of the host country's culture and the market. A disadvantage of sharing is that profits are shared as well, so they may be smaller. Another drawback is the occurrence of problems in management; firms may have different objectives for joint venturing and there may be problems in decision making, for example in the field of personnel policy. Financial issues are also a source of problems, for example if one of the parents is no more interested in additional investments to the venture. (Root 1994.)

Another key aspect of joint ventures is that partners join each other's networks. Through a partner, the foreign investing firm may get access to local distribution channels. The partner may also have a better access to local manpower, like low-cost labour, skilled managers or marketing skills. Partnering with a local firm may also help to overcome local government regulation barriers. In fact, joint venturing may be the

only possible way to invest in some countries. Furthermore, national image created by joint venturing with a local partner may be advantageous. Finally, a partner can also make market entry faster, for example if the partner is already present in the market and owns the required manufacturing facilities. (Root 1994.)

Of the advantages of IJVs, learning should be highlighted. A common motive for forming joint ventures is learning from partners; through collaboration partners get access to each other's skills and capabilities (Kogut 1988). Partners use this learned knowledge in different ways; they can either use the knowledge within the joint venture or use it to enhance their own strategies and competitiveness. (Inkpen 1995.) Partners can even learn simultaneously by combining each other's resources (Hyder & Abraha 2003.) In CEE, most of the technological knowledge is transferred from foreign firms to local partners. In Hyder and Abraha's study (2003), local partners in highly and medium developed environments learned technological skills to the extent that they were able to take over the responsibility of production. But in less developed environments, the transfer technology was not complete. Local partners in those countries had too short-term a view to be able to learn for future benefits. Moreover, local partners learned Western business and marketing skills. Learning about local market has been a motive for Western firms for establishing joint ventures in CEE, and also Swedish firms studied by Hyder and Abraha (2003) learned about local markets, coping with local bureaucracy and local culture. (Hyder & Abraha 2003.)

Fahy et al. (1998) studied the motives of British firms that had joint ventures in Hungary. Those firms sought long-term market opportunities in Hungary and they expected economic and political stability in the country. The firms were mostly market and resource seekers, they sought mainly human resources of skilled low-cost labour. Furthermore, an important reason for joint venturing was the requirements of the host government.

Marinova and Marinov (2003) received similar results among IJVs established in Bulgaria, Hungary, Poland and Slovenia. They did not highlight the differences between the country environments, but based on the groupings discussed earlier Poland, Hungary and Slovenia were highly developed investment environment and Bulgaria less developed. Long-term market opportunity was the most important motive in all the countries. Gaining access to the domestic markets was an important motive in Bulgaria, Hungary and Poland, but not as important in Slovenia because of the small size of the Slovenian markets. After long-term opportunities and market-seeking, human resource

seeking was the third important motive. Access to skilled labour as well as low-cost labour was considered important in all the four countries. In Bulgaria, however, low-cost labour was not as important a motive as in the other countries. The fifth important motive was using CEE countries as a gateway to access other countries, and this was important mainly in Poland and Hungary.

As to motives in differently adapting countries, Hyder and Abraha (2003) found differences among the groups. The differences they found were in the clarity of objectives that local partners had. Local partners in countries with a highly developed investment environment had specific goals and a clear understanding of the alliances they formed. This helped them to organise their operations efficiently so that all the partners would reach their goals. In medium developed countries the realisation of interests was slightly lower, and in less developed countries the realisation was far lower. An uncertain environment made achieving goals more difficult and firms often had to change their objectives. (Hyder & Abraha 2003.)

The motives of foreign partners also differed between the three groups: The foreign partners in countries with a highly developed investment environment were motivated by risk sharing, project financing, legal requirements, providing after sales and installation service, acquiring local presence, as well as establishing a base for accessing other countries. Foreign partners in medium developed countries laid more emphasis on the low-cost aspect and developing contacts on different levels. In less developed countries, the need for contacts was also stressed, especially with political and legal authorities. Therefore, in that group, foreign firms strived to find a partner that could help them to deal with local authorities. In all groups, one motive was market development. (Hyder & Abraha 2003.)

Tüselmann (1999) studied German foreign direct investments (FDIs) to CEE in the early 1990s. Like presented in section 2.3, he noticed that most German FDIs go to more advanced countries. Less advanced countries attracted less FDIs because the prerequisites were not met there. Instead, the less advanced markets were entered mainly by exports. Moreover, the FDIs directed to those countries were mainly market oriented, and did not include manufacturing subsidiaries. On the contrary, in more advanced countries, most FDIs were motivated by resources – especially low-cost labour – and FDIs were mainly production units.

As a conclusion, there are many motives for forming IJVs in CEE. Dunning (1993) has categorised foreign direct investment related motives in three categories: firms may seek resources, market, efficiency of strategic asset and capabilities – or often a combination of them. An important motive for selecting joint venture as the entry mode is the possibility to learn and use the partner's knowledge of the local market. Table 4 summarises the motives of foreign firms for entering Central and Eastern Europe and establishing joint ventures there. Joint venture related motives are grouped under Dunning's categories and learning is added to the list.

Table 4. Motives for establishing IJVs in Central and Eastern Europe (CEE).

Motive category	Examples of motives	CEE
Resource seeking	Access to physical resources	Important in some countries
	Access to labour	Low-cost semi-skilled labour available
	Access to special skills (marketing/management)	Not common motive
Market seeking	Achieve rapid market entry	Market seeking is an important motive
	Establish a base for accessing other countries	Especially in more developed environment
	Overcome government regulation barriers	Especially in less developed environments
Efficiency seeking	Develop base for low cost sourcing	Production is often moved to low-cost countries. Especially in medium developed environments
	Achieve economies of scale	Related to low costs and labour productivity
Strategic asset seeking	Access to local distribution channel	Contacts of partner important, especially in less developed environments
Learn from partner		Knowledge of local markets and government requirements

3.3. Resource contribution to joint ventures

Firm resources are considered important in most of the joint venture literature. Even the resource-based view is widely adopted, which focuses on firm resources (internal environment) rather than competition and general environment (external environment).

Barney (1991) defines firm resources as: "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness." Resources can explain, on their part, why a certain joint venture is created and why a certain local partner is selected. Before starting the operations of a joint venture, it must be decided which partner brings which resources to the venture. In a joint venture, the combination of resources is critical, and complementary resources can bring synergy benefits. (Hyder & Abraha 2003, Geringer 1991.)

Resources are also important because they influence the performance of IJVs. There is evidence that complementary resources of partners are important to IJVs, while similar resources bring constraints on the management of IJV. Resources also influence the stability of an IJV: Hyder and Abraha (2003) found out in their studies that IJVs with complementary resources could continue to work the same way as before, but non-complementary resources required partners to mobilise and develop their resources. The failure of acquiring complementary resources even resulted in the termination of the IJV or continuing to make a loss. In addition to complementary resources, IJVs need good network relationships for high performance. (Hyder & Abraha 2003: 250–251.) IJV performance is discussed in more depth in next sub-chapter.

There are many possible ways to group resources. Barney (1991), for example, has three categories: physical capital resources, human capital resources and organisational capital resources. Hyder and Ghauri (2000) have made another classification that largely covers Barney's categories, but it classifies resources more specifically, and from an IJV's point of view. The authors have divided resources into five categories, which are used in this thesis:

1. Input
2. Capital
3. Manpower
4. Technology
5. Market

Some resources are more important than others, and the important resources help IJVs to achieve sustainable competitive advantages. There are key (task-related) resources that are common to any forms of organisations, including IJVs. The importance of different resources varies somewhat depending on the IJV's industry and tasks. Geringer (1991) has studied IJVs' key resources in the context of partner selection criteria. Foreign investing firms look for partners that have critical resources. Using Geringer's studies, Larimo and Rumpunen (2006) have formed a specific list that comprises IJVs' key tasks, in other words their key resources. The authors have also listed partner cooperation/ synergy related resources, but they are not discussed in this thesis. This list is used in the empirical part of this thesis. The key resources of IJVs summarised: (Geringer 1991.)

a. Ability to provide low labour and production costs (input and manpower)
b. Capital and credit (capital)
c. General management (manpower)
d. Technical personnel (technology)
e. Industrial/intellectual property rights (technology)
f. Export opportunities (market)
g. Post sale and marketing systems (market)
h. Trademark (market)
i. Local knowledge (market)
j. Relations to public sector (market)

It is now clarified what the five resource categories include in this thesis, and it is also discussed how the resources are contributed in CEE joint ventures. Input refers to access to raw-materials and components. Access to cheap raw materials has been one motive for entering CEE; for example, Russia has rich natural resources of petroleum and forest. In the cases that Hyder and Abraha studied (2003), the supply of raw materials was conducted either by a local or foreign partner, depending on the technical complexity of the product and the market where the products were sold. The foreign partner participated more in the supply of technically complex raw materials. Moreover, if the products were exported, the foreign partner wanted to ensure their quality and thus participated in the supply. (Hyder & Abraha 2003.)

There are two major types of capital in joint ventures: financial capital and infrastructural capital. Financial capital includes financing and access to subsidies, tax credits and other inducements (Geringer 1991). When establishing an IJV, it is often relatively easy to agree on how to share the financial investment, but later financial

issues can create a conflict if the partners' attitudes to the IJV change. Hyder and Abraha (2003) found that financial resources were limited in all the alliances they studied, but the situation was the worst in the countries with a less developed investment environment. The alliances in those countries were not performing well enough to motivate foreign partners to keep investing in the alliances. Infrastructural capital includes manufacturing and R&D facilities (Larimo & Rumpunen 2006), and location for production can be seen to be included in it (Geringer 1991). In CEE, it is often the foreign partner who makes most financial investments in the venture and the local partner contributes with other resources such as existing production facilities.

Access to qualified, relatively low-cost manpower is one of the main reasons for starting production in CEE (Hyder & Abraha 2003: 85). The opening of Central Europe made millions of workers available for Western companies (BusinessWeek 1999). Manpower can be divided into skilled, semi-skilled and unskilled manpower. It is not only important to have the right kind of manpower in the vicinity of the IJV, but partners also have to be able to recruit manpower. In the study of Hyder and Abraha (2003), the majority of manpower was local, but the foreign partners trained them. Local employees were even sent to Sweden in some cases of alliances in highly and less developed environments. (Hyder & Abraha 2003.)

Are managers foreign or local? The management ideas of socialist countries were very different from Western management, and at least in the beginning foreign managers are probably needed for transferring management know-how. On the other hand, Hyder and Abraha (2003) discovered that in countries with a less developed investment environment, things need to be done in the local way, which could mean using local managers.

Technology is "a body of technical know-how consisting of two types of knowledge, namely explicit and tacit. The former is embodied in designs, blueprints, drawings, and specifications, while the latter is kept in human brains." (Tsang 1998) In an IJV, technology may involve product designs, research & development (Hyder & Abraha 2003), licences, patents and technically skilled manpower (Geringer 1991). CEE governments and companies are usually interested in gaining access to Western technologies and learning and developing technological competence of their own. Explicit technological knowledge can be coded in specifications and is therefore easier to transfer between partners. Tacit knowledge is more difficult to transfer and requires close human interaction (Tsang 1998). A joint venture promotes interaction between

partners and can enable the transfer of tacit knowledge. In CEE, the main technology transfer is usually conducted from foreign partner to local partner. In fact, in all alliances studied by Hyder and Abraha (2003), the Swedish partner took care of the technological resources. (Hyder & Abraha 2003.)

Market opportunity has been a motive for many foreign firms for investing in CEE. A joint venture can either serve the local market, some other market, or a combination of markets. The products produced in alliances studied by Hyder and Abraha (2003) were either sold to the host market or exported. High population of the host market encouraged to exploit the market. Countries with a medium developed investment environment were often, however, used for low-cost production and products were sold to neighbouring countries. (Hyder & Abraha 2003: 216–217.)

Table 5. Resources of CEE joint ventures.

