Probing Theoretically into Central and Eastern Europe:

Transactions, Resources, and Institutions

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[Abstract]

Since the 1990s, Central and Eastern Europe (CEE) has provided unique societal quasi-experiments and thus opportunities to test the applicability of existing theories in international business and management studies, and to develop new ones. Specifically, three lines of theorizing have been advanced: (1) organizational economics theories, (2) resource-based theories, and (3) institutional theories. For each of these theories, we discuss how they contribute to the understanding of key issues, such as entry strategies of foreign investors, restructuring strategies of local incumbents, and entry and growth strategies of entrepreneurs. On this basis, we assess how CEE research has influenced the overall trajectories of theory development. CEE research has in particular highlighted the importance of contextual influences such as institutions. Thus, scholars have aimed at incorporating institutions into theories (such as organizational economics theories and resource-based theories) and advancing an institution-based view of business strategy as a complementary perspective. We outline how future research in CEE and other emerging economies may advance this research agenda further.

At the core of contemporary research in international business (IB) and management lies the development of alternative theoretical perspectives. New phenomena of interests permit new applications for existing theories, as well as the advancement of modified or new theories. Therefore, new phenomena present a fascinating research laboratory in which to assess the explanatory and predictive power of different theories. As scholarly interests in the transition economies of Central and Eastern Europe (CEE)[1] expand significantly since the late 1980s (Meyer, 2001a; Peng, 2000), these interests start to assert influence on broader theory development (Zahra et al., 2000).

CEE provides an interesting laboratory for developing and testing theories, because the transition processes provide a series of unique societal quasi-experiments. Even among emerging economies, CEE is special due to the radical switch from central planning to market competition and the high degree of industrialization (Svejnar, 2002). Thus, businesses face challenges of managing radical strategic and organizational changes, rather than traditional issues of economic development such as moving from an agricultural society to an industrialized economy. These societal quasi-experiments allow scholars to test the generalizability of existing theories and to identify hidden features and assumptions that are often unnoticed when conducting research in mature market economies. Recently, Lu (2003), Peng (2001b, 2006), and Werner (2002) have surveyed the general IB and management literature. However, their global coverage does not allow for a focus on issues that are particular to any specific region, such as CEE. Given that much research is pursued on a region-by-region basis, we assess the interaction between research on one key region – CEE – and the larger literature. Key questions we address are: (1) What theories have emerged as leading perspectives underpinning IB and management research

[1] For the purposes of this article, "Central and Eastern Europe" (CEE) includes the former Soviet Union as well as Central Europe – that is, countries east of the former Iron Curtain, but west of the former Soviet Union.

focusing on CEE? (2) More importantly, how does research on CEE contribute to general theory development beyond CEE?

Addressing these two questions, we suggest that three sets of theories – organizational economics theories (namely, transaction cost theory [TCT] and agency theory [AT]), resource-based theories (RBT), and institutional theories (IT) – have emerged as leading foundations underpinning CEE research. When reviewing research on emerging economies, Hoskisson, Eden, Lau, and Wright (2000) and Wright, Filatotchev, Hoskisson, and Peng (2005) identify these theories as the leading perspectives, a proposition with which we concur.[2]

Among numerous theories, why have TCT/AT, RBT, and IT emerged as leading perspectives? McKinley, Mone, and Moon (1999) argue that whether a particular theory gains widespread acceptance depends on its *continuity, novelty*, and *scope*. In CEE research, organizational economics theories probably display the highest degree of continuity, since they are basically applied to a new setting. RBT also display some continuity, by drawing on existing work developed elsewhere. IT, as employed in CEE, seem to have a relatively low degree of continuity, by pushing factors usually considered as “background” in IB and management research to the “front stage” (Ingram and Silverman, 2002). On the other hand, IT offer the highest degree of novelty, in this highly unusual and novel context (Peng, 2003).

