

# THE INTERNATIONALIZATION EFFORTS OF LITHUANIAN MANUFACTURING FIRMS - STRATEGY OR LUCK?

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## ABSTRACT

With the enlargement of the European Union, many Central and Eastern European (CEE) manufacturing companies have greater opportunity for internationalizing their activities. Although it is generally held that SMEs have the flexibility and ability to adapt to their environment more quickly than large enterprises, SMEs must be able to use these advantages in internationalizing. This study considers the internationalization efforts of a sample of Lithuanian manufacturing SMEs. Specifically, it is sought to reveal whether any patterns in the foreign market entry decisions of these firms may be found, through an examination of the degree of internationalization and its dependence on company age, size, risk aversion, commitment toward internationalization and knowledge acquisition. It is revealed that as yet, Lithuanian SMEs are in a state of uncertainty, and rely on manufacturing contracts in their home market. A pattern of “no pattern” may best describe their process of internationalization.

JEL classification: L14, L25, L21, L24, L6

Key words: internationalization, SMEs, manufacturing sector, Lithuania

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# THE INTERNATIONALIZATION EFFORTS OF LITHUANIAN MANUFACTURING FIRMS - STRATEGY OR LUCK?

## INTRODUCTION

With increasing competition from local and foreign companies over the last decade, more and more Lithuanian manufacturing companies are being forced to look outside of Lithuania in order to survive. Because of the long dependence on the market of the former Soviet Union and the poor quality of manufactured goods up until 1998, most Lithuanian exports were directed at the Russian market. However, after the 1998 Russian crisis, many Lithuanian manufacturing companies were faced with a challenge – the Russian market was no longer an option, while the poor quality, lack of resources, knowledge and networks did not allow them to reorient themselves to Western markets. However, it was precisely at that time that European manufacturing companies, sparked by the Asian economic crisis, began to look to the countries of the former Soviet Union in search of cheaper resources. Although many multinationals did in fact increase their direct investments into these countries, many companies still rely on outsourcing or offshoring.

Since 1998 the major percentage of Lithuanian exports is direct toward the EU countries, however more than half of these exports are goods produced via manufacturing contracts. Now, with increasing economic growth, rising standards of living and increasing factor costs, many traditional Lithuanian manufacturing companies face the risk of failure. While many larger companies are capable of producing high quality goods requiring appropriate technologies and have even begun to transfer a portion of their manufacturing to other geographically close, lower-cost countries (Russia, Belarus, the Ukraine), many small and medium sized enterprises (SMEs) are still in a state of uncertainty.

Because SMEs comprise 95.7% (2002 data) of all Lithuanian companies, we will concentrate on these firms and attempt to analyze the current internationalization strategies of manufacturing SMEs. It is expected that many SMEs still lack the resources, knowledge and networks needed to actively engage in even the first steps of internationalization, exporting, and limit their internationalization activities to securing manufacturing contracts from European outsourcing and offshoring endeavors. We will analyze the extent to which this is true in the Lithuanian manufacturing sector, by gauging the overall internationalization activities of firms

and the factors, which inhibit or foster internationalization, the dependence on contractual manufacturing and the nature of these contracts.

## BACKGROUND

### *Models of internationalization*

Internationalization theories have generally focused on entry mode selection criteria and the environment, resources and experience of the firm. According to the internationalization model proposed by Johanson and Vahlne (1977), firms gradually increase their foreign market commitments as sudden leaps to distant markets and sophisticated entry modes are hindered by uncertainty, fueled by lack of market information and differences in culture. Johanson and Vahlne (1990) argue that their internationalization model is more suitable for firms in the early stages of internationalization, while the eclectic paradigm of Dunning is more relevant for larger, more experienced multinationals. Thus, it would seem that the internationalization model would be more appropriate for small firms, with limited international experience. Andersen (1993), however, has criticized the model and pointed to studies that have shown that SMEs do not select foreign markets as methodically as presumed by the model. Andersson et al (2004) argue that the stages model does not explain why some small firms internationalize while others do not. Oviatt and McDougall (1994) and Knight and Cavusgil (1996) as well criticize the stages model as lacking explanations for the internationalization of small born global firms, which lack both resources and experience.

