Central and Eastern Europe Investments: A Comparison of US, Dutch and German Firm Activities

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INTRODUCTION

As the previous chapters in this book have pointed out, rapid changes have occurred in Central and Eastern Europe (CEE) since 1989. These changes have affected the lives of millions of people living in CEE, as well as having an impact on people outside the region. For businesses, the changes that have occurred have meant hardship, disappointment, opportunity, and growth. One of the most dramatic changes to affect businesses both within and outside the region has been the change from centrally planned economies to free-market economies. This has meant that CEE-based firms are now free to compete among themselves. Free-market economics also has meant that foreign firms are welcome to compete within the formerly closed markets of CEE. Western firms have responded to these changes in a number of ways. For the majority of Western firms the economic, political, and social uncertainties in CEE have made them hesitant to begin doing business in the region. For other firms, the economic and social reforms have signalled a new, unexplored, potentially large market for their goods and services. This second group of firms have begun entering the CEE markets using various forms of operation, depending on their attitude toward future prospects in the region.

In this chapter we explore the investment activities of Western firms in the newly developed CEE market. Specifically we compare and contrast the activities of US firms with those of Dutch and German firms. Hofstede (1989) and others (Erramilli, 1996; Agarwal, 1994; Shane, 1994) have suggested that firms from different parts of the world may react differently to opportunities in foreign countries because of differences in their national cultures. Other scholars (Brouthers, 1995; Agarwal and Ramaswami, 1992) have found that risk perceptions appear to have a strong influence on...
foreign mode choice. Because of cultural, geographic, political and historic differences there is a strong possibility that US, German, and Dutch firms will react differently to the changes occurring in CEE. By identifying these differences in culture and risk perception, and their subsequent impact on entry mode choice, we hope to be able to expand theory in this area and offer improved practical solutions to firms entering these new international markets.

In the first part of this chapter we examine the general trends in foreign investment in Central and Eastern Europe. Then we discuss the theory behind our study, including a discussion of entry mode options, national cultural attributes, and risk perceptions that may create differences in the investment approaches to CEE. Following that, we compare and contrast the activities of German and Dutch firms, through two samples of Dutch and German companies, with the activities of US firms, through a sample of US companies. Finally we conclude with recommendations to management on investment strategies for firms desiring to participate in the dynamic CEE region.

FOREIGN INVESTMENT IN CEE

An explosive growth of foreign investment in Central and Eastern Europe was expected after the dismantling of the Iron Curtain in 1989. However, this expectation has proved to be overly optimistic. Although most countries in the region have adopted fairly open foreign direct investment (FDI) regimes, the flow of FDI into CEE remains quite small in volume and is disproportionately concentrated in a few relatively small areas (EBRD, 1994). Several reasons for this slower than expected pace of investment can be identified (KPMG, 1994). First, the actual political, legal and social transition from central planning towards an open-market economy is proceeding much slower than expected by most experts. Second, at the same time several other areas of the world have emerged as potential investment candidates, for example Mexico and Southeast Asia specifically China. These areas are attracting investments that may have otherwise gone into CEE. Third, Western countries experienced a recession during 1993 and 1994, thus overall investment decreased. Finally, for Germany the addition of the eastern region has cost far more than expected, thus decreasing the capital available for foreign investment.

Despite the slower pace, annual FDI inflows to CEE rose ten-fold between 1990 and 1993. However, in 1993 for example FDI inflows to CEE represented only approximately 10 per cent of total FDI flows into developing countries. In fact, ‘[b]y the end of 1993 cumulative paid-in investment in the region was approximately $9 billion, which is less than a third of the amount invested in China in 1993 alone’ (Rolfe and Doupnik, 1996, p. 1). In