While TCT and AT have been relatively well established before CEE’s transitions, RBT and IT represent more recent theoretical developments, whose emergence approximately coincides with the rising scholarly interests in CEE. We further argue that CEE research has significantly propelled the development of these theories, with varying degrees of impact. The main challenge that CEE scholars have struggled with is how to incorporate the specific

[2] These three lines of theorizing arguably correspond to the three pillars of the dominant paradigm in IB research, the OLI paradigm developed by Dunning (1993). RBT explore ownership advantages (O); IT analyze an important aspect of locational advantages (L); and TCT underpins internalization incentives (I). However, it is important to note that the OLI paradigm has been developed to explain the rationale for international production (and hence the

contextual influences into their theoretical reasoning. Some studies aim to incorporate contextual variables, notably institutions and radical environmental change, into existing theories, such as TCT/AT or RBT, while others aim to advance an institution-based view of business strategy. CEE research has thus significantly pushed the frontier of IT.

In the remainder of this article, we outline strategic issues faced by the three main organizational domains that have attracted substantial research attention (Peng, 2000; Meyer, 2001a): (1) foreign entrants, (2) local incumbents, and (3) local start-ups. To investigate the impact of CEE research, we have built a database of CEE-related articles in top journals and analyzed contributors and citations (see Appendix). This database is the main basis of our article, with an emphasis on the most cited and presumably most influential contributions. We conclude by outlining an agenda for future theoretical and empirical research in CEE and other emerging economies.

KEY RESEARCH ISSUES

To investigate the contributions of CEE research to the broader research agenda in the field, we focus on the key issues confronting three different types of firms (see Table 1):

[***Insert Table 1 about here***]

- **Foreign entrants.** CEE research has focused on the motives and entry strategies of foreign entrants (Brouthers et al., 1999; Fahy et al., 2000; Meyer, 2001; Brouthers and Brouthers, 2003). In parallel, researchers have analyzed challenges facing entrants after the initial entry, such as knowledge transfer in joint ventures (JVs) (Lyles and Baird, 1996; Lane et al., 2000), cross-cultural management in foreign-owned businesses (Child

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existence of multinational enterprises), whereas the three sets of leading theories we identify deal with a wider range of topics beyond the traditional coverage of the OLI paradigm.

and Markóczy, 1993; Elenkov, 1998; Fey and Björkman, 2001; Michailova, 2002), and post-acquisition restructuring (Meyer and Estrin, 2001; Meyer and Lieb-Dóczy, 2003).

- **Local incumbents (including state-owned enterprises [SOEs] and privatized firms).** Research on local incumbents has primarily been concerned with the challenges associated with restructuring (Newman, 2000; Uhlenbruck et al., 2003), and its antecedents, including governance structures (Buck et al., 1998; Filatotchev et al., 1996; Filatotchev et al., 2000) and business cultures (Welsh et al., 1993; Puffer and McCarthy, 1995; Frese et al., 1996).
- **Newly established local firms.** Entrepreneurship is a relatively new phenomenon in CEE – so is entrepreneurship research on CEE (Peng, 2001a; Estrin et al., 2005). Only recently have scholars begun to analyze the determinants of new firm establishment (Puffer and McCarthy, 2001; Batjargal, 2003) and their survival (Lyles et al., 2004).

The following three sections review the contributions and challenges for research related to each of the three sets of theories (TCT/AT, RBT, and IT), by using the three strategic challenges as testing stones to assess the contributions of CEE research. In other words, we focus on eight of the nine cells outlined in Table 1 (one cell remains empty as no study has on entrepreneurial strategies has drawn on TCT or AT).

ORGANIZATIONAL ECONOMICS THEORIES

Organizational Economics Theories in a Transition Context

Organizational economics theories such as TCT and AT have been developed with an assumption of relatively static, well-developed market mechanisms. In a different institutional framework where such an assumption may not hold, it is not surprising that scholars applying these two theories encounter formidable challenges. Williamson (1991) has acknowledged these challenges and proposed that differences in institutions can be conceived as "shift parameters" that alter the slope or intercept of transaction costs (TC). Yet, this approach, which implies that the institutional differences are simple control variables, ignores the potential value in exploiting institutional variation to better understand the nuances and limitations of TCT. In the transition context, TC are particularly high due to the "weak institutions" and high uncertainty. For example, the lack of information systems and effective courts raised search and monitoring costs, and constraints on opportunistic behavior may become ineffective (Swaan 1997). Yet, scholars find it difficult to measure the pertinent TC with the necessary methodological rigor. While this is a general problem of TCT research (Boerner and Macher, 2004), it becomes particularly relevant in CEE. The proxies that signify a rise in TC in Western studies may be of limited use because the drivers of TC are different. For example, TCT research associates intangible assets with market failure, yet in transition economies, markets for tangible assets, such as real estate, are also subject to high TC (Estrin et al., 1997). Thus, to be able to develop new proxies, scholars need to attain a deeper understanding of what drives TC in transition economies (Table 2).