Neither of the two models explicitly discusses contract manufacturing, however, it seems logical that the eclectic paradigm is better suited to explain the outsourcing decisions of manufacturing firms, while the former could be used to describe the incremental internationalization processes of small local suppliers, their shift from unsolicited orders to more active involvement and the formation and nature of networks with foreign buyers. Buyer-seller interactions have been discussed in the literature through network models, which are related to the internationalization model of Johanson and Vahlne (1977) in that they rely on commitment, knowledge and uncertainty as well in describing the composition of networks and the entry of firms to foreign markets. Relationships between industrial firms are formed and maintained through interactions, in which mutual trust and knowledge lead to increased commitment (Bodur and Madsen, 1993). Simply put, the success of internationalization depends largely on the ability of the firm to form and maintain relationships in foreign markets (Johanson and Vahlne, 1990). Chetty (1999), for instance, views networks as a means to overcoming the obstacles to

internationalization. According to Madsen and Servais (1997), subcontractors that cooperate with foreign suppliers may even internationalize in a non-sequential manner. Cavusgil and Godiwalla (1982) as well, have described the internationalization process as a process of decisions, which may be categorized along a continuum from clearly strategic decisions, in which firms actively search for opportunities and alternatives, to reactive decisions, in which no clear goals are set and the firm's phases of activity are not determined in advance. In the early stages of internationalization, the behavior of firms is reactive and incremental, whereas in later stages, this evolves into a proactive decision-making process (Cavusgil and Godiwalla, 1982). Because large firms often have the resources to easily enter foreign networks, in our view, the establishment of network relationships will be even more important for SMEs, especially those which do not yet have clearly defined internationalization goals.

### *Internationalization of SMEs*

Much of the literature on the internationalization of the firm has focused on multinational enterprises (MNEs) (Andersson et al, 2004). More recently, scholars have begun examining the internationalization processes of SMEs. Not surprisingly however, the results of these studies have produced mixed results. There is also divergence in the theoretical considerations of the advantages and limitations of SMEs in the literature. From a theoretical point of view, SMEs have certain advantages over large enterprises, in that they are able to more easily overcome governance problems (McIntyre, 2002). Some researchers (e.g. Liesch and Knight, 1999) argue that SMEs have the advantage of flexibility and are able to internalize market information to the same degree or better than large firms. However, SMEs also face certain disadvantages to large enterprises, which may inhibit their success in the local market as well as discourage them from pursuing international opportunities. Obviously, a major impediment to SME expansion, in comparison to large firms, is lack of resources. Size, as well, has been viewed as an obstacle to the internationalization of small firms, as well as the size of the host country (Berkema and Vermeulen, 1998; Calof, 1993, 1994).

Much of the literature on SME internationalization focuses on the export activities of these firms and the differences between successful and unsuccessful exporters (Leonidou and Katsikeas, 1996). This comes as no surprise, given the aforementioned obstacles to internationalization. Bilkey and Tesar (1977) describe the export activities of small firms as incidental, whereby firms passively fulfill international orders instead of proactively seeking opportunities. As such, because of lack of resources, SMEs do not approach internationalization in a systematic fashion and do not possess formal strategies (Bell et al, 2004). However, lack of

resources, firm size and market opportunity are not the only determinants of the internationalization success of SMEs. Small firms depend much on the abilities, knowledge and attitudes of those individuals in the firm responsible for international decisions. Some researchers (Moini, 1995; Cooper et al, 1994), for example, have found that the success of exporting firms and new ventures depends on the demographics, while others (Knight and Cavusgil, 1997; Reuber and Fischer, 1997) point to the importance of the international orientation of decision-makers. Cavusgil and Naor (1987) have proposed that the former are less important than factors related to behavior. Manolova et al (2002) studied the impact of international business skills, international orientation, environmental perceptions and demographics of SME managers and found that skills and environmental perceptions are among the most important criteria for successful internationalization. Thus, lack of resources in the form of physical capital, might not be such a hindrance if decision-makers of SMEs have a proactive view toward internationalization. More important are the knowledge, skills, experience and networks of firms and the external environment, which form the strategic foundations of the firm (Welch and Welch, 1996). The development and coordination of knowledge inside the firm must be viewed as integral to its internationalization processes (Knudsen and Madsen, 2001).