Category	Resource	Notes
Input	Access to raw materials or components	- Has been important in Russia - Both foreign and local partners provide
Financial Capital	Financing and access to subsidies or credits	- Resource limited, especially in less developed investment environments - Foreign firm provides
Infrastructural Capital	- Manufacturing and R&D facilities - Control of favourable location for production	- Local firm provides
Manpower	- General managers - Low-cost labor	- Different management background - Local managers in less developed environments - Qualified, low-cost labour sought in CEE - Most employees local
Technology	- Product design - Licences, patents and know-how - Technical skills	- Foreign partner provides mostly - Local technically skilled manpower available
Market (Marketing)	- Marketing know-how - Brand - Image - Marketing/distribution systems - Post-sales service - Exporting	- Marketing did not exist in the socialist era - Local markets sought, also exporting - Medium developed investment environment often serves neighbouring countries - Foreign partner stronger at marketing
Market (Local knowledge)	- Knowledge of economy and customs - Local identity - Government/public sales - Relations to authorities	- Local partner provides

Market related resources include marketing and local knowledge. Important marketing resources of an IJV include marketing know-how, valuable brand, image, access to marketing/distribution systems, post-sales service network and exporting abilities

(Geringer 1991). Marketing did not exist in the socialistic countries, and whatever was produced was also consumed (Hyder & Abraha 2003). Therefore, foreign partners often have stronger marketing skills than local CEE partners. Local partners, however, make a contribution to the venture with their local market knowledge. This includes knowledge of the target market's economy and customs and giving the IJV a perceived local or national identity (Larimo & Rumpunen 2006). What can also be valuable is the ability to make sales to local government and public companies, as well as complying with government requirements (ibid.).

In conclusion, partners contribute to the joint venture with their resources. This sub-chapter has discussed what the key resources of IJVs in Central and Eastern Europe are and which resources foreign vs. local partners bring to the venture. Table 5 summarises this discussion.

3.4. Performance of joint ventures

Among researchers, there is no consensus on the definition of international joint venture performance. Commonly used criteria of performance are financial indicators, objective measures and subjective measures when measuring IJV performance. Financial indicators, such as profitability, growth and cost position, were used in the earlier studies (in the 1970s) as the only criteria. There are, however, some problems with it. Financial data on an IJV is not always available or it can be included in consolidated corporate data. Furthermore, financial figures seldom include mechanisms that generate financial returns to IJV parents, such as supply contracts, technology licensing fees, royalties, transfer pricing and managing fees. (Geringer & Hebert 1991.)

In addition to financial indicators, IJV research has later widely used also other objective measures – such as the IJV's survival, duration and changes in ownership – to evaluate IJV performance. These objective measures claim that long life is a sign of somewhat good performance and premature termination is a sign of poor performance. The instability of ownership has in some studies been connected to poor performance, whereas in some studies it is considered a more neutral phenomenon. These criteria, however, do not help when studying young IJVs. Furthermore, objective criteria do not reveal the intentions of the partners; in other words, it is important what the purpose of the IJV is. (Geringer & Hebert 1991.)

An IJV can be successful even though its financial performance is poor or there have been changes to the ownership structure. For example, financial criteria may be less important if the purpose of the IJV was to enter a new market or develop new technology. Subjective criteria focus on the objectives of partners when measuring IJV performance. (Geringer & Hebert 1991.) A dictionary definition of the term 'performance' shows the importance of these initial purposes of the IJV. Performance is 'the manner in which […] something […] fulfils its intended purpose' (Dictionary.com 2008). Many researchers have measured these intentions by asking to which extent the IJV has met certain expectations of parents. The answers are thus subjective opinions of an individual, the respondent being from one of the partner organisations or the joint venture's general manager. (Geringer & Hebert 1991.) Despite of the subjectivity of these performance evaluations, there has been congruity between subjective and objective evaluations in many studies (Killing 1983, Geringer & Hebert 1991).

There is also discussion on how reliable it is to use only one respondent when studying IJV performance, or if many respondents should be used both within one organisation and in different organisations. Geringer and Hebert (1991) have found evidence that single partner evaluation is consistent with the whole IJV evaluation in overall IJV performance issues. However, in more specific aspects, IJV partners have also different interests, especially if one of the parent firms is from a less developed country. Moreover, asking one partner does not reveal the objectives of the other partner. (Geringer & Hebert 1991.) All in all, use of one respondent can be seen as reliable and efficient.

As discussed earlier, the performance of IJVs is evaluated very differently in literature. For this study, criteria are compiled to fit the context of Central and Eastern Europe. Of the objective performance measurement criteria, longevity is used. Foreign direct investment is a long-term investment to the target market, and a long-term IJV gives a better chance for parents to earn back the money invested in the joint venture (Root 1994). Survival and long life of IJVs is often a sign of good performance and premature termination a sign of poor performance (Geringer & Hebert 1991, Meschi 2005). Terminations of joint ventures are especially common five to six years after their establishment (Kogut 1986), so more than six-year-old joint ventures can be seen as long-lived. In this thesis, longevity of IJV means the time the manufacturing units remain IJVs and are not divested or acquired. As the financial aspect is used in many studies (Geringer & Hebert 1991; Hyder & Abraha 2003) and profitability is, after all,

the main motive of foreign direct investment (Dunning 1994), the financial aspect is also taken into consideration in this study. What comes to subjective criteria, joint ventures have different purposes and reaching the goals translates as good performance. The parents' subjective evaluation is needed to discover whether their objectives are reached (Marinova & Marinov 2003). Finally, two common reasons why CEE is entered are seeking relatively skilled low-cost labour and seeking market (Tüselmann 1999, Fahy et al. 1998). Therefore, cost issues and labour productivity are important performance criteria, as well as the sales of IJVs to target market or neighbouring markets. These criteria are also used in other IJV performance studies, such as Geringer and Hebert (1991).

The stability and advancement of country environment seems to influence IJV performance. In Hyder and Abraha's study (2003), partners operating in a stable and supportive environment were able to solve problems with more ease. In countries with a highly or medium developed investment environment, the objectives of partners were met, in general. The financial difficulties were tolerated, because foreign partners took care of financing. On the contrary, in countries with a less developed investment environment, performance was less satisfactory and alliances were less profitable. The country environment caused many problems; there was a lot of bureaucracy, the political and economic environment was instable, there were cultural conflicts and the goals of partners differed significantly. Despite of difficulties, firms in those countries wanted to continue their alliances. Long term planning and obstinacy were needed in those markets to get return on investment. (Hyder & Abraha 2003.)

The environmental uncertainty of transition countries seems to influence on joint venture survival. According to the resource dependency theory, in low-risk countries joint venture parent are freer to terminate the venture whereas in high-risk countries the parents are more dependent on each others' resources. For example, foreign firms are dependent on the local knowledge of local firms. (Meschi 2005) As a conclusion, Table 6 summarises the criteria that is used in this study to evaluate the performance of IJVs in Central and Eastern Europe.

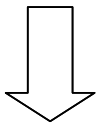
Table 6. The performance of IJVs in Central and Eastern Europe.

Criteria	Notes
Longevity	It takes time to get return on investments. Over six-year-old IJVs are long-lived. In less developed environment more long-life IJVs expected.
Financial result	Main motive for foreign direct investments
Total performance	Has the IJV reached the objectives that were set for it?
Control of total costs	CEE often entered in order to utilise semi-skilled, low-cost labour
Labour productivity	CEE often entered to achieve semi-skilled, low-cost labour
Sales	CEE often entered to seek market for products

3.5. Summary

In this chapter, key issues regarding international joint ventures (IJVs) in Central and Eastern Europe were discussed. The perspective was that of a Western partner. At first, theories behind joint venture as an entry mode were briefly introduced to better understand them. After that, three key issues were discussed: motives for forming an IJV, the resource contribution of partners to the venture and the performance of joint ventures. Motivation for establishing IJVs was divided into two parts: motivation for making foreign direct investments and motivation for choosing joint venture as an entry mode. The resource contribution of partners was discussed under five main issues: input, capital, manpower, technology and market. Finally, six criteria were chosen that would best measure the performance of CEE joint ventures. Based on the literature, propositions were made to guide the empirical analysis. Figure 1 summarises the contents of this chapter as well as connects this chapter to Chapter 2, thus forming the theoretical framework of this study.

INVESTMENT ENVIRONMENT IN THE CEE COUNTRY	Less developed	Medium developed	Highly developed
Transition to market economy	Limited	Medium	Far progressed
Socioeconomic well-being	Limited	Medium	High
Political stability	Unstable	Medium	Stable
Economic growth	Slow	Medium	Fast
FDI inflow	Limited	Medium	High
Corruption	High	Medium	Low



IJV

Motives	**Resources**	**Performance**
-Resource seeking	-Input	-Financial result
-Market seeking	-Financial capital	-Sales
-Efficiency seeking	-Infrastructural capital	-Control of costs
-Strategic asset seeking	-Manpower	-Labour productivity
-Learn from partner	-Technology	-Perceived total performance
	-Market (marketing)	-Longevity
	-Market (local knowledge)	

Figure 1. Framework of the study.

4. METHODOLOGY AND SAMPLE

The empirical part of this thesis consists of two parts. First, Central and Eastern European (CEE) countries were analysed to detect what kind of environment they had been for foreign direct investments (FDIs) in the different periods of time. Second, international joint ventures (IJVs) were analysed depending on what kind of environment they were established in. This chapter discusses the methodology and the sample of the study.

Quantitative method was selected to get information of many IJVs efficiently and to be able to make generalizations. Presenting data in numbers, quantitative approach fits well to studies with clearly limited material needs (Uusitalo 1991). Clearly limited variables of this study were environment, motives, resources and performance of IJVs, and data was presented in numbers. Typical for quantitative research were also the separate, clear phases of the process: building theoretical framework, organizing data, analysing data and finally drawing conclusions (ibid.). Moreover, typical instruments in quantitative research are surveys that were also used in this study (ibid.). Although this study has many characteristics of quantitative research the direction is towards understanding IJVs on a wider scale, more deeply. Furthermore, due to the relatively small size of the sample, the results of this study can be applied to the whole population only with careful limitations. This study mostly tests earlier findings in the literature but since there are not very many similar studies – about impact of different transition environments on IJVs – and since the framework is built using many different literature sources this study can be also seen to be exploratory. The main similar study, the study of Hyder and Abraha (2003) used case study method, and this thesis aims at testing and extending their results.

4.1. Grouping joint ventures

The first part of the empirical study compared CEE countries as environments for foreign direct investments. First, the countries were listed in which the Finnish firms of the data had established joint ventures: Estonia, Russia, Poland, Hungary, Lithuania, Latvia, the Czech Republic and Ukraine. Because the joint ventures of the data had been

established in different years between 1988 and 2006, that time period of almost 20 years was relevant for this study. During such a long time the target countries had experienced a lot of change. Moreover, the speed of change has been different in different countries. Therefore, the investment environment was studied in several points of time. Actually, years 1988–2006 were divided into four shorter time periods.

- 1988–1992 (the first five years around the time CEE opened)
- 1993–1997 (the next five years)
- 1998–2003 (the next six years, before the enlargement of EU)
- 2004–2007 (after the enlargement of the EU)

In each time period only those countries were studied in which there were new IJVs established. Estonia and Russia were studied in each time period, Poland in three time periods out of four, Lithuania and Latvia in two time periods, and Hungary, the Czech Republic, and Ukraine in one time period. Table 7 shows where and in which time period the IJVs of the sample were established.

Table 7. Number of sample IJVs established in different time periods and countries.

Country	1988-1992	1993-1997	1998-2003	2004-2006	Total
Estonia	4	4	3	1	12
Russia	4	3	1	2	10
Poland	1	3	–	1	5
Hungary	2	–	–	–	2
Lithuania	–	4	2	–	6
Latvia	–	3	1	–	4
Czech R.	–	2	–	–	2
Ukraine	–	–	–	1	1
Total	**11**	**19**	**7**	**5**	**42**

The year of IJV establishment was considered critical because there is evidence that the impact of environment is highest on the introductory stage of an IJV (Hyder & Abraha 2003). Three groups of IJVs were formed:

1) IJVs established in a **highly** developed investment environment
2) IJVs established in a **medium** developed investment environment
3) IJVs established in a **less** developed investment environment

In other words, IJVs were grouped depending on in which country they was established and how developed the investment environment of the country was at that time. Thus, although two IJVs are located in the same country, they can be in different groups because they were established in different points of time. For example, the host country might have been a medium developed investment environment when the first IJV was established but then become a highly developed investment environment before the second IJV was established.