[Insert Table 2 about here]

AT posits that while managers as agents are theoretically expected to comply with the interests of enterprise owners as principals, in reality it is difficult for owners to ensure that managers actually comply (Jensen and Meckling, 1976). When applying this line of thought to CEE, researchers encounter similar problems of defining the basic constructs because agency relationships are complex and vaguely defined, especially in recently privatized enterprises (Filatotchev et al., 1996, Puffer and McCarthy, 2003). Straightforward application of traditional AT models yields limited predictive power (Peng et al., 2003). Thus, meaningful predictions on the linkage between governance structures and corporate performance requires careful consideration of the formal governance structures as well as informal lines of authority and the associated role and power of various stakeholders, including board members and employees (Buck et al., 1998).

Foreign Investors' Entry Strategies

The TCT analysis of entry strategy essentially argues that a decision over governance mechanisms, such as entry mode choice, requires a rational trade-off between the TC associated with market and hierarchy modes (Anderson and Gatignon, 1986; Hennart, 1988). Because TC are moderated by the peculiarities of the institutional environment, scholars applying TCT to explain the choice of organizational forms in CEE often integrate institutions in their TCT reasoning. For example, Meyer (2001b) follows North (1990) in arguing that institutions shape TC, which in turn determine investors' internalization decisions. Building on Oxley's (1999) TCT-based work on intellectual property rights and FDI, Meyer (2001b) proxies institutional development with transition indicators of the European Bank for Reconstruction and Development (EBRD), and finds that lower TC of establishing local operations make it more likely that foreign investors establish wholly owned operations rather than JVs or contractual cooperation. Thus, TC of establishment, which at the time notably included negotiations with privatization agencies (Brouthers and Bamousy, 1997), were a stronger deterrent than the potentially high coordination costs in JVs. Brouthers and Brouthers (2003) focus on the impact of TC associated with environmental and behavioral uncertainty on entry mode decisions. They find that full ownership is inhibited by behavioral uncertainty in the case of (people-intensive) service FDI, but by environmental uncertainty for (capital-intensive) manufacturing FDI.[3]

[3] In IB research, TCT has been applied as internalization theory as one of the three "pillars" of the "eclectic paradigm" to explain why MNEs choose different governance arrangements when operating abroad (Dunning, 1993). CEE research has pushed the frontier of this paradigm further by demonstrating that it can not only be used to predict entry modes, but also be linked with performance (Brouthers et al., 1999; Nakos and Brouthers, 2002). In other words, this research documents that firms that use variables specified in the eclectic paradigm when selecting entry modes are more satisfied with their CEE performance than those which do not, thus suggesting that Dunning's eclectic paradigm is "normative as well as descriptive" (Brouthers et al., 1999: 841).

Other studies explore how high TC may deter FDI altogether. Bevan, Estrin, and Meyer (2004) proxy TC by the same EBRD indicators as Meyer (2001b), but in a disaggregated form, and find that some aspects such as foreign trade liberalization significantly facilitate the inflow of FDI, while others such as domestic price liberalization would not. Javorcik (2004) finds that weak intellectual property rights (and thus high enforcement costs) deter FDI in high technology sectors, but do not deter FDI in sales and distribution.

Overall, this research provides a finer-grained understanding of which forms of institutional shortcomings are most likely to raise TC of concern to foreign investors. Thus, TCT-based research in CEE has redirected its focus from firm-specific variables indicating sensitivity to TC to contextual variables that moderate TC in specific markets.