#### *SMEs in the CEE region*

SMEs in transitional economies also have the advantage that they are less likely to uphold the “traditions” of the former planned economy system, such as low productivity and poor quality, and they are better able to adapt to the often changing circumstances of transition (McIntyre, 2002). However, Aidis (2002) identifies numerous barriers impeding the success of SMEs in Lithuania, which might also be relevant for SMEs in other CEE countries. These barriers include macro environmental variables, remnants of the Soviet system, lack of information and knowledge. The limited market potential and purchasing power of consumers in Lithuania might also pose another barrier to SMEs, however at the same time pushing them to internationalize their activities. But here, Lithuanian companies face competition from SMEs in other transition countries, with differing levels of experience and opportunity. Although the advantages and hurdles to SME internationalization in the CEE countries are similar in nature, companies from certain CEE countries have advantages over Lithuanian firms. Poland, Hungary and the Czech Republic immediately come to mind as countries, in which the transition to a market economy was much quicker than in the Baltic States, where private enterprises were established sooner, and companies have longer ‘traditions’ of networking. Estonia as well is in a relatively more advantageous position than Lithuania, as FDI, the existence of foreign-owned companies and

liberal government policies all contribute to the opportunities of SMEs to internationalize their activities. These factors illustrate the importance of identifying the advantages and disadvantages of SMEs in Lithuania and the nature and depth of their relationships with foreign networks from the viewpoint of the companies themselves.

Networking has always been an important facet of enterprise survival in the former Soviet Union countries. Even today, SMEs in the CEE countries depend on informal networks between producers and customers, competitors, intermediaries and other firms. According to Lundvall (1988), such networks are important for the innovative activity and success of the firm. However, to date few studies have empirically tested theories of internationalization on small firms (Andersson et al, 2004). Several studies have addressed the issues of foreign direct investment, investment and sourcing strategies, attractiveness of location, wages, and the institutional environment of Central and Eastern Europe (Bevan et al, 2004; Djarova, 1999; Meyer, 2001; Donges and Wieners, 1994), however these studies have been conducted from the view of the investing or internationalizing company, from west to east. More recently, Danis and Parkhe (2002) analyzed East-West international alliances and differences in management practices between partners in 17 Hungarian-Western cooperative ventures, and Pavlinek and Smith (1998) discuss the causes and consequences of inward investment and differences between the Czech Republic and Slovakia. Liuhto and Jumpponen (2001) were the first to conduct a study of the motivations for internationalization, market selection and entry mode choice of the largest Baltic companies. However, there is still a dearth of studies investigating these issues from the viewpoint of suppliers in the CEE countries. We were unable to find any such studies in our literature search, and attribute this to the observation that it is far more difficult to obtain company information and the participation of CEE companies in surveys. First of all, few CEE companies are listed in international directories. Second, there is still a higher overall prevailing uncertainty in these countries as compared to western European countries. This together with the inexperience of and hesitancy of many CEE companies (especially SMEs) to participate in survey research help to explain the lack of research on this area thus far.

## HYPOTHESES

The concepts in this paper are developed from the literature on internationalization discussed above. Although it is difficult to analyze the networks of firms without observing them from within (Johanson and Vahlne, 1990), we will attempt to identify and examine the general tendencies of Lithuanian firms, and to summarize the internationalization efforts of Lithuanian

manufacturing SMEs, the extent of their internationalization, with a focus on buyer-supplier relationships. We expect that the degree of and obstacles to internationalization will depend on a number of factors, discussed below. Likewise, the nature of networks between Lithuanian suppliers and foreign buyers will be contingent upon the views of Lithuanian companies toward internationalization.