After it was clear in which time periods each country had to be studied, the criteria created in Chapter 2 was used to detect how developed the investment environment was at each time period (see Table 2). The criteria consist of six parts, each of which was measured in certain parameters. At first the actual values of each parameter were found out. Then, the values were transformed into scores 1–4 using the following rule:

1. Lowest score among all CEE countries in that criterion was sought
2. Highest score was similarly sought
3. Those numbers formed a scale that was divided into four equal parts
4. Lowest quarter was given value 1, second lowest 2, second highest 3 and highest quarter 4

After that the mean value of each criterion 1–6 was calculated so that six scores were left, each between 1–4. For example, *transition to market economy* 3.41; *socio-economic well-being* 4.00; *Political stability* 2.50 etc. Finally, a mean value of these six criteria was calculated, which determined the group the country belonged to in the given time period. Score 1.00–1.99 meant that the country belonged to the group of less developed investment environments; score 2.00–2.99 meant that it belonged to the group of medium developed investment environments and score over 3.00 placed it to the group of highly developed investment environments (see Table 8).

Table 8. Criteria for evaluating investment environment of a country.

Development of investment environment	Score (Mean value)
Highly Developed	3.00 to 4.00
Medium Developed	2.00 to 2.99
Less Developed	1.00 to 1.99

Because time periods were longer than one year, in some parameters the mean of values in the beginning of the time period and in the end of the time period was used. This was done when it was considered relevant. For example, yearly changes in inflation were quite big so it was necessary to take more than one value within the time period. But, for example, poverty neither changes that fast nor it is measured that often, so only one value per time period was enough for the parameter of *population living in poverty*.

Next, the sources of parameter values are presented. Most values for parameters were found in EBRD Transition Reports, but also other sources were used. The parameters of the first criterion, transition to market economy, were directly found in EBRD Transition Reports. In EBRD transition scores, countries are evaluated on a scale from 1 to 4+ (4.33), thus the scale is slightly different from 1–4. Because the difference is so small, the scores were not changed. As an exception, EBRD transition scores were not available for the first time period (1988–1992), so for that time period the ratings of Dunning (1994) were used. Dunning has compared the transition in different CEE countries using three criteria: transition to market economy, infrastructure reform, and other transition related criteria. Dunning's scores were converted to the scale 1–4 so that the scores would be comparable. The scale 1–4 was later used in all the other criteria, as well.

The second criterion, socioeconomic well-being, was measured by GDP per capita, population living in poverty and government expenditure on health and education. However, the parameters had to be changed in some years when data was not found. GDP per capita in USD was found in every time period; population living in poverty as well as government expenditure on health was found in three time periods; government expenditure on education was found only in the most recent time period. Most of these values were found in EBRD Transition Reports. In the first time period 1988–1992 education was measured by secondary school enrolment ratio and health was measured by infant mortality as well as life expectancy at birth.

Data for the third criterion, political risk, was obtained from Euromoney articles (1996–2006) and a list received from the University of Vaasa from years 1988–1995. Euromoney has separated political risk from overall country risk for foreign investors, which enabled to take the values of political risk only. Euromoney articles provided data for all but the first time period; for the first time period data received from the University of Vaasa was used. On the list there were country risk ratings listed, which included political risk.

EBRD Transition Reports provided data for the remaining criteria: economic growth, inflation, FDI inflow and corruption. FDI inflow was measured as a percentage of GDP. Unfortunately, data on corruption in the first period could not be found.

4.2. Data collection and the operationalisations of the variables

The other part of the empirical research was made by analysing survey data collected by an IJV project group at the University of Vaasa, department of Marketing. There were two surveys in the data, conducted in 2001/2002 and 2006/2007. The surveys were called in this thesis 'survey 2002' and 'survey 2007'. The surveys were created for collecting data on international joint equity ventures that Finnish companies had abroad, the respondents being managers or other key persons of Finnish companies who had been closely involved with the joint ventures. The survey data is extensive and only questions relevant for this thesis were selected. Moreover, only IJVs that were located in Central and Eastern Europe were selected. The questions of surveys are based on international business literature. This thesis used partly the same literature but partly different. Furthermore, the questions were used in different way than they were used originally. Using existing data with certain questions limited the flexibility of this thesis and it took time to consider what part of the data would help to answer the research questions. To get best out of the data a suitable theoretical framework was built.

The questions of survey 2002 and survey 2007 were largely similar, so it was possible to combine the data. Despite of the similarity of contents, the questions had many small differences, which made the work of combining data challenging. It was important to use data of both surveys because the number of respondents would have been half a smaller if only one survey had been used. The details of combining questions will be presented in sub-chapter 4.3.

The use of the extensive survey data was beneficial for this study because ready material enabled a wider analysis than maybe otherwise would have been possible. Another thing that advocated the use of this data is that this survey data has not been used earlier to study *CEE* IJVs; it is good to take most out of existing data before collecting new data. Most importantly, this data enabled answering the research questions of this thesis. A disadvantage of surveys is that they limit answers to those

that a researcher has listed on the form beforehand, therefore for example all possible different motives were not revealed in the answers.

The research population of this study was Finnish-CEE IJVs out which a sample of 42 IJVs was studied. The size of the sample was quite extensive but still it was not big enough for statistical tests and causal analysis. Data was analysed calculating means both of the whole sample and of IJVs in differently developed investment environments separately. The IJVs were handled in groups (IJVs established in less, medium and highly developed investment environment) rather than analysing single IJVs.

The structure of the surveys is next briefly introduced. The order of questions was quite similar in survey 2002 and 2007 but there were minor differences between them. In the beginning both surveys asked some basic information of IJV partners. Then in survey 2007 possible ownership changes were asked and reasons for those, whereas this was towards the end of survey 2002. Ownership data was used to find out longevity of IJVs. After that survey 2007 handled the purposes of joint venturing with local firms, which was used in this thesis in motives section. Motives were asked in survey 2002, but before that, the contributions of partners to IJV were asked, which was used in this thesis in the context of resources. Another question in survey 2002 related to resources was the question about partner selection, which was used for finding out the resources of the local partners. From survey 2007 resource-related issues were obtained from a question about strength of partners in different dimensions. The next part of surveys was about joint venture operations and partner relations which were not used in this thesis. At the end of the surveys there were questions about IJV performance which were used for find out subjective evaluation of IJVs. Finally there was information about the respondent which was used for finding out his/her relationship to the IJV.

Different kinds of questions were used in the surveys. Most questions used in this study asked respondents to rate the importance of issues, strength of the firm or satisfaction with different issues. Despite more or less subjective information this method is found good in earlier studies. For example, when measuring performance on IJVs, there has been congruity between subjective and objective evaluations in many studies (Killing 1983, Geringer & Hebert 1991). Also using only one respondent in performance evaluation is accepted; Geringer & Hebert (1991) have received evidence that single partner evaluation is consistent with the whole IJV evaluation in overall IJV performance issues. In this kind of questions Likert scale 1 to 5 was used, giving respondents the chance to answer neutral ‘3’. ‘1’ represented the lowest option such as

‘not at all important’ or ‘very weak’ and ‘5’ was ‘very important’ or ‘very strong’ etc. In addition to this kind of questions some more direct facts were asked, for example name and ownership share of partners. Finally, one question also asked respondents to estimate the resource contribution of their firm to the IJV in per cent.

The questions about motives in the two surveys were different; survey 2002 asked motives on a more abstract level and survey 2007 more in detail. In survey 2002 all respondents answered the question of motives, but some respondents had selected only some of the questions (a–e) and had left the other ones blank. This can be interpreted so that the motives that were left blank were not at all relevant for the company, because there was no alternative ‘not at all important’. Instead, the scale was ‘1=less important’, ‘5=very important’. For example, ‘access to markets’ was always rated but ‘access to natural resources’ was left blank by four respondents. In survey 2007, all but one respondent (from the highly developed group) had answered the question of motives.

Resource contribution of Finnish firms and their partners were analysed using data from altogether four survey questions, each bringing some new information. Again, the questions varied between the two surveys. First, the importance of different resources according to respondents was analysed (survey 2007). All but one respondent from the top group had answered that question. Then, from the same survey, a question about the strength of the Finnish firm was analysed (5/6 (5 out of 6) answers from the less developed group, 12/12 from the medium group and 6/7 from the top group); and its main partner (less 6/6, medium 10/12, highly 6/7). The respondents had answered more or less all dimensions ‘a’ to ‘p’, but there was one respondent in the less developed group that evaluated his firm only by answering questions ‘a’ and ‘c’. Therefore, partly there were only 4–5 answers in the less developed group. Like in all partner-related questions, if there were more than two partners in the IJV, the partner that played the most important role in the IJV was to be chosen.

Then, from survey 2002, a direct question about resource contribution of Finnish firms was analysed. If there were only two partners in the venture, one can assume that the contribution of the partner was 100 % - x %, where x is the contribution of the Finnish firm. In some cases, however, there were more than two partners. Moreover, the partner was most often local, but not always. Altogether 23 respondents, all but one respondent in the less developed group, had answered this question. There were few missing values, but they cannot be interpreted as 0 so they were not included, in two answers of the less developed group and one in the medium group. That means the former group

had quite a small amount of data in this question. In the same survey, a question about partner selection criteria was used. However, this question was used for finding out which resources Finnish firms wished partners to have in that investment environment. The question was answered by 22 respondents; one was missing in the less developed group, and one in the top group. From the question, only relevant parts were used in this study.

What comes to evaluating the performance of the joint ventures, the surveys were identical: both asked respondents to evaluate the importance of certain performance criteria and after that evaluate their IJVs using the criteria. Therefore, data was easy to combine, and the overlaps were removed so that each IJV was analysed only once. The only difference between questions was how the scale of importance was set; in 2002 '1' was 'less important' and in 2007 it was 'not at all important'. '5' was 'very important' in both surveys. However, the scale of satisfaction was the same in both surveys; '1' being 'very unsatisfied' and '5' 'very satisfied'. There were respondents that answered to only half of the question, for example, they evaluated only the performance criteria but did not evaluate their joint venture performance, and those answers were also counted within the data (altogether 4 respondents had done this, from different groups). Furthermore, four respondents (2007) left the question totally unanswered.

Data of longevity was obtained from the surveys and completed with data received from the University of Vaasa, department of marketing. The age of a joint venture was calculated by subtracting the establishment year from the year in which the IJV was terminated. Termination was either a divestment, or the venture became a wholly owned subsidiary of one parent, or it was sold to a third party.

4.3. Description of the sample

The population of the empirical study were Finnish IJVs in CEE. The sample consisted of 42 manufacturing IJVs, 17 of them took part only in survey 2002, 7 IJVs in both surveys and 18 IJVs only in survey 2007 (see Table 9). The fact that 7 IJVs took part in both surveys was considered separately in each question to avoid overlap. Although the data of the six IJVs would have offered a chance to use a longitudinal perspective, the opportunity was not exploited due to the small amount of them and limited time available for the thesis. Only those respondents that answered questions relevant to this

study are counted; two respondents were excluded from the data 2007 because they had left out all the relevant questions. Finally, there was only one respondent from one firm, per survey.

Table 9. Number of IJVs in the sample.

Development of investment environment	Only in survey 2002	In both surveys	Only in survey 2007	IJVs in total
LESS	4	1	5	**10**
MEDIUM	8	3	9	**20**
HIGH	5	3	4	**12**
Total	**17**	**7**	**18**	**42**

Next, some general information about the IJVs is given. Joint ventures were established in different years between 1988 and 2006. The majority of the IJVs were in countries close to Finland; 22 of 42 IJVs were from Estonia or Russia. The other two Baltic countries were represented by 10 IJVs. Other countries were Poland, Hungary, the Czech Republic and Ukraine. Most IJVs (32) had only two partners, meaning one partner in addition to the Finnish firm. Only ten IJVs had three partners. Most IJVs had at least one local partner, but some had only foreign partners.

The ownership was shared very differently in the IJVs, about a half of the Finnish partners owned more than 50 % of the shares at the time of establishment and the other half less than 50 %. Only three firms owned exactly 50 per cent of the IJV. What comes to the form of investment, a slight majority of IJVs was partial acquisitions (24 IJVs), and others (18 IJVs) were greenfield investments.