However, relatively few studies on foreign entrants apply TCT as their main theoretical base (see Table 1). This may be a function of the relative maturity stage of TCT, whereby pure applications of TCT, whether in CEE or elsewhere, may be difficult to publish given the crowded TCT literature (Boerner and Macher, 2004). In part this may also be because many of the unique features that make economic transitions an interesting social quasi-experiment are change processes, and TCT as a substantively static theory has relatively less to contribute to analyzing dynamic processes. However, we see potential for further development of TCT through more rigorous testing of propositions concerning the link between institutions, TC, and FDI inflows (Javorcik 2004) or MNE's entry modes (Meyer, 2001b). Moreover, the transition context provides opportunities to drill down further nuances of the TC parameters by exploiting the regional variation across and within countries.

Incumbent's Restructuring Strategies

In CEE, AT has not only served as an analytical tool, but has also informed key political decisions in the reform process. A key deficiency of the socialist enterprise has been the lack of private ownership and consequently weak incentives for managers to improve firm performance. Privatization has aimed at creating appropriate principal-agent relationships that would induce managers to optimize firm performance under the guidance and monitoring of new owners (Boycko et al., 1995). Yet, among the many alternative methods of privatization employed in the region, many did not lead to new governance structures that would meet this expectation (Estrin, 2002; Djankov and Murrell, 2002).

CEE research on privatization is a large part of the rapidly growing global literature mostly published in economics (Megginson and Netter, 2001). In a review, Estrin (2002: 101) finds that "while privatization seems to have improved company performance in almost all developed and middle income countries, the record is less convincing in transition economies and, notably, in the former Soviet Union." In a meta-analysis, Djankov and Murrell (2002) find that privatization tends to have a positive impact on performance; yet contrary to AT predictions, ownership explains only a small part of the variation in performance. Tentatively, both Estrin (2002) and Djankov and Murrell (2002) attribute the poorer performance in countries like Russia to the weaker institutional development.

The IB and management literature finds similarly ambiguous results on the impact of ownership change on firm performance in CEE. While some firms engaged in strategic restructuring following privatization (Filatochev et al., 2001), many domestically owned CEE firms did not fundamentally change their strategies and structures (Whitley and Csaban, 1998; Newman, 2000). The only group of firms that is consistently reported to change strategies and improve performance is firms privatized by sale to foreign investors (Uhlenbruck and De Castro, 2000). Moreover, the influence of specific agents normally associated with improved governance and thus improved performance, such as outside board members (Peng et al., 2003) or institutional investors (Belev, 2003), do *not* appear to have a significantly positive effect on firm performance. These outcomes contrast with the predictions of AT and the expectations of those who designed the privatization programs.

What accounts for these apparent failures of AT to predict linkages among ownership, governance, and performance? Apparently, principal-agent relationships and power structures are different than what outside observers, such as Western scholars, presume them to be. Often agency relationships in privatized firms are only vaguely defined, thus giving managers considerable *de facto* autonomy. Even if governance structures are well defined at corporate level, their effectiveness may be hampered by weaknesses in background institutions such as law and contract enforcement in the country (Buck et al., 1998).

The lack of support for the link between ownership and corporate performance has stimulated in particular two lines of research: (1) How can systems of governance be improved such as to increase the effectiveness corporate governance? (2) How are post-acquisition privatized firms actually governed? First, it is now widely recognized that privatization in itself is insufficient, and that the creation of effective systems of governance is necessary to improve enterprise performance (Estrin, 2002; Djankov and Murrell, 2002; McCarthy and Puffer, 2003). While privatization, if done right, may improve performance, such right conditions primarily center on institutional contexts and policies. The key is the construction of appropriate governance structures, which in turn is a challenge to institution building.

Thus, the gradual evolution of ownership pattern toward more outsider owners and more ownership concentration (Jones and Mygind, 1999) may improve governance in the long term. However, the institutions that shape corporate governance are grounded in the history of societies, as shown by Buck (2003) for Russia. The introduction of new and coherent *formal* systems of governance is a time consuming process. Before the arrival of these systems, it is likely that *informal* mechanisms of control, monitoring, and contract enforcement are being used during the transition. Future research may thus pay more attention to informal mechanisms.