#### *Firm size and experience*

As the stages model of internationalization maintains, companies will gradually increase their foreign market commitments, as they acquire knowledge of and experience in foreign markets (Johanson and Vahlne, 1977). Small firms face many more constraints than large firms, and thus the smaller the firm, the more it will depend on intermediaries and manufacturing contracts, as a possible first step to internationalization. The larger the firm, the more resources it will have to seek out foreign partners, and will engage in export or greater foreign market commitments. The experience of the company is determined not only by the age of the firm, but also by its efforts to acquire new knowledge. Knowledge acquisition reduces uncertainty as perceived by the firm and leads to increased market commitments (Johanson and Vahlne, 1977). In our view, this will involve the extent to which companies view such aspects as employee training, knowledge of foreign markets and flexibility as important in entering foreign networks. Also, the more partners a firm has in different countries, the easier it will be for it to enter new markets through different entry forms. Regarding company age, however, we must take into account the possibility that some companies in Lithuania might have been established prior to the transition period, and that in such cases the age of the company will not be as reliable an indicator in determining the degree of internationalization. We will thus calculate age of the firm as starting from the first years of transition in Lithuania (1991 onwards). Based on the above reasoning, we propose that:

*H1: The extent of international activities of the firm will be positively related to age, and*

*H2: The extent of international activities of the firm will be positively related to size.*

#### *Uncertainty*

In our view, Lithuanian SMEs face a high degree of uncertainty in both the local and international markets. This has been confirmed in the study by Aidis (2002) of Lithuanian SMEs active in the local market. Although networks are an important part of Lithuanian business, a remnant of the socialist era, uncertainty is a function of the local environment (and culture) nonetheless. While local companies might establish informal networks with other local companies and base local business relationships on informal ties and extending favors, it is our

expectation that they will attempt to decrease uncertainty to as great an extent as possible when dealing with foreign buyers or contractors. This might take the form of securing detailed contracts, guarantees or other promises from foreign buyers. Such attempts will be reflected in the internationalization activities of companies as follows:

*H3: The greater the measures taken by local firms to reduce uncertainty, the lower their overall degree of internationalization.*

#### *Attitudes of local suppliers*

In line with the views and previous findings of researchers (Knight and Cavusgil, 1997; Cavusgil and Naor, 1987; Manolova et al, 2002), we expect that the views of the individuals responsible for the international decisions of the company will largely influence the success and nature of internationalization of the firm. Although firm size, experience and proximity of countries are important determinants of a firm's level of internationalization, a proactive view toward establishing relationships, acquiring knowledge and an understanding of the company's advantages are factors which will distinguish successful companies, or those which are more internationalized, from those less so. Andersson et al (2004) have pointed to a lack of studies, which address the internationalization of SMEs from the point of view of company CEOs, and related the degree of internationalization to the age and experience of company heads. While we acknowledge that this is important, we feel that a more important distinguishing factor among internationalizing SMEs is the extent to which attitudes among SMEs toward internationalization differ. In our view, we should not limit the measurement of a firm's degree of internationalization to company size and aspects of the institutional environment, but must also analyze the factors that are more within the control of the firm. Companies, which actively seek resources and try to develop and maintain network relationships, have a more proactive view toward internationalization, which will be reflected in the nature and degree of their networks. This will also be enhanced by the understanding of the need for acquiring and building knowledge – market knowledge, employee skills, knowledge of the company's own strengths and weaknesses.

*H4: Companies with a proactive view of internationalization will be involved in a greater number of networks than companies with a passive view.*

*H5: The degree of network relationships will be positively related to the commitment toward knowledge acquisition by companies.*

An investigation into the above issues will provide a general picture of not only the determinants and characteristics of Lithuanian SME internationalization, but will also allow us to distinguish those characteristics that are most important for successful SME internationalization.