Respondents were mostly managers in Finnish partner firms that had participated in the establishment of the joint venture. At the time of surveys many respondents were chairmen or members of the board of managers. Those that did not participate in the establishment participated at the time of responding to the surveys somehow in the joint venture, for example, many of them were board members of the joint venture.

4.4. Reliability and validity of the study

This sub-chapter discusses reliability and validity of this study. Reliability means that the same results would be gotten if the study was repeated and that results are not random. If a study has minor deficiencies it does not mean the study would not have any value, instead, it is important to evaluate reliability of the instruments used. This helps readers to evaluate the reliability of the whole study. (Uusitalo 1991.) In the survey data used in this thesis reliability depends on whether the answers of the respondents coincide with the real situation in their IJVs. The surveys were relatively long to fill and it can be assumed that respondents did not use a lot of time to think of each question over an over again.

First risk of reliability was that in a short time respondents had to understand the question similarly as researchers had meant it. The fact that respondents were acquainted with international business and IJVs ensured they had some knowledge of the subject and were therefore able to understand the questions. Moreover, the questions were well formed and as clear as possible and specific vocabulary was very much replaced with common language. Still, in some questions misunderstandings have been possible if respondents were not acquainted with the theories of business. For example, in survey 2002 motives were asked using rather theoretical terms. In this particular situation as well as in the whole study reliability was ensured by using more than one question to study each variable, and often the two surveys had used slightly different words. Also the answers were checked carefully to find out controversial data; for example in the question about changes in IJV ownership some respondents had marked their answers differently than was meant but still the information could be read if data analysis was careful.

Second issue of reliability is whether the respondents had the required knowledge of the asked questions. This should be the case because surveys were addressed to managers/other people that were familiar with the IJVs of their firms. The respondents had also the chance to leave those questions blank that they did not know which some respondents had done. The third issue is whether respondents were sincere with their answers. There should not have been any harm answering sincerely even in the sensitive questions because the firms that participated in the surveys remained anonymous; researchers were the only ones who were to know the names of the firms. All in all, using two surveys with altogether 42 respondents and being careful and critical with results makes the study reliable. Finally, it is possible that mistakes occurred in coding

or analyses phase. The data was already coded in electronic form before this study. To avoid mistakes in the analysis, the analysis was done (for example means calculated) more than once using Microsoft Excel.

Validity means how well instruments measure what they are supposed to measure. In the literature, there are often approved ways to measure certain theoretical concepts. Reliability is also required to ensure validity. (Uusitalo 1991.) In the analysis of the survey data, validity means that the selected questions measure motives, resources and performance of IJVs. The study is valid because relevant literature was used to build a theoretical framework which is congruent with selected survey questions. Moreover, motives, resources and performance have been studied similarly also earlier. So most decisions made about using the certain survey questions were based on literature and those decisions that were made using own reasoning were explained for the reader. Another thing that improves validity is that different questions were used when studying the variables of the study; for example IJV performance was evaluated with both subjective and objective criteria. However, some survey questions may have been used in different purposes originally, especially those used for analysing IJV resources, but that should not cause problems with the validity.

The other empirical part of the thesis was grouping CEE countries in three groups based on development of the investment environment of their host countries. Moreover, countries were evaluated in four periods of time because a country could belong to one group at one period of time but after some years move to another group, due to its positive development. The idea and overall guidelines of this grouping were obtained from earlier studies, especially from the study of Hyder and Abraha (2003). The more exact grouping criteria were self-created using different sources, especially the publications of the European Bank for Reconstruction and Development (EBRD).

Reliable grouping requires that numbers and ratings, which are used to evaluate the development of the investment environment in a country, are correct. EBRD and other highly reliable sources of data made grouping reliable. Moreover, the values of parameters were transformed into scores 1 to 4 using a consistent rule, described earlier in this chapter.

Validity of the grouping has to do with building the criterion for grouping. The idea of dividing CEE countries into groups based on the development of the investment environment has been used in many studies. In addition to that, EBRD compares CEE

countries but it does not group them similarly. In this study, validity is ensured by taking the idea and overall criteria from existing literature (Tietzt 1994, Tüselmann 1999, Hyder & Abraha 2003). The authors have based their grouping on literature and other sources more in general, but their criteria were not very detailed and nor was any calculation in the grouping made. This thesis has created a more comprehensive criterion for detecting the investment environment of a CEE country.

5. RESULTS OF THE EMPIRICAL RESEARCH

In this chapter the results of the empirical study are presented and discussed. At first, in sub-chapter 5.1., the investment environments of the joint ventures are analysed. After that, survey data is analysed in sub-chapters 5.2., 5.3. and 5.4., including studying motives the Finnish firms have had, resource contributions of partners when investing to differently developed investment environments in CEE, and the performance of Finnish IJVs is compared in differently developed investment environments. The final sub-chapter combines and summarises the results.

5.1. Studying investment environments of the host countries

Investment environments differed between the Central and Eastern European (CEE) countries that were included in the study. Moreover, investment environment was often different in different time periods. This chapter presents the results of grouping the joint ventures in different groups according to the investment environment in their host country. At first the investment environments of each country in different time periods were analysed and after that IJVs were placed to the right group.

Within the first time period, four countries were studied: Estonia, Russia, Poland and Hungary. The analysis of the first time period differed from the three other periods, because most data for the first period was taken from other sources than EBRD Transition Reports. Moreover, for some parameters, Estonia and Russia received the same scores because until 1991 they were both part of the USSR. But the data of economic growth as well as FDI inflows in 1992 were found. These two criteria place the two countries to different groups.

In the results of the first period, 1988–1992, one can see the different starting position of transition in different countries. The transition was much further in Hungary than in the other target countries. Also the problems of transition can be seen in the results, the massive change of systems caused problems in socioeconomic well-being and rather low economic growth in all the countries. However, economic growth in Poland and Hungary was better than in the former USSR countries, because the change in those countries was not as drastic as in the former USSR countries. Finally, political

environment was quite stable in Hungary but more unstable in the other countries. As a conclusion, Hungary was already a highly developed environment for foreign direct investments in the early years of transition; Poland and Estonia were medium developed investment environments – although only a little more developed than the less developed investment environment of Russia. Table 10 summarises the results of the first period.

Table 10. Investment environments in 1988–1992.

Criteria	Estonia	Russia	Poland	Hungary
Transition to market economy	2	2	2	4
Socioeconomic well-being	2	2	2	2
Political stability	3	3	2	4
Economic growth	1	2	3	3
FDI inflow	3	1	2	4
Corruption	–	–	–	–
	2.13	1.83	2.00	3.13
Development of the investment environment	**MEDIUM**	**LIMITED**	**MEDIUM**	**HIGH**

The next five years of transition (1993–1997) brought some changes in the countries as can be seen in Table 11. Moreover, in this period as many as six different countries were included in the study; Lithuania, Latvia and the Czech Republic were studied in addition to Estonia, Russia and Poland. During this period, transition to market economy was quite evenly progressed in each target country. Socioeconomic well-being, on the contrary, showed some difference between the countries: The Czech Republic was already very advanced when compared to other CEE countries, but Russia continued to have less advanced socioeconomic well-being. Other countries were still on the less advanced side in that criterion. In political stability the results were quite similar to the previous criterion: The Czech Republic was politically stable while Russia was politically more unstable. Lithuania, Latvia and Estonia were still on the somewhat unstable side, but Poland was somewhat politically stable. Poland, The Czech Republic and Estonia were already well over the economic decline and had fast growing economies. On the contrary, the economies of Russia and Lithuania still grew slowly,

and the economic growth of Latvia was only a little faster. Despite the relatively slow-growing economy, Latvia attracted a lot of foreign direct investments. FDI inflows were high also in the other small Baltic country Estonia. The high scores of these countries can be partly explained by the way of measuring that dimension: FDI inflows were measured as a share of GDP. The scores were much lower in large Russia and also lower in Poland, Lithuania and The Czech Republic. Finally, corruption was high in Russia, but low in Poland and The Czech Republic, as well as relatively low in the Baltic countries. As a conclusion Estonia remained a medium developed environment for foreign direct investments, and also other Baltic countries belonged to that group. Also Russia remained in the same group as before, in less developed investment environment. Poland, however, became highly developed investment environment and The Czech Republic also belonged to that group.

Table 11. Investment environments in 1993–1997.

Criteria	Estonia	Russia	Lithuania	Poland	Latvia	Czech
Transition to market economy	3	3	3	3	3	3
Socioeconomic well-being	2	1	2	2	2	4
Political stability	2	1	2	3	2	4
Economic growth	4	1	1	4	2	4
FDI inflow	3	1	2	2	4	2
Corruption	3	1	3	4	3	4
	2.87	1.39	2.17	3.12	2.60	3.44
Development of the investment environment	**MEDIUM**	**LIMITED**	**MEDIUM**	**HIGH**	**MEDIUM**	**HIGH**

The six-year period before the enlargement of the European Union was critical for the Baltic countries because they had to meet the economic requirements of the EU. Economic growth was quite fast in those countries, and they managed to control the inflation. Also transition to become a market economy was quite far progressed, but especially in Estonia. Because Estonia scored high on also FDI inflow and had low corruption, as well as had made improvements in socioeconomic well-being and political stability, the country moved to the group of highly developed investment environments. Lithuania and Latvia attracted less FDI than in the previous period, but

the dimension of economic growth kept them in the group of medium developed investment environments. Russia also remained less developed investment environment, although socioeconomic well-being, economic growth and frequency of corruption had improved after the previous period. Table 12 summarises the findings on period 1998–2003.

Table 12. Investment environments in 1998–2003.

Criteria	Estonia	Russia	Lithuania	Latvia
Transition to market economy	4	3	3	3
Socioeconomic well-being	3	2	2	2
Political stability	3	1	2	2
Economic growth	4	2	4	4
FDI inflow	4	1	1	2
Corruption	4	2	3	3
	3.46	1.63	2.46	2.62
Development of the investment environment	**HIGH**	**LIMITED**	**MEDIUM**	**MEDIUM**

The final time period analysed in the study starts from the year of the EU enlargement and continues until the year the last IJV of the study is established. Within the time period, Estonia continued to be a highly developed investment environment, scoring high on every dimension. Also Poland, the other EU country analysed in this time period, was a highly developed investment environment, although it had lower scores than Estonia. Poland scored especially high in the dimensions of transition and economic growth, the only lower score was in FDI inflows. Russia had improved its investment environment; its economy grew faster and it was slightly more politically stable than before. Also transition had progressed quite high like in the previous time period. Despite these improvements, high corruption, relatively low FDI inflows, less advanced socioeconomic well-being and still relatively high political instability left the country environment less developed. Ukraine received high FDI inflows, was quite high progressed in economic transition and its economy grew quite fast. But the investment environment was still politically unstable, corrupted and socioeconomically not so advanced. Thus, Ukraine was a medium developed investment environment. The results of time period 2004–2006 are summarised in Table 13.

Table 13. Investment environments in 2004–2006.

Criteria	Estonia	Russia	Poland	Ukraine
Transition to market economy	4	3	4	3
Socioeconomic well-being	3	2	3	2
Political stability	4	2	3	1
Economic growth	4	3	4	3
FDI inflow	4	1	2	4
Corruption	4	1	3	1
	3.75	1.91	3.08	2.18
Development of the investment environment	**HIGH**	**LIMITED**	**HIGH**	**MEDIUM**

In each time period, Finnish firms had established IJVs in differently developed investment environments, as can be seen in Table 14. Among the countries in the relevant time periods Russia remained the whole time a less developed investment environment. Lithuania, Latvia and Ukraine provided a medium developed investment environment. Also Estonia and Poland were in the medium group but later they developed into highly developed investment environments. In the highly developed group were also Hungary and The Czech Republic.

Table 14. Investment environments of the IJVs.

Group	1988-1992		1993-1997		1998-2003		2004-2006	
HIGH (12)	Hungary	2	Poland	3	Estonia	3	Poland	1
			Czech	2			Estonia	1
MEDIUM (21)	Estonia	4	Estonia	5	Lithuania	2	Ukraine	1
	Poland	1	Lithuania	4	Latvia	1		
			Latvia	3				
LESS (9)	Russia	4	Russia	2	Russia	1	Russia	2
Total (42)		**11**		**19**		**7**		**5**

The IJVs of the sample can be placed in the three groups as already presented in the methodology chapter (Table 9). Half of the IJVs were established in medium developed investment environments, 25 % in less developed investment environment (Russia), and the rest (25 %) in highly developed investment environments. The proportions are quite similar in both surveys.