The second line of research aims for finer grained analysis of governance structures to explore the actual autonomy of managers and the influence of stakeholders other than shareholders. In contrast to a straightforward set of principal-agent relationships as portrayed by AT, a wide range of stakeholders such as employees and government authorities have *de facto* influence on corporate decisions in CEE (Buck et al., 1998; McCarthy and Puffer, 2003; Mygind, 2001). Thus, a key challenge for governance research is to develop theoretical tools to analyze the influence of the relevant institutions, hierarchies, stakeholders, and control mechanisms in privatized enterprises (Buck et al., 1998), and to explain how organizational leaders can be effectively transform their enterprise under such circumstances (Meyer, 2004).

Evaluation of Theory Application and Development

CEE research has pointed out the limitations of organizational economics theories in a complex, volatile, and highly uncertain environment. Developed in a relatively stable Western environment, TCT assumes availability of alternative modes and identifiable (though not necessarily measurable) TC, and AT assumes clearly defined and stable agency relations. However, these assumptions may not hold in CEE (Table 2). Dynamic models based on TCE, such as switching costs of foreign investment modes (Benito et al., 1999) or adjustment costs of organizational change (Nickerson & Silverman, 2003) have not yet been applied in CEE.

Organizational economists have applied their theories in CEE mainly by incorporating elements of institutions. In CEE, transaction and agency costs may vary less with the characteristics of the firms, but more across countries and industries. IB research has traditionally focused on firm-specific variables to assert which firm would prefer which organizational arrangement. Yet, CEE research has redirected attention to institutions moderating TC to analyze how organizational arrangements vary across contexts. This focus on the link between TC and institutions is arguably a back-to-the-roots movement, as both TCT and AT have historically been classified as part of the "new institutionalism" (North, 1990; Williamson, 2000). However, these theories have yet to be shown to yield deep insights on dynamic processes such as radical organizational change.

RESOURCE-BASED THEORIES

RBT in a Transition Context

RBT focus on idiosyncratic resources and capabilities as drivers of firm performance and have significantly influenced recent IB literature (Peng, 2001b). In this discussion of RBT, we not only include Barney's (1991) resource-based view of the firm but also related theories such as organizational learning theories (Fiol and Lyles, 1985), evolutionary theories (Kogut and Zander, 1993), and dynamic capabilities views (Teece et al., 1997) – hence, our use of the plural form, "resource-based *theories.*" CEE research has significantly broadened and deepened the RBT literature, while raising new puzzles and questions. Key challenges for applying RBT arise from the need to identify which resources constitute a basis for competitive advantage in a transition context. While the basic VRIO criteria – value, rarity, imitability, and organization (Barney 1991) – would apply in theory, the types of actual resources that fulfill these criteria are different. For example, in a highly idiosyncratic environment, context-specific resources such as business networks (Peng and Heath 1996) and process-related capabilities such as strategic flexibility (Uhlenbruck et al., 2003) may be important.

The context thus influences the way firms manage their resources. Processes of developing, transferring, and exploiting resources vary in a transition context, which calls for new measures to capture these dynamics. Change processes are often gradual and interdependent, but occasionally radical and discontinuous. The transition economies experienced numerous incidences of discontinuous change that are less well explained by existing theories. Moreover, the perceived organizational fit between organizations may be spurious if only traditional measures of fit are used (Table 3). These challenges to theories affect the analysis of the strategies of the three types of business reviewed in this article.

[Insert Table 3 about here]

Foreign Investors' Entry Strategies

RBT have been applied to analyze how foreign entrants can manage their JVs with, or acquisitions of, local firms, including issues such as partner selection, organizational learning, and post-acquisition restructuring. However, researchers face major challenges in identifying the resources and change processes that create value in the specific context.