## METHODS

### *Research instrument*

To test our hypotheses, we conducted a survey of 23 Lithuanian manufacturing SMEs, defined as companies having fewer than 250 employees and an annual turnover not exceeding 50 million EUR, and/or an annual balance sheet total not exceeding EUR 43 million, in line with accepted definitions of European SMEs (EU Commission recommendations, 2003). The survey consisted of 3 parts. The first part included general questions about the company, such as company age (date of establishment) type (legal status), size (measured by number of employees) and ownership (international or local company, parent or subsidiary of a local or international company), one question which asked whether the company was established as an international company from the start, and one question asking the number of years from the establishment of the company to the beginning of international activities (to quantify experience). The second part of the questionnaire consisted of several groups of questions. One group asked respondents to indicate up to five countries in which they conduct international activities, in order from highest involvement to lowest, and to indicate the degree of involvement in each country (export, licensing/ contractual manufacturing, joint venture or wholly owned subsidiary in the foreign market). The second group of questions was specifically related to contractual manufacturing activities, and respondents were once again asked to indicate up to 5 countries from which they receive international orders, even if they are the same countries as indicated in the first group. Because the first question was related to international activity in general, this allowed for the inclusion of additional countries in case the company is not only actively engaged in foreign markets, but is also a supplier to foreign companies in its home market. Respondents were also asked to rank the countries from highest to lowest involvement and indicate the approximate number of buyers in each of the listed countries. The final group of questions in this section asked respondents to indicate the extent of agreement on a 5-point Likert-type scale to 51 statements about their contract manufacturing activities. The last part of the questionnaire included 5 questions about respondent demographics (age, education, gender, position) and whether the respondent is the one responsible for the international decisions of the company.

The questionnaire was originally developed in English and translated into Lithuanian. Because all of the authors are native speakers of or fluent in both languages, backtranslation was not conducted, however, the questionnaire was thoroughly checked for any inconsistencies in meaning, and small corrections were made before distributing the final version. The survey was administered both electronically (by email) and by post from May to July, 2004 to 236 Lithuanian companies. Companies were also sent reminders three weeks after initial receipt of the survey. Thirty two electronic surveys were returned as undeliverable, leaving 204 surveys, and 27 companies responded, for a response rate of 13%, and 23 usable questionnaires. Five companies also responded but indicated that they do not wish to participate in the survey for the following reasons: they are not manufacturing companies (n=3), they do not conduct any international activities (n=1) and they are currently undergoing restructuring and cannot fully answer the questionnaire (n=1). With studies in the post-socialist countries, there is always a risk of high non-response because companies are hesitant to reveal any information about their activities (Michailova and Liuhto, 2000). Even to date, much of what in the west is considered public information is still considered to be confidential by companies in the CEE countries.

### *Sample*

The companies in the sample were all manufacturing companies listed in Lithuanian company directories from the following sectors: industrial machinery, metal processing, plastics, electronics and textiles. The majority were companies in the textiles sector. The companies were not concentrated in any particular geographic region, but were located throughout all of Lithuania. Although the age of companies differed, most of the companies were relatively young, established after the re-establishment of Lithuanian independence (n=14). The average age of companies was 23.7 years. The average number of years from establishment to the start of international activities of companies was 19.8 years. However, if we look only at those companies, which were established during the transition period, the average number of years is 2.14. Four companies were established as international companies from the start. All companies indicated that they are of local origin (i.e. are not a subsidiary of a foreign company). A detailed summary of company characteristics is provided in Table 1. These figures may provide information about several aspects. First, the number of years from establishment to international activities may be an indicator of company experience. Whether more experienced companies engage in more international activity than younger companies remains to be seen. Second, it is clear that the gap between establishment and engagement in international activities is a function of the environment. Those companies established before the transition to a market economy or

during the early stages, waited until at least 10 years to begin their international activities. The extent of international activity by age will be assessed in later sections of the paper.

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TABLE 1  
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*Respondent characteristics*

It is necessary to look at the composition of respondents, as it is individuals, not companies, which make strategic decisions. The experience of individuals is an important thrust for international activity. It is also important to assess whether the respondents completing the questionnaire are in fact the individuals responsible for the company's international decisions. The respondent characteristics are depicted in Table 2.