The results are in accordance with previous research. Tietz (1994) grouped CEE countries around the time of the first time period of this study. Like in this study, Hungary was placed in the highly developed group and Poland in the medium group. Tietz had not separated the former USSR countries but he had placed them all in the medium group. This thesis, however, separates Estonia and Russia, and places the former in the medium group and the latter in the group of less developed investment environments. This difference between the scores of Russia and Estonia is caused by relatively higher FDI inflow to Estonia than to Russia.

The results of Tüselmann (1999) can be placed within the second time period of this thesis, in the mid-1990s. He had formed only two groups, and he had placed the Czech Republic and Poland in the highly developed group and Russia in the less developed group, just like this thesis. The results of the next time period 1998–2003 can be compared to Hyder and Abraha's study (2003). They, too, had placed Russia in the less developed group and Lithuania and Latvia in the medium group. However, they had placed Estonia in the medium group with a notion that it is fast developing. This thesis placed Estonia already in the highly developed group, but because the grouping of Hyder and Abraha had been made based on more the situation in the late 1990s than early 2000 this result can be seen to be in accordance with their study, too.

This chapter grouped the IJVs of the sample in three different groups: highly, medium and less developed environments for foreign direct investments. In the rest of this chapter, a closer look at the groups of IJVs is taken, by analysing data from two surveys. Especially the impact of the investment environment on IJVs is studied. More exact tables of the results are presented in Appendix 1.

5.2. Motives for establishing joint ventures

The results from two surveys are next presented. In the two surveys motives for establishing joint ventures in CEE were asked somewhat differently. Survey 2002 asked more directly the four motives for making a foreign direct investment (access to resources, access to markets, efficiency seeking and strategic asset seeking) as well as learning and acquiring from partner's contributions. These can be somewhat abstract. The survey conducted in 2007, on the contrary, had more detailed questions. To make the two surveys comparable the motives were grouped under the same motives that were used in the survey 2002, namely resources, motives, efficiency, strategic assets and learning from partner. The classification has been made using mainly the book of Dunning (1993). Some of the motives could have been under more than one of these categories, but the most suitable one was selected.

Although this classification was done, the material of 2002 and 2007 were not perfectly similar; for example in the resource section survey 2002 included only natural resources whereas survey 2007 only human resources. Moreover, the questions were formed slightly differently (see Table 15 and Table 16). For these reasons, the surveys were at first analysed separately and after that combined together. If a motive received a higher mean value than 3 it was interpreted as being important.

Table 15. Motives for establishing IJVs in CEE, survey 2002 (1=less important, 5= very important).

At the time of JV establishment what was the importance of different goals for your company?

	LESS	MEDIUM	HIGHLY	ALL
Access to natural resources	1.6	2.1	0.8	1.5
Access to markets	**4.4**	3.5	**4.9**	**4.1**
Efficiency seeking	2.6	**3.2**	**3.4**	3.1
Seeking of strategic assets or capabilities	4.2	4.2	4.0	**4.1**
Learn and acquire from partner's contributions	2.2	1.8	1.6	1.8

First, the results of the two surveys were analysed separately. In survey 2002 it was asked how important different goals were for the Finnish firm, at the time the joint

venture was established. These goals were seen in this thesis as motives. In the whole sample, on average, the most important motives were strategic asset seeking, access to markets and efficiency seeking, respectively. Moreover, each group sought strategic assets, and in the medium developed environment it was the most important motive. It seems that strategic advantages are expected from every joint venture. For the less developed and the highly developed group access to markets was even more important than strategic assets – actually, all but one respondent from both groups had considered it very important (5). Otherwise, there were no big differences between the three groups. Table 15 summarises the importance on motives in survey 2002.

Table 16. Motives for establishing IJVs in CEE, survey 2007 (1= *not at all* important, 5= very important).

How important does your company considers the following purposes of joint venturing with local firm(s)?					
		LESS	**MEDIUM**	**HIGH**	**ALL**
Resource seeking	Access to local marketing expertise	2.3	3.1	**3.3**	3.0
	Access to local management expertise	2.8	2.4	2.2	2.5
	Mean	*2.6*	*2.8*	*2.8*	*2.6*
Market seeking	Achieve rapid market entry	3.3	3.3	**4.0**	**3.5**
	Establish a base to access other countries	2.2	2.3	**3.8**	2.7
	Overcome local government regulation barriers	2.0	3.3	3.0	2.9
	Mean	*2.5*	*3.0*	***3.6***	*3.0*
Efficiency seeking	Develop base for low cost sourcing	2.3	3.5	2.5	3.0
	Achieve economies of scale	2.5	**3.9**	3.2	**3.4**
	Mean	*2.4*	***3.7***	*2.8*	***3.2***
Strategic asset seeking	Access to local distribution channel	2.5	2.9	2.8	2.8
Learn and acquire from partner's contributions		**3.3**	2.2	2.5	*2.5*

In survey 2007, motives were asked more specifically. In Table 16, the actual questions were grouped under the five motives (in **bold**) that were presented in survey 2002. However, the last row 'learn and acquire from partner's contributions' was also a question in survey 2007. In the whole sample, achieving rapid market entry and economies of scale were important motives. However, there were differences between

the different groups. Although rapid market entry was important in every country, most important it was ranked by IJVs in a highly developed investment environment. In that group, Finnish firms had also another market seeking motive: to access other countries, which was not as important for the other groups. Moreover, the group appreciated also local marketing experience more than the other groups. In medium developed countries efficiency seeking was more frequent than market seeking: Economies of scale and also developing a base for low cost sourcing were considered important. Like in the other two groups, also in a less developed investment environment achieving rapid market entry was important, but the group differed from the others by highlighting the importance of learning from partner.

When combining the results from the two surveys (see figure 2), the most important motives of the sample were strategic asset seeking and market seeking; also efficiency seeking was an important motive in CEE. However, resource seeking was not an important motive. According to the results, learning from partner was considered important in a less developed investment environment. But also in that group, strategic asset seeking and market seeking got even higher scores. Efficiency seeking was the most important motive in medium developed countries, and it was more important in that group than in the other groups. In a highly developed investment environment market seeking motives were most important, and clearly more important than in the other groups.

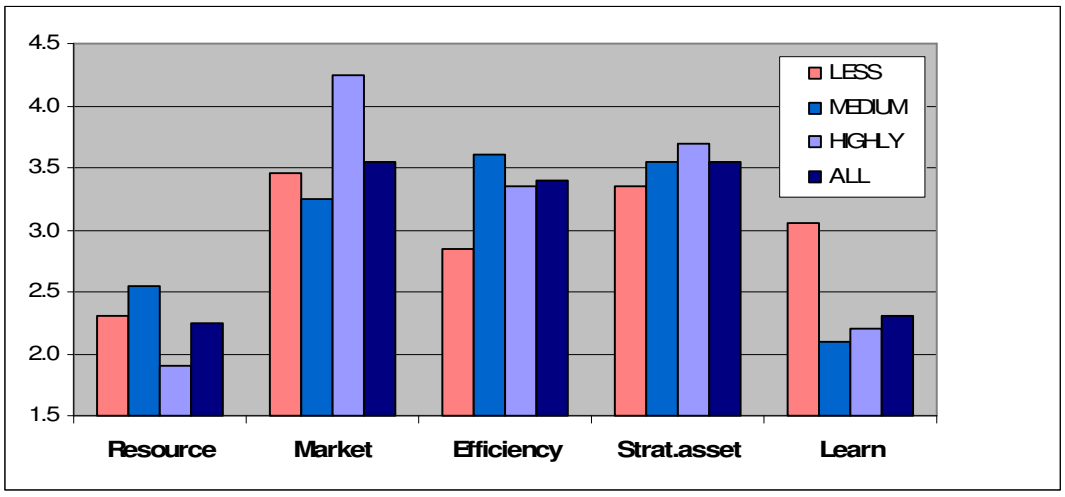


Figure 2. Motives for establishing IJVs in CEE (1= less important/not at all important; 5= very important).

5.3. Resource contributions of partners to the venture

This chapter aims at finding out the resource contribution to the joint venture; which resources of the IJVs were from Finnish firms and which from partner firms. Partners were mostly local firms. Resources are analysed under the categories of input, financial capital, infrastructural capital, low-cost manpower, general management, technology, marketing, and local knowledge. At first, however, it will be analysed which resources the respondents found most important in differently developed investment environments. In this study the words 'Finnish firm' and 'firm' refer to the firm of the respondent and 'partner' to the main partner that in most cases is a local firm.

Respondents selected from a list those resources that they expected to have most influence on IJV performance. When looking at the whole sample, the ability to provide low production and/or labour costs to the venture was rated most important; 67 % of the respondents placed it among the three most important resources and almost a half of the respondents as the most important resource. The second important resource was possession of a valuable trademark/brand. It was among the three most important in 38 % of the answers and three respondents had placed it number one. The third important resource was control of favourable location for production. Like brand, this was also considered important by 38 % respondents but only one respondent placed it number one. The fourth important resource was 'access to marketing/distribution systems, and/or post-sales service network' (29 % considered important). Important were also technically skilled personnel and manufacturing/R&D facilities (25 % of respondents considered them important).

The different country groups valuated resources differently. The firms investing in less developed investment environment (Russia) considered 'control of favourable location for production' very important; 67 % of the respondents placed it among the three most important resources. Another important resource was providing low production/labour costs to the venture (50 %). Moreover, compliance with government requirements was more important in this group than the other two groups; two out of six respondents found it the most important resource. Of the three country groups, the medium group appreciated low cost production/labour most. All but one respondent placed it among the three most important resources, and almost everyone even as number one. The second important was brand (50 % placed it in top three). The medium group was the only one that rated high financial issues (every fourth mentioned this). However, this group did not consider control of the location for production as critical as the other

groups. In highly developed investment environment, firms evaluated access to distribution, marketing and post-sales service network as very important resources, while they were considered less critical in countries with a less and medium developed environment. 67 % of the respondents placed it among the three most important resources and the rating was always the first or the second. Also control of location was highly appreciated by half of the respondents. Another difference to the other groups was that compliance with government regulations was not mentioned. The differences between the groups can be summarised as follows:

- Less developed investment environment: Compliance with government requirements
- Medium developed investment environment: Ability to provide low production and/or labour costs
- Highly developed investment environment: Access to marketing/distribution systems, and/or post-sales service network

Table 17. Strength of the Finnish firm (FIN) and the main partner (P) compared to main competitors (I=Input, FC=Financial Capital, IC=Infrastructural capital, MAN=Manpower, T=Technology, M=Marketing, L=Local knowledge, 1= very weak, 5= very strong).

RESOURCES		LESS		MEDIUM		HIGH		ALL	
		FIN	P	FIN	P	FIN	P	FIN	P
Access to raw materials or components	I	3.8	3.0	3.7	2.4	3.7	2.7	3.7	2.6
Financing/capital. qualifying for subsidies or credits	FC	4.5	2.5	4.2	3.3	3.7	3.2	4.1	3.0
Possession of needed manufacturing or R&D facilities	IC	3.0	3.0	3.1	3.9	2.5	3.0	2.9	3.4
Control of favourable location for production	IC	2.8	3.3	3.4	4.2	2.8	2.7	3.1	3.5
Low production and/or labour costs to the JV	MAN	2.6	4.0	3.8	3.1	3.0	2.5	3.3	3.2
Ability to supply general managers to the venture	MAN	3.8	4.2	3.0	3.4	3.8	2.8	3.4	3.5
Technically skilled personnel	T	3.5	3.5	3.4	2.9	3.8	3.0	3.5	3.1
Possession of needed licences. patents. know-how	T	3.5	2.7	3.5	2.3	3.7	2.2	3.6	2.4
Possession of a valuable trademark/brand	M	4.0	2.0	3.8	2.5	4.0	2.3	3.9	2.3
Valuable reputation/image	M	4.5	2.2	3.8	3.6	4.0	3.3	4.0	3.1
Access to marketing/distribution/service network	M	4.0	2.5	3.1	3.2	3.3	2.8	3.3	2.9
Ability to enhance the venture's export opportunities	M	3.3	2.5	3.8	2.4	3.2	3.0	3.5	2.6
Knowledge of target market's economy & customs	L	3.3	4.0	3.2	4.4	3.5	3.5	3.3	4.0
Perceived local or national identity	L	3.0	3.2	3.2	3.2	3.7	3.2	3.3	3.2
Compliance with government requirements/pressure	L	4.0	4.5	3.2	4.2	3.7	4.0	3.4	4.2
Sales to local government/public companies	L	2.3	2.7	1.8	2.0	2.5	3.0	2.1	2.5

Knowing which resources were most appreciated, the contribution of partners could be analysed. Three different questions relating to the issue were used, one in survey 2007 and two in survey 2002. At first, the question in survey 2007 was analysed. The Finnish respondents were asked to evaluate both their firm and the main partner in different resources. In the analysis, the actual values were considered not as important as the comparison between Finnish firms and partners. It was assumed that the partner that was stronger in some resource contributed more of that resource to the joint venture. However, the other questions were analysed to see whether the assumption receives support or not.