Complementarity of resources is believed to be crucial for the success of JV and acquisitions, yet what resources are complementary? In a rapidly changing environment, local firms need to reconfigure their resources. Thus, they are interested in using alliances with MNEs to outcompete their *local* rivals (Fahy et al., 2000) and they seek partners with financial assets, technical capabilities, and marketing savvy (Hitt et al., 2000, 2004). On the other hand, foreign investors seek primarily local partners that help them to gain access to local markets (Hitt et al., 2000). They would thus seek local resources such as brands and distribution channels, as well as partners that are capable to receive and adopt transferred production technology. Beyond the specific country, MNEs may also seek region-specific capabilities, such as local firms' existing export relationships in CEE beyond their home country. Yet, Uhlenbruck (2004) finds, surprisingly, that acquirers on average do *not* benefit from these resources, as target firms' export market position in other CEE countries does not seem to enhance performance.

A good organizational fit between two acquiring and target firms is usually regarded as a key aspect of complementarity. Yet, a puzzle has emerged. Surprisingly, Uhlenbruck and De Castro (2000) find that the higher the degree of organizational fit between SOE targets in CEE and their Western acquirers (e.g., both focusing on control and reward systems), the *worse* the post-acquisition performance. Uhlenbruck and De Castro (2000) speculate that given the different institutional contexts, “an appearance of organizational fit may be illusory” (p. 393). However, they cannot ascertain how and why seeming organizational fit can lead to a *negative* impact on post-acquisition performance. This result is probably due to the lack of attention of Western MNEs on these areas (e.g., control and reward systems) whereby there is some seeming “fit”; in reality, these areas probably should have been changed as much as other areas without such fit. Thus, the assessment of partners’ resources has to pay careful attention to contextual variables and adopt selection criteria and analytical instruments accordingly. More generally, these findings point to the hazards of applying measures of organizational resources, such as fit, that have been validated by research in the West, to another context.

Several studies point out that to make a JV or an acquisition work in CEE often requires massive resource transfers from the foreign parent, and additional resource transfers from the foreign parent are a major determinant of business performance (Uhlenbruck and De Castro, 2000). Strong foreign parent support is also identified as a resource critical for JV success, although imbalanced resource contributions may lead to imbalanced management control, which in turn may be harmful for performance (Steensma and Lyles, 2000). The need for new financial and managerial resources has led to many acquisitions where foreign partners transfer more additional resources to the new venture than those contributed by local firms, such that the local operations are entirely transformed. Thus acquisitions after only a few years may resemble greenfield projects – a phenomenon called “brownfield” (Meyer and Estrin, 2001).

A major stream of research investigates how foreign investors can facilitate organizational learning in JVs and acquired firms in CEE. This line of work is exemplified by a series of studies focusing on JVs in Hungary by Lyles and colleagues (Lyles and Salk, 1996; Steensma and Lyles, 2000; Lane et al., 2001; Dhanaraj et al., 2004). Their findings support a core RBT assertion that capabilities to learn from partners are tacit resources underlying the competitive advantage of a firm – or a JV in this case. In particular, these studies focus on how market-based capabilities can be transferred from MNE parents and learned by the JVs. Such learning not only entails absorbing new ways of doing business, but also requires some "unlearning" of existing routines not conducive under the new circumstances. Lane and colleagues (2001) present a differentiated concept of absorptive capacity in JVs, and test its impact on learning and performance. They find that some aspects influence learning as predicted, while other aspects, surprisingly, do not influence learning, but benefit performance directly.

Recently, Dhanaraj et al. (2004) investigate how relational embeddedness impacts on the transfer of explicit and implicit knowledge. They find that tacit knowledge transfer is influenced by three proxies for embeddedness, namely, trust, shared systems, and parent-JV tie strength. Distinguishing between young and mature JVs, they report that all three variables are significant for mature JVs, while the tie strength is not significant for young JVs. In contrast, explicit knowledge transfer is not dependent on relational embeddedness for mature JVs, yet for young JVs tie strength and shared systems matter. This study thus provides detailed insights on relational embeddedness as a resource enhancing JV knowledge transfer and thus performance. Further research into the concepts of absorptive capacity (e.g., Minbaeva et al., 2003) and relational embeddedness may enhance our understanding of what resources enable organizations to receive, adopt, and apply external knowledge.