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TABLE 2  
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CONSTRUCTS AND MEASURES

The 51 items in the second part of the questionnaire were used in developing the constructs in our study. It was sought to examine the relationships between buyers and suppliers, the factors influencing the choice of supplier as seen through the eyes of suppliers, the extent to which companies actively pursue international activities and the extent, if any, that companies tend to reduce uncertainty in their activities. The items used in developing constructs were based on a review of the literature on internationalization theories and previous studies testing similar aspects. Because of the small sample size, it was decided that factor analysis would not produce reliable dimensions. Thus, correlation and covariance matrices of the items were first analyzed to detect any patterns in the data. Next, the items were mechanically grouped into dimensions based on theoretical reasoning and the inter-item correlations and reliabilities were assessed. The constructs were labeled "uncertainty," "learning" and "proactive internationalization." Brief descriptions of the items comprising each of the constructs and construct reliabilities are depicted in Table 3. Each of the constructs is next explained.

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TABLE 3  
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*Uncertainty.* Eight items comprised the uncertainty construct, which intends to measure the extent to which companies take measures to reduce uncertainty in their interactions with foreign buyers. Three items measured the degree to which companies prefer well-defined and long-term contracts. Two items measured the extent to which companies try to minimize risk through securing guarantees in advance and their general view that received order fulfillment should be associated with as minimal risk as possible. One question measured the extent to which companies give preference to long-term contracts over short term or one-time order fulfillment. Two questions were also included which measured the extent to which firms seek orders from geographically close countries and the extent to which companies agree that they are better able to deal with customers from certain countries over others.

*Learning.* Eleven items measured the extent to which companies hold a favorable view of or take measures to increase their knowledge base. The questions concerned the following aspects: the extent to which companies feel that they may use their current customers to increase their knowledge and further internationalize; the extent to which companies have invested into timely order fulfillment, employee training or have received training from customers, the extent to which orders received by firms require special know-how (an indication of firm capabilities), the extent to which companies seek or attract employees with country-specific knowledge or other special knowledge, the extent that companies view language knowledge as important for securing contracts, and the extent to which companies view their experience with foreign customers as contributing to knowledge enhancement.

*Proactive internationalization.* Whether companies have a proactive or reactive view toward internationalization was reflected in nine items. The higher the score on this dimension, the higher the proactive orientation of the firm. Six items measured the extent to which companies pursue international orders on their own: aggressive pursuit of orders, regular buyer searches, openness toward new customers, customer searches regionally or worldwide, and the extent to which companies conduct regular analyses of their client base. "Maintenance of relationships" measured the extent to which firms try to retain customers through the formation of relationships. One question measured the extent to which companies gave importance to continually staying ahead of their competition. And the final item measured the extent to which companies view international experience as important for securing orders.

Additional measures were also used in testing our hypotheses: *the degree of internationalization*, measured by assessing the number and types of entry modes in all countries indicated by companies (where a higher value is associated with a higher degree of involvement, e.g. wholly-

owned subsidiary), and *number of networks* was measured as the aggregate of customers in all countries as indicated by firms.

## DATA ANALYSIS AND RESULTS

The size of our sample had an impact on our statistical findings. Before conducting bivariate correlations, our data was screened for outliers, which were removed. We also checked for a linear relationship between the variables of interest, though the variables and constructs did not always appear to be linear as we had expected. The Kolmogorov-Smirnov test for normality was also conducted on all variables, and we found that all data did not meet assumptions of normality. For these reasons, Spearman's rho, not the Pearson product-moment correlation coefficient, was used to test for one-tailed statistical significance. The Statistical Package for the Social Sciences (version 11) was used to test our hypotheses.