Table 18 Resource contribution of Finnish firms (FIN) and partners (P). More explanation in the previous table.

RESOURCES		LESS	MEDIUM	HIGHLY	ALL
Access to raw materials or components	I	FIN	FIN	FIN	FIN
Financing/capital, qualifying for subsidies or credits	FC	FIN	FIN	FIN	FIN
Possession of needed manufacturing or R&D facilities	IC	BOTH	P	P	P
Control of favourable location for production	IC	P	P	BOTH	P
Low production and/or labour costs to the JV	MAN	P	FIN	FIN	BOTH
Ability to supply general managers to the venture	MAN	P	P	FIN	BOTH
Technically skilled personnel	T	BOTH	FIN	FIN	FIN
Possession of needed licences, patents, know-how	T	FIN	FIN	FIN	FIN
Possession of a valuable trademark/brand	M	FIN	FIN	FIN	FIN
Valuable reputation/image	M	FIN	FIN	FIN	FIN
Access to marketing/distribution/service network	M	FIN	BOTH	FIN	FIN
Ability to enhance the venture's export opportunities	M	FIN	FIN	FIN	FIN
Knowledge of target market's economy & customs	L	P	P	BOTH	P
Perceived local or national identity	L	P	BOTH	FIN	BOTH
Compliance with government requirements/pressure	L	P	P	P	P
Sales to local government/public companies	L	P	P	P	P

In the whole sample as well as in all groups Finnish firms were stronger at input, financial capital, technology and marketing while partners were stronger at infrastructural capital and local knowledge. In the other resources there were clearer differences between the groups. In the IJVs established in a less developed investment environment, partners were stronger at manpower-related resources: they were more able to supply both low-cost labour and general managers to the IJV. Local identity that partners provided was also valuable in Russia. Also in the medium group partners had

better possibilities to supply general managers to the venture, but in a highly developed environment Finnish firm had better possibilities to do it. In the medium and the top group, Finnish firms were also able to provide low labour costs to the venture. In those groups the local/national identity was not as important as in a less developed environment. Table 17 presents the results in numbers, and Table 18 illustrates the contributions more clearly. The contribution of Finnish firms is highlighted with grey colour and the contribution of partners with dark colour. If the difference was only one decimal or less, the contribution was considered to be equal.

In survey 2002 respondents were asked to write how many percents their firm contributed to the IJV, in some selected resource areas. Finnish firms reported that they contributed more to the supply of inputs, financial capital, marketing and management know-how, R&D and product design, that is, all the areas not relating to market. Partners had knowledge of local environment and took care of the distribution of outputs. There were some differences between the three groups. The more developed the investment environment of the country was the more (local) partners participated in the technological and financing issues and the more management know-how they had. Moreover, in the medium group partners took more responsibility of the supply of inputs. The average contributions are presented in Table 19.

Table 19. Contribution of the Finnish firm to the resources of IJV.

What percentage of each of the following areas did your company contribute to the JV at the time of establishment?

AREAS	CATEGORY	LESS	MEDIUM	HIGHLY	ALL
Supply of inputs	Input	70	41	73	57
Financial capital	F. Capital	81	59	53	59
Marketing know-how	Manpower	65	85	73	78
Management know-how	Manpower	90	62	57	64
Basic research and development	Technology	100	86	66	80
Product design	Technology	100	84	75	82
Knowledge of local environment	Market	10	21	18	18
Distribution of outputs	Market	40	53	44	48

The analysis was completed by studying which resources the Finnish firms wished to get from their partners; the partner selection criteria were found out. Mean values over 3 were considered as being important (1=less important, 5= very important) In the whole sample, ability to provide manpower – including low-cost labour, general managers and technically skilled personnel – was sought, and another important issue was local knowledge. There were, again, some differences between the different groups. In highly and less developed investment environments the partner's ability to permit faster access to the market was important while it was far less important in the medium group. Actually, in medium developed investment environments production related resources were especially valued: access to raw materials, components and low-cost labour. Furthermore, in less developed investment environments local knowledge was highly valued. Results are summarised in Table 20 in which scores higher than 3 are highlighted with light grey and scores 3.5 or more with darker grey.

Table 20. Resources of the partner (1= Less important, 5= very important).

In forming this venture. how much importance did your company place on selecting a partner with the following skills of characteristics?		**LESS**	**MEDIUM**	**HIGHLY**	**ALL**
Has access to raw materials or components	I	2.8	3.5	1.4	2.7
Enables venture to qualify for subsidies of credits	FC	2.0	1.5	1.9	1.7
Will provide financing/capital to the venture	FC	2.8	2.6	2.3	2.5
Controls favourable location for production	IC	3.3	2.7	2.6	2.8
Possesses needed manufacturing or R&D facilities	IC	3.0	3.0	2.7	2.9
Can provide low cost labour to the venture	MAN	3.3	3.5	2.7	3.2
Will enable the venture to produce at lowest cost		4.3	3.4	2.3	3.2
Can supply general managers to the venture	MAN	3.3	3.3	2.7	3.1
Can supply technically skilled personnel	T	3.0	3.6	3.3	3.4
Possesses needed licences. patents. know-how etc.	T	1.8	1.5	2.1	1.7
Has access to marketing or distribution systems	M	2.5	2.3	2.3	2.3
Has access to post-sales service network	M	2.8	1.9	2.1	2.1
Has a valuable trademark	M	2.0	1.6	2.3	1.9
Has a valuable reputation	M	2.0	1.6	2.3	1.9
Permits faster entry to the market	M	3.3	1.9	3.3	2.6
Can enhance the venture's export opportunities	M	3.3	2.3	1.8	2.3
Helps comply with government requirements/pressure	L	3.8	3.3	2.4	3.1
Enhances perceived local or national identity	L	2.8	2.7	2.4	2.6
Has knowledge of target market's economy & customs	L	3.5	3.2	2.7	3.1
…Make sales to government/public companies	L	2.8	1.5	1.9	1.9

When combined, the different tables of results revealed how the contribution of resources was divided between Finnish firms and their partners. Finnish firms contributed to the IJVs with input, financial capital, technology and marketing. Partners contributed with local knowledge and infrastructural capital. Both firms provided manpower but partners provided it more in a less developed investment environment.

Like already seen in the analysis of motives, the differently developed environments seem to have attracted different investments. A highly developed environment attracted more market seeking investments; and reaching marketing, distribution and service networks was important. Moreover, Finnish firms were less dependent on local partners. In medium developed environments efficiency was sought, and thus ability to provide low costs to the venture was critical. In a less developed investment environment local knowledge of partners was especially needed. The less developed the country was the more partners took responsibility of manpower and infrastructural capital, but the less they provided financial capital and technology.

5.4. Performance of joint ventures

The results of IJV performance are presented next. In the analysis, both subjective and objective criteria were used. At first, the subjective evaluations of respondents are presented and after that the longevity of the joint ventures is presented and compared. The data on IJV performance in the two surveys was easier to combine than the data on resources or motives because the same question was asked in both surveys.

Before the actual evaluation of the performance of their IJVs the respondents were asked to rate the importance of the criteria. Total performance and financial result were considered most important. Also the other criteria used in this thesis, namely sales, costs and labour productivity were considered important. The importance of performance criteria varied to some extent between the different country groups. Sales, as a market related criterion was appreciated more in countries with highly developed investment environments than in other countries. The more developed the environment was the more important was sales. Financial result was evaluated more important in the medium group than in the other groups. Also other finance related criteria – control of

expenses/total costs and labour productivity – were rated higher in that group than in the other groups.

The firms were satisfied with the total performance and financial result – the most important criteria. Actually firms in CEE, on average, rated all aspects on the positive side (more than 3). Satisfaction on IJV performance varied a lot between the country groups in some criteria. The biggest difference was in costs; the IJVs in less developed investment environment had less control of costs but the higher developed the environment was the better was the cost control. The top group scored a lot higher than the two others. It was also the most satisfied group with the financial result of the IJVs. However the differences were not as big as in costs. The more developed the environment was the more satisfied the firms were with financial results. One issue the top group was unsatisfied with was labour productivity; the medium group was most satisfied with this aspect. On total, the Finnish firms in the medium group were the most satisfied with their IJVs. They evaluated their total performance higher than the other groups and also the average of all criteria was highest in those IJVs. Finnish firms in Russia were the least satisfied with their IJVs of the three groups. They were unsatisfied with control of total costs, and also not really satisfied with sales. Still, the most important criteria – total performance and financial result– were satisfactory (over 3.5).

Table 21. Performance of IJVs (1= very unsatisfied, 5 = very satisfied).

How satisfied is your company with the JV performance [in the year of survey]?						
	LESS		**MEDIUM**		**HIGHLY**	**ALL**
Financial result	3.6	→	3.7	→	3.9	3.7
Total performance	3.6		3.9		3.8	3.8
Control of expenses/total costs	2.7	→	3.5	→	4.0	3.4
Labour productivity	3.2		3.8		2.7	3.3
Level of sales	3.1	→	3.7	→	3.9	3.6

As a conclusion, Finnish firms in medium developed investment environments were the most satisfied group to their IJVs, measured in subjective total performance. However, the firms in highly developed environment were more satisfied than the other groups in numbers – financial result and cost control. Firms in less developed environment were the least satisfied with their IJVs, most radically in cost control. A single less satisfactory aspect of the IJVs in the top group was labour productivity. Measured with

all criteria all the three groups were satisfied, that is, on average. There were, in fact, single firms in all groups that were not satisfied with the performance of their IJVs. Summary of the results is illustrated in Table 21.

After analysing performance measured on subjective criteria the results were completed with an objective criterion; the longevity of IJVs was analysed. The premature terminations of IJVs were found out. As premature termination were considered those terminations that took place less than six years after the establishment, and that were not originally intended to be that short-lived. Those IJVs that were still in operation and were less than six years old were not taken into account. In a less developed investment environment, no IJVs had experienced a premature termination. One IJV was short-lived, but it was also intended to be so. The other IJVs were mainly over ten years old. In medium developed investment environments two IJVs had had a premature termination, five were intended short-lived and the other 14 IJVs were long-lived. Those four IJVs that were terminated before 2008 had been under 10 years old, but those nine IJVs that were still operating in 2008 were all more than ten years old. In highly developed investment environments, three out of 11 IJVs had had a pre-mature termination (information of one IJV could not be found). Of the other eight IJVs, two were intended to be short-lived and four were 10 years old or older. In summary, there were not many premature terminations among the sample. But the more developed the investment environment was the more premature terminations there were.

5.5. Joint ventures in differently developed environments

The results of the empirical study indicate that the investments of Finnish firms to Central and Eastern Europe differed according to how developed the host country was, from foreign direct investment point of view. There was variation in motivation to invest and form a joint venture, in resource contribution of partners and performance of joint ventures.

Firms that establish international joint ventures in a highly developed investment environment seem to have partly different motives than firms that invest in a less developed environment. Actually, the results show that there are similar motives in all investment environments within CEE but the importance of different motives varies. As a motive common for all the groups, investing firms sought strategic assets or

capabilities. Although in the literature this is not considered as an important motive to enter CEE, it proves that joint ventures are seen as strategic alliances. What strategic assets Finnish firms sought was not specified. The other aspect that clearly motivates firms in all CEE countries is the markets.

As to differences between different investment environments, market seeking was especially important in highly developed investment environments, where IJVs were formed to achieve rapid market entry and to establish a base to serve other countries. Furthermore, Finnish firms who had invested in highly developed environments rated it important to get access to marketing/distribution systems and post-sales service network. In addition to the environment, also a big size of the country can attract market-seekers because of the higher amount of potential customers. This was also partially seen in this study: countries with a highly developed environment (e.g. Poland, Hungary) were, on average, bigger than those with medium environment (mainly the Baltic countries); the big country of Russia, although less developed, attracted also market-seekers more than the medium countries. Although seeking markets, also IJVs in highly developed environment were manufacturing IJVs, so they produced the products in CEE and so valued efficient production, as well.

Medium developed environments seem to attract firms seeking opportunities for low-cost manufacturing. Important for investors in that group was efficiency, achieving economies of scale and developing a base for low-cost sourcing. Moreover, as the results of resource section revealed that the firms in the medium group found it important to get access to low production and labour costs, and they searched partners that were able to provide low labour and production costs to the venture. In addition to low-cost labour also more skilled human resources were sought, which is in accordance with literature: CEE offers relatively skilled manpower at low price. Seeking of low-costs especially in a medium developed environment supports the findings of Hyder and Abraha (2003).

Firms that invested in a less developed investment environment seemed to be also seeking low production costs; they had sought partners that were able to provide lowest production costs. As a difference to firms in the medium group efficiency, such as. economies of scale, was sought less there. A reason for this might be that Finnish firms expected that bureaucracy and other problems a less developed investment environment causes would decrease efficiency. In addition to low costs, it was also very important for Finnish firms to have a partner with knowledge of host market that could help with

complying with government requirements. Thus, learning from partner about local market and how to cope with bureaucracy was more important than in the other groups. Even though not studied in this empirical study, literature has also stressed the importance of contacts in Russia, especially with political and legal authorities. Although Russia provides access to raw-materials, that advantage was not, overall, highlighted among the firms who had invested in the country. However, one respondent found it very important. According to earlier studies, a less developed environment has attracted less investment than more developed environment. This can not be directly commented on the base of this study, but it can be said that within this sample only Russia was selected among the countries with less developed environment. The fact that Russia is a neighbour country of Finland has, naturally, attracted investing there despite of the challenges it provides for foreign direct investors.

As to resource contribution of IJV partners, the results support earlier studies but bring also new interesting aspects. In Hyder and Abraha's study (2003) both foreign and local partners participated in the supply of input, but foreign partners participated more in the supply of technically complex raw-materials. The results of this study indicate that Finnish firms contributed more input to the IJVs than partner firms did, at least in less and highly developed investment environments. However, in medium developed investment environments partners seem to be more active in this matter. Finnish firms also provided most of the financial capital of the joint ventures, the less developed the country, the more Finnish firms dominated in this resource. Infrastructural capital, on the contrary, was provided by (local) partners, contribution of partners to this was the more important the less developed the country was. Manpower was provided by both Finnish firms and their partners. Like also Hyder and Abraha noticed, in less developed investment environments local managers are especially needed because things need to be done in the local way. So, both foreign and local partners provide manpower to the venture. Again, the low-cost aspect – low-cost labour – was especially important in medium developed environment. Technology was mostly provided by Finnish firms, the more the less developed the environment is. However, also partners were able to provide technically skilled personnel to joint ventures. Foreign firms are often stronger than local CEE partners in marketing skills, except for distribution of products in which both foreign and local partners contribute to. But (local) partners are clearly stronger in local environment related resources. In this study, this was true in all resources relating to local market and government, and in every country. Partner's ability to comply with government requirements was especially important in a less developed investment

environment. Overall, in public sales Finnish-CEE joint ventures seem to be not that successful.

One aspect that may have an impact on the results is that the partner that owns a bigger share of the IJV also contributes more to the venture. But since in the whole sample the ownership shares were quite evenly divided between the Finnish firms and their partners this was not investigated more in depth (see section 4.3).

In a less developed investment environment, Finnish and local firms seemed to have a more clear division in resource contribution, for example, Finnish firms provided almost all technology and financial capital and the local knowledge of local partners was very valuable. In highly developed environments, the division was not that clear. This supports the statement of Hyder and Abraha (2003) that environment has a greater impact on operations in less developed investment environments than in more developed environments. Medium developed environments were between the two extremes. Moreover, the role of medium developed environment as low-cost producing environment received even more support.

Finally, the performance of IJVs differed to some extent between the three groups, although total performance was satisfactory in every group. The biggest difference was in cost control: the more developed the investment environment of the host country the better cost control was. Actually, in a less developed environment, Finnish firms were on average not satisfied with the cost control of the IJVs. Furthermore, Finnish firms in a less developed environment were least satisfied with their joint ventures of the three groups. Sales and financial result were more satisfactory the more developed the investment environment was, although the differences in the criterion of financial result were not that great. The only aspect (measured in subjective criteria) in which IJVs in highly developed environments scored lowest – actually unsatisfactory – was labour productivity. This result supports the suggestion that a highly developed environment is maybe not as good environment for low-cost producing as are less developed environments. IJVs in medium developed environment seemed to have succeeded best in their objectives of low-cost producing: Finnish firms in those IJVs were most satisfied with their total performance; they had the best labour productivity of the groups, and satisfactory control of costs.

What comes to the objective criterion, the results are, actually, contrary to the results described above: the higher developed the investment environment the shorter-lived

IJVs were. This is, however, in accordance with the theory of resource dependency; IJV parents are often more dependent on each other's resources in less-developed environment and thus need to continue together as a joint venture (Meschi 2005). Moreover, Hyder and Abraha (2003) stated that in investments to a less developed investment environment a long-term investment view is needed, and foreign firms, despite the challenges of the environment, are often willing to continue their IJVs even though they face short-term difficulties. However, there were not many premature terminations even in highly developed environments.

6. SUMMARY AND CONCLUSIONS

6.1. Summary of the study

Central and Eastern European (CEE) countries have experienced two decades of transition to become market economies. The opening of the markets and the positive attitude of local governments released a flow of foreign direct investments to the area. However, in the first years, countries in CEE did not attract as many foreign direct investments as other comparable areas, because problems in business environment caused risks for investing firms. But since then, the progress in economic transition and improvements in political, socioeconomic and economic circumstances in the countries have made the environment easier for foreign investors. During the two decades, CEE has received significant amounts of foreign direct investments. Still, the business environments and markets provide challenges for foreign investing firms, and many have ended up looking for a partner that could help them. International joint venture (IJV) has been a frequent entry mode in CEE and is therefore also studied in this thesis.

Central and Eastern European countries have developed at different speed towards more stable and further developed environments for foreign direct investments. Although the majority of investments have been directed to countries with a more developed environment, also medium developed and less developed environments have received investments. The main goal of this thesis was to analyse the impact of environment on international joint ventures in CEE, and to compare joint ventures that have been established to different environments. This goal required finding out how developed the investment environments were in different CEE countries and then analysing joint ventures in different environments. Joint ventures were analysed by studying the main motives for forming them and finding out the resource contribution of foreign and local partners. In addition, the performance of joint ventures in different environments was studied. Moreover, explanations to differences in joint ventures in different environments were discussed.

The theoretical part of the study consisted of two parts: Chapters 2 and 3. First, Central and Eastern Europe as an environment for joint ventures was discussed and criteria were established to measure how developed the investment environment in different CEE countries was. Criteria consist of six dimensions: transition to market economy,

socioeconomic well-being, political stability, economic growth, inflow of foreign direct investments to the country and corruption. Second, joint venture as an entry mode was discussed by studying motives for establishing joint ventures in CEE, the resource contribution of partners, and the performance of joint ventures in different investment environments. In the theoretical part, a framework was compiled for the empirical part of the thesis. The methodology of the study was discussed in Chapter 4. In the chapter, the method used for grouping countries and the method used for analysing survey data were introduced, sample firms were described and the reliability and validity of the study were discussed.

The results of the empirical study were presented in Chapter 5. The 42 IJVs studied were established in eight countries in CEE. The development of host countries was analysed from a foreign direct investment point of view, in four time periods. IJVs were grouped according to the environment of their host country at the time the IJV was established. There were:

- nine IJVs established in **less** developed investment environments, the host country being Russia
- 21 IJVs established in **medium** developed investment environments, the host countries being Estonia (1988–1997), Poland (1988–1992), Lithuania, Latvia and Ukraine
- 12 IJVs established in **highly** developed investment environments, the host countries being Hungary, Poland (1993–2006), the Czech Republic and Estonia (1998–2006)

After that, IJVs were analysed in the three groups, and the motives, resources and performance of IJVs were studied. Conclusions are presented next, in sub-chapter 6.2.

6.2. Conclusions

The results of the empirical study indicate that investments of Finnish firms to Central and Eastern Europe differed according to how developed the host country was, from a foreign direct investment point of view. There was variation in the motivation to invest and establish a joint venture, in the resource contribution of partners and the performance of joint ventures.

The results of this study indicate that there are similar motives in all investment environments within CEE, but the importance of different motives varies between areas. A motive common in all host countries in CEE is market seeking; there are interesting markets in CEE among less, medium and highly developed environments. Market seeking seems to be a particularly important motive when entering CEE countries with a highly developed investment environment. It may be that in those countries the opportunities for low-cost production are already considered worse than in less developed countries; for example, the price of workforce may be higher. Therefore, medium and less developed environments seem to attract more firms seeking opportunities for low-cost manufacturing. An issue that distinguishes a less developed investment environment from a medium developed environment, at least in the sample of this study, is lower efficiency in the less developed environment. This is in accordance with the study of Tüselmann (1999) which states that a less developed investment environment attracts less foreign direct investments and is more often served by exports, because disadvantages in the environment may outweigh the advantages of low labour costs. In this thesis, the only less developed investment environment in the sample was Russia, so it seems that Finnish firms also increasingly invest in more developed countries. In order to succeed in a less developed investment environment, it is often necessary to have a partner that has knowledge of the host market and can also help to comply with government requirements. Nevertheless, partnering is also expected to bring strategic benefits to the investing firm in a more developed investment environment, and joint venture is indeed often selected as the entry mode.

This study also supports the findings of Hyder and Abraha (2003) which suggest that CEE countries are used for low-cost production and products are sold to neighbouring countries. The authors detected this kind of strategy in highly developed countries, but in this study the strategy was used more in medium developed countries.

In accordance with literature, Finnish firms in the sample provided most financial capital, technology and marketing knowledge to the joint ventures, and local partners contributed with infrastructural capital, and knowledge of the local environment. In Hyder and Abraha's study (2003), both foreign and local partners participated in the supply of input, but foreign partners participated more in the supply of technically complex raw materials. The results of this study indicate that Finnish firms contributed more input to the IJVs than their partner firms, at least in less and highly developed investment environments. However, in medium developed investment environments, partners seem to be more active in this regard. Manpower was provided by both Finnish

firms and their partners, and local partners were also able to provide technically skilled personnel to joint ventures. Again, the low-cost aspect – low-cost labour – was particularly important in medium developed environments. Moreover, Hyder and Abraha (2003) state that local managers are especially needed in less developed investment environments, because things need to be done in the local way. The results of this study indicate, overall, that the less developed the investment environment is the clearer division in resource contribution there is. In other words, in less developed investment environments foreign partners tend to provide most financial capital and technology, and local knowledge of the local partner is crucial in those countries. This supports the statement of Hyder and Abraha (2003) that environment has a greater impact on operations in less developed investment environments than in more developed environments.

Hyder and Abraha (2003) state that investment environment in the host country has an impact on the performance of international joint ventures in the country. One of their main statements is that difficulties in a less developed environment cause poorer performance, at least in the short term. The results of this study support their statement to some extent: Although there were no big differences in the total performance of joint ventures in the sample – it was satisfactory in every group – Finnish firms that were established in a less developed environment were the least satisfied with their joint ventures. The most significant difference concerned cost control: the more developed the investment environment of the host country, the better the cost control, and in a less developed environment Finnish firms were, on average, dissatisfied with the cost control of their IJVs. Furthermore, sales and financial result were more satisfactory the more developed the investment environment was, although the differences in the criterion of financial result were not that great.