In terms of the Spearman's rho test, where there is no linear relationship between our variables,  $\rho = 0$ . To test whether we can find that  $\rho$  is equal to zero, we use the following general hypotheses.

$$H_0: \rho_s = 0$$

$$H_1: \rho_s \neq 0$$

Our first experimental hypothesis (H1) expected a positive correlation between the extent of international activities of the firm and the age of the firm. This hypothesis was supported by our data. The variables indicated a mild positive correlation (.378), and are statistically significant at a level of .05. We are thus able to reject our null hypothesis of no statistical significance. The second hypothesis (H2), which tested the association between the extent of international activity and the size of the firm, was also supported by our data. The variables display a positive association of .470, and are statistically significant at a level of .018, thereby again rejecting the null hypothesis. We also found a significant positive correlation (.438,  $p=.05$ ) between the age of the firm and firm size. Older companies have both more resources and experience, which are a precondition for higher international commitments.

Our third hypothesis (H3) predicted that the degree that firms take measures to reduce uncertainty would be inversely related to the degree of internationalization of the firm. It was expected that as firms gain experience in foreign markets, the need to reduced uncertainty, or the degree of uncertainty as perceived by the firm, would decrease. However, this hypothesis was not supported by the data, and the variables were positively rather than negatively correlated. We found a weakly positive correlation of .222, and a statistical significance of .188. We thus were

unable to reject the null hypothesis of no statistical significance. Many of the items included in the ‘uncertainty’ construct were concerned with the importance placed on long-term relationships, securing guarantees and the detailed nature of contracts. Although the intent of these questions was to gauge the degree that companies formalize their activities, higher foreign market commitments are naturally associated with higher risk, which might simply have been restated by respondents themselves. However, it is more likely that the rather weak correlation in an opposite direction than expected might be a result of our small sample size, as the number of firms indicating high international involvement was quite small.

Our next hypothesis (H4) was supported by our data. According to our hypothesis, we expected that companies with a proactive view of internationalization would be involved in a greater number of networks. These constructs displayed a positive correlation of .504, and we were able to reject our null hypothesis finding the relationship between constructs to be statistically significant at the .017 level. We expected to obtain a stronger relationship between the views and efforts of companies toward internationalization and the actual degree of internationalization, however no such relationship was found. This might indicate that Lithuanian companies are still faced with uncertainty and rely more heavily on network relationships, regardless of whether they have proactive or passive views of internationalization.

We had expected to find a positive correlation in our final hypothesis (H5), between the degree of network relationships and the emphasis on knowledge acquisition by companies. However, we found that the correlation was only weakly positive at .219, and not statistically significant, at .192. We were thus unable to reject our null hypothesis. It may be reasoned that since companies fulfill foreign orders in their home market, investments into learning about foreign markets are not viewed as necessary. In fact, items concerned with foreign market knowledge were rated as least important by respondents: ‘employees with special knowledge’ (m=3.10, S.D. =.944), ‘employees with country knowledge’ (m=2.82, S.D. =.958), and ‘language skills important’ (m=3.32, S.D.=.894).

We were interested not only in the scope of internationalization of Lithuanian companies, but also in assessing the nature of network relationships, specifically, the geographic distribution of countries, in order to assess whether any general patterns emerge. Because the majority of firms in our study were engaged in manufacturing contracts, not only the number of network relationships was important, but also the origin of contracts. Figure 1 depicts the degree of network relationships held by local companies by country of origin.

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FIGURE 1  
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The total number of networks was 593 for all of the companies surveyed. We can see that Lithuanian companies still heavily rely on the FSU and CEE countries, and are only beginning to form relationships with Western European countries, mainly Germany, Denmark and Sweden<sup>2</sup>. Thus, a certain pattern is noticeable, as the main countries with which Lithuanian SMEs have formed the most relationships are those with which companies have had previous experience or a shared institutional environment, while the additional main countries are those bordering the Baltic Sea region and are also among the main trading partners in the EU. However, which of the partners initiates the relationship is not known and is a possible area for further research.

## CONCLUSIONS

Our results show some support for the incremental internationalization of small firms, however we were unable to confirm all of our hypotheses. This is most likely due to the limitations of our study. The small sample size in our study is typical of the difficulties in conducting quantitative research in the CEE countries. Many companies are still quite hesitant to participate in research and offer any type of information to external researchers. Another difficulty in conducting research is lack of information about companies in the CEE region. There are as yet no comprehensive databases, and companies listed in official registers are not necessarily active companies. This is especially true of SMEs. This fact as well contributed to our low response rate. Hesitancy by respondents to answer certain questions also resulted in a lower sample size, as some returned questionnaires were unusable.

Although this study was part of a larger study, which is still in progress, on the internationalization patterns of SMEs in the CEE region, from the preliminary data obtained thus far on Lithuanian firms, we can note that most Lithuanian manufacturing SMEs are still in the experimental or initial stages of internationalization. Although our findings are not conclusive about Lithuanian manufacturing SMEs as a whole, some general tendencies are observed. The findings show that Lithuanian companies are still not wholly prepared to take on the challenges and opportunities arising from increasing and open competition in the EU. Most companies in our study show a rather low level of internationalization, relying on contractual manufacturing, instead of seeking opportunities in foreign markets on their own. Although companies indicate that they have a rather proactive view of internationalization, their own efforts in seeking opportunity are still not apparent. Entering foreign networks is resource-demanding and requires that firms be flexible in their activities (Johanson and Vahlne, 1990). SMEs have fewer resources

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<sup>2</sup> Countries listed as “other” were the following: the Ukraine, Slovakia, the Netherlands, Poland, Estonia, Latvia, Italy, Canada, Switzerland, France, Finland, Spain, Norway and the UK.

than large firms, and thus they must rely on additional factors when entering foreign markets. Market knowledge may be considered such a factor, as well as a commitment to learning. Many of the companies in our study, however, did not view market knowledge and the attraction of employees with country-specific skills as important. This might explain the lack of confirmation of our fifth hypothesis.

Knudsen and Madsen (2001) point to the abundance of empirical studies, which confirm that a firm's initial foreign market entry efforts are haphazard, chaotic or explorative. We were unable to find any clear patterns in the internationalization of SMEs ourselves, and agree with the authors that the initial expansion of companies into foreign markets may be viewed not as a carefully planned out or strategic activity, but as accidental. Although Knudsen and Madsen (2001) refer to the incidental exporting activities of firms, this pattern of "no pattern" was apparent in what we view as the initial or pre-exporting steps of internationalization – contractual manufacturing.

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*Table 1: Company characteristics*

	F	%
<b>Sector</b>		
Machinery	2	8.7
Metal processing	7	30.4
Plastics	1	4.3
Pulp and Paper	1	4.3
Textiles	12	52.2
<b>Date of Establishment</b>		
Established 1991 or later	14	61
Established before 1991	9	39
<b>Ave. years to international activity</b>		
Established before 1991	37.8	
Established 1991-2002	2.2	

*Table 2: Respondent demographics*

	F	%
Average age of respondents	41.05	
Gender (male)	17	74
<b>Education</b>		
Graduate degree	5	21.7
University degree	13	56.5
Unfinished university	3	13
Vocational training	1	4.3
Secondary education	0	0
Unfinished secondary	0	0
<b>Position</b>		
Top management	9	39.1
Manager of managers	8	34.8
Manager of employees	2	8.7
Academically-trained professional	0	0
Technically-trained employee	0	0
Administrative personnel	2	8.7
N responsible for international decisions	20	87

Table 3: Main constructs and their composition

Construct (reliability)	Uncertainty ( $\alpha = .71$ )	Learning ( $\alpha = .84$ )	Proactive ( $\alpha = .81$ )
Items	Long term relationships Long term contracts Well-defined contracts Seek orders from close countries Prefer certain countries over others Contracts very complete Secure guarantees Orders must have low risk	Current customer base for internationalization Investments into on-time order fulfillment Know our strengths and weaknesses Technological know-how Experience-based know-how Investments into learning Employees with special knowledge Employees with country knowledge Regular employee training Language skills important Buyers conduct training	Aggressively pursue orders Regular buyer searches Always seek new companies Maintenance of relationships Keep ahead of competition International experience important Detailed buyer comparisons Buyer searches worldwide Regional buyer searches

Figure 1: Percentage of foreign networks by country