The only aspect (measured in subjective criteria) in which IJVs in highly developed environment scored lowest – unsatisfactory even – was labour productivity. This result supports the suggestion that a highly developed environment may not be as good an environment for low-cost producing as less developed environments. Moreover, one could assume that the IJVs in the sample established in medium developed environments have succeeded well in low-cost producing: Finnish firms in these IJVs were most satisfied with the total performance of their IJVs. Total performance can be interpreted as meeting the goals set for the IJV, the goal often being low-cost manufacturing in the medium developed countries. Moreover, of all the three groups, this group was most satisfied with labour productivity and cost control.

Furthermore, Hyder and Abraha (2003) state that investors in less developed investment environments need a long-term view, because joint ventures may, in the short term, face more difficulties and be less profitable than joint ventures established in more developed environments. In this study, IJVs were terminated the earlier the more developed the investment environment was. One explanation to that might be that in less developed environment IJV parents are more dependent on each other's resources and therefore they need to stay in the joint venture. Terminations that were carried out when joint ventures were less than six years old were considered premature; however, it may be that some of those IJVs had just reached the partners' goals and were therefore terminated. However, further research would be needed to find this out. Table 22 summarises the conclusions of the study.

Table 22. Conclusions of the study (x = important motive, --- not a very important motive; **F** = Foreign partner, L = Local partner; (–) = unsatisfactory, (+/–) = barely satisfactory, (+) = somewhat satisfactory, (++) = satisfactory).

		IJVs in LESS developed environment	IJVs in MEDIUM developed environment	IJVs in HIGHLY developed environment
Motives				
	Resource seeking (low-cost labour)	x	x	---
	Market seeking	x	x	x
	Efficiency seeking	---	x	x
	Strategic asset seeking	x	x	x
	Learn from partner	x	---	---
Resources				
	Input	**F**	L	**F**
	Financial capital	**F**	**F**	**F**
	Inftrastructural capital	**L**	L	**L**
	Manpower	L	L	**F**
	Technology	**F**	F	**F**
	Marketing	**F**	**F**	**F**
	Local knowledge	**L**	L	**L**
Performance				
	Financial result	**+**	+	**++**
	Sales	+/–	+	++
	Control of costs	**–**	+	**++**
	Labour productivity	+	++	–
	Total performance	**+**	++	**++**
	Longevity	←	←	←

The results of this empirical study describe and explain the sample of 42 IJVs in eight CEE countries. However, when combined to earlier research, the results can be seen in a larger context and thus careful generalisations can be made. The host country's investment environment has an impact on international joint ventures and managers should consider what kind of environment best supports their strategies.

6.3. Future research suggestions

This thesis studied Central and Eastern Europe as an environment for international joint ventures. The countries are still considered emerging economies, but they are continuously developing towards more stabile market economies and more mature markets. The development takes place at a different speed in different countries. The area includes less, medium and highly developed investment environments that each provide different circumstances for foreign direct investments, as the results of this study indicate. However, there are also other emerging economies in the world, for example in Asia and South America, which have also developed differently. To what extend do findings of this study and other studies on CEE apply to other emerging economies? The criteria determined in this study could be used to find out more about other emerging economies, as to what kind of investment environment they provide. However, some changes to the criteria should probably be made first.

Besides investment related issues studied in this thesis, there are also other things that have an impact on international joint ventures, for example historical ties or short geographical or psychological distance between home and host country. To illustrate, Russia and Finland have historical ties that can influence trade between the countries. Further research is needed to specify which issues have impact on international joint ventures and their performance. Moreover, this study tested only part of the issues included in the study of Hyder and Abraha (2003); for example, the network aspect was not in the scope of this study.

This study had too small a sample for statistical testing. Hyder and Abraha's (2003) test also featured a small sample, using case studies, and their study was explorative. Further quantitative research on larger samples is needed in order to enable statistical analysis and more possibilities for generalisations. In addition, more qualitative study is needed. Finally, this study analysed IJVs in groups and not one-by-one. It would be

interesting to know more accurately what kinds of strategies prove successful in different investment environments.

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APPENDIX 1: Grouping CEE countries

Investment environment 2004-2006

	Estonia	Russia	Poland	Ukraine
Transition to market economy	**3.74**	**2.96**	**3.74**	**2.85**
Large scale privatisation	4	3	3.33	3
Small scale privatisation	4.33	4	4.33	4
Governance and enterprise restructuring	3.33	2.33	3.66	2
Price liberalization	4.33	4	4.33	4
Trade & foreign exchange system	4.33	3.33	4.33	3.33
Competition policy	2.66	2.33	3	2.33
Banking reform & interest rate liberalization	4	2.33	3.66	2.66
Securities markets & non-bank financial institutions	3.33	2.66	3.66	2.33
Infrastructure reform	3.33	2.66	3.33	2
Socioeconomic well-being	**3.25**	**2.00**	**3.25**	**1.75**
GDP per capita	3	2	2	1
GDP per capita (2005, USD)	10386	5360	7968	1830.9
Population living in poverty	3	2	4	1
Population living in poverty (%)	4.7	7.5	2	31.4
Government expenditure on health	3	2	3	2
Government expenditure on health (%of GDP)	5.6	3.4	4.4	3.5
Government expenditure on education	4	2	4	3
Government expenditure on education (%of GDP)	6.1	3.4	6.4	5.1
Political stability	**4.00**	**2.00**	**3.00**	**1.00**
Political risk	4	2	3	1
Political risk	17.84	13.82	15.84	9.56
Economic growth	**3.50**	**2.50**	**3.50**	**2.50**
Real GDP growth	4	4	4	4
Real GDP growth (%)	9.3	6.75	4.45	7.35
Inflation	3	1	3	1
Inflation	3.55	11.8	2.8	11.25
FDI inflow	**4.00**	**1.00**	**2.00**	**4.00**
FDI inflow	6.15	0.65	2.5	6.85
Corruption	**4.00**	**1.00**	**3.00**	**1.00**
Corruption	9	120	26	91
	3.75	**1.91**	**3.08**	**2.18**
Development of the investment environment	HIGH	LESS	HIGH	MEDIUM

Investment environment 1998–2003

	Estonia	Russia	Lithuania	Latvia
Transition to market economy	**3.62**	**2.59**	**3.27**	**3.21**
Transition indicator scores. altogether	3.62	2.59	3.27	3.21
Large scale privatisation	4	3.3	3	3
Small scale privatisation	4.3	4	4.3	4.3
Governance and enterprise restructuring	3	1.7	2.7	2.7
Price liberalisation	4.3	4	4	4.3
Trade & foreign exchange system	4.3	2.3	4	4.3
Competition policy	2.7	2.3	2.7	2.3
Banking reform & interest rate liberalisation	3.7	1.7	3	3
Securities markets & non-bank financial institutions	3	1.7	3	2.3
Infrastructure reform	3.3	2.3	2.7	2.7
Socioeconomic well-being	**2.67**	**1.67**	**2.00**	**2.00**
GDP per capita (USD)	2	1	2	2
GDP per capita (USD)	4004	1789	3260	3268
Population living in poverty (%)	3	2	2	2
Population living in poverty (%)	4.7	7.5	6.9	11.5
Government expenditure on health (% of GDP)	3	2	2	2
Government expenditure on health (% of GDP)	4.2	3.3	3.2	3.4
Government expenditure on education (% of GDP)				
Political stability	**3.00**	**1.00**	**2.00**	**2.00**
Political risk	4	1	3	4
Political risk	15.635	6.99	12.875	13.975
Economic growth	**3.50**	**1.50**	**3.50**	**3.50**
GDP growth	3	2	3	3
GDP growth	5.5	4.7	5.3	6.1
Inflation	4	1	4	4
Inflation	4	31	1	3
FDI inflow	**4.00**	**1.00**	**1.00**	**2.00**
FDI inflow	8.3	0	1	3
Corruption	**4.00**	**2.00**	**3.00**	**3.00**
Corruption	16	115	36	40
	3.46	**1.63**	**2.46**	**2.62**
Development of the investment environment	HIGH	LESS	MEDIUM	MEDIUM

Investment environment 1993–1997

	Estonia	Russia	Lithuania	Poland	Latvia	Czech
Transition to market economy	**3.42**	**3.00**	**3.04**	**3.42**	**3.08**	**3.46**
Large scale privatisation	4	3.33	3	3.33	3	4
Small scale privatisation	4.33	4	4	4.33	4	4.33
Governance and enterprise restructuring	3	2	2.66	3	2.66	3
Price liberalisation	3	3	3	3	3	3
Trade & foreign exchange system	4	4	4	4.33	4	4.33
Competition policy	2.66	2.33	2.33	3	2.66	3
Banking reform & interest rate liberalisation	3.33	2.33	3	3	3	3
Securities markets & non-bank financial institutions	3	3	2.33	3.33	2.33	3
Infrastructure reform						
Socioeconomic well-being	**2.33**	**1.33**	**2.00**	**2.33**	**2.00**	**3.67**
GDP per capita (USD)	2	2	2	2	1	3
GDP per capita (USD)	2400	2455	2099	3055	1780	4814
Population living in poverty (%)	1	1	1	2	2	4
Population living in poverty (%)	40	39	45	13	23	2
Government expenditure on health	4	1	3	3	3	4
Government expenditure on health (% of GDP)	6.1	2.2	4.7	4.59	4.5	7.3
Government expenditure on education						
Political stability	**2**	**1**	**2**	**3**	**2**	**4**
Overall risk (political included)	2	1	2	3	2	4
Overall risk (political included)	43.26	33.34	38.14	52.26	37.8	69.66
Economic growth	**3.5**	**1**	**1**	**4**	**1.5**	**3.5**
Growth in GDP	3	1	1	4	1	3
Growth in GDP	1.92	-5.52	-2.2	5.76	-0.3	2.34
Inflation	4	1	1	4	2	4
Inflation	40	289	556	26	196	12
FDI inflow	**3**	**1**	**2**	**2**	**4**	**2**
FDI inflow	3	0	2	2	5	2
Corruption	**3**	**1**	**3**	**4**	**3**	**4**
Corruption	2.66	7.66	3	1.33	3.33	1.33
	2.87	**1.39**	**2.17**	**3.12**	**2.60**	**3.44**
Development of the environment	MED.	LESS	MEDIUM	HIGH	MED.	HIGH

Investment environment 1988–1992

	Estonia	Russia	Poland	Hungary
Transition to market economy	**1.67**	**1.67**	**2.00**	**3.67**
Other transition scores	1	1	2	3
Other transition scores	6.1	6.1	5.2	2.2
Infrastructure reform	2	2	2	4
Infrastructure reform	6	6	5	2
Speed of economic reform	2	2	2	4
Speed of economic reform	6	6	5	2
Socioeconomic well-being	**2.00**	**2.00**	**1.50**	**1.50**
GDP per capita (USD)	1	1	1	2
GDP per capita (USD)	632	575	2197	3617
Population living in poverty (%)				
Government expenditure on health (% of GDP)				
Government expenditure on education (% of GDP)				
Secondary school enrolment ratio	3	4	1	1
Secondary school enrolment ratio	87.53333	93.73333	78.4	74.86667
Infant mortality	3	2	2	2
Infant mortality	14.1	17.75	18.475	15.05
Life expectancy at birth	1	1	2	1
Life expectancy at birth	64.6	63.8	66.5	65.1
Political stability	**3.00**	**3.00**	**2.00**	**4.00**
Overall risk (political icld)	3	3	2	4
Overall risk (political icld)	52.24	51.82	41.61	59.32
Economic growth	**1.00**	**1.50**	**2.50**	**2.50**
Real GDP growth	1	2	2	2
Real GDP growth (%)	-10.0667	-7.83333	-5.33333	-6.16667
Inflation	1	1	3	3
Inflation	431.33	1160.67	47.33	25.00
FDI inflow	**3.00**	**1.00**	**2.00**	**4.00**
FDI inflow	477	40	140	1300
Corruption				
Corruption				
	2.13	**1.83**	**2.00**	**3.13**
Development of the investment environment	MEDIUM	LESS	MEDIUM	HIGH