Also broader research questions merit attention. First, which locally held resources induce foreign investors to acquire a firm even though they have to engage in costly deep restructuring and invest considerable additional resources to create a competitive entity? Second, how can acquirers manage the massive restructuring in brownfield acquisitions (Meyer and Estrin, 2001) without falling into the traps of imbalanced managerial control (Steensma and Lyles, 2000) or alienation of the indigenous managers and employees? The integration may be complicated by large differences in organizational cultures, structures and processes, especially in acquisitions related to privatization (Uhlenbruck and De Castro, 1998; Meyer, 2002). Some authors thus emphasize the need to move cautiously such as to retain, activate, and develop latent local resources (Michailova, 2002; Meyer and Lieb-Dóczy, 2003), while others show how radical change can be successful (Blaszejewski and Dorow 2003). Overall, while the need for extensive knowledge transfer and deep restructuring is widely acknowledged, the empirical verdict on the merits of alternative post-entry strategies is still out.

Incumbent's Restructuring Strategies

RBT research has addressed two aspects of the restructuring of former SOEs: (1) to what extent can inherited resources provide a basis for competitiveness under changed circumstances, and (2) how can firms reorganize and enhance their resources such as to regain competitiveness? On the first issue, research suggests that – contrary to common perceptions – inherited resources may be important for success in the transition. For example, in the Czech Republic, Makhija (2003) demonstrates that under conditions of radical environmental change, firms' resource endowment provides better predictors of corporate performance than conventional industrial organization variables. While many studies document the lack of critical resources in CEE firms, it is important to note that some firms have been relatively well endowed. The East German Zeiss in Jena, for instance, has developed distinct capabilities and a moderately successful export record (Kogut and Zander, 2000). Likewise, some East German symphony orchestras are found to be relatively successful at adaptation, which is due to "a joint function of an orchestra's prior strength … and the kinds of leadership initiatives taken by orchestra leaders and players [during the transition]" (Allmendinger and Hackman, 1996: 337). Among inherited resources, this study points to an important resource to which the CEE literature has surprisingly not paid much attention: leadership (for exceptions see Fey et al., 2001; Elenkov, 2002).

Even if inherited resources are of potential value, they have to be reorganized. However, early restructuring strategies following standard Western advice did not seem to succeed. Surprisingly, asset restructuring with reduction of the typically high degree of diversification of post-socialist enterprises on average *reduced* the performance of firms in the Czech Republic (Makhija, 2004; Spicer et al., 2000). Arguably, many Western advisors lacked an in-depth understanding of how indigenous resources can be put to best use in the transition context.

RBT focus on the properties of resources and capabilities that may enable firms to regain competitiveness, such as the ability of an organization to learn and to change flexibly. Newman (2000), based on case research in the Czech Republic, analyzes the internal processes of learning and transformation and argues that, with weak absorptive capacity, a very big learning gap may actually inhibit organizational change. Notably, the cognitive ability of managers and employees to envisage major change and to identify and implement radically different routines is limited. In consequence, the relationship between the extent of organizational change and the gap between actual and aspired performance takes actually an inverse-U-shaped form; if environmental change is too radical, organizations may be paralyzed rather than striving to adapt. Newman's (2000) argument is taken one step further by Uhlenbruck et al. (2003), who posit that internal consistency and strategic flexibility are key to successful change process.

Scholars taking an evolutionary perspective consider the observed continuity as natural (Whitley and Csaban, 1998). When facing change – even radical change – in their environment, organizations evolve, rather than reincarnate themselves overnight. Consequently, Spicer et al. (2000) suggest that radical privatization broke up existing industry networks and thus inhibited the effective use of co-specialized resources. Overall, an emerging contribution out of CEE research seems to refute what may be called the "Lego" view of the firm, in which firms can be assembled from modules of resources (a la Lego toy blocks), taken out from CEE firms, and imported from the West. Much of the organizational economics literature implicitly assumes that resources ("factors of production" in the economics terminology) can be (re)combined in varying proportions such as to optimize a production function. However, studies analyzing enterprise transformation with an evolutionary perspective (Spicer et al., 2000; Meyer and Lieb-Dóczy, 2003) emphasize that the feasibility of alternative combinations of resources is path dependent because old knowledge and routines are to some degree "sticky," and that organizational change may require significant efforts of "unlearning" before firms can embark on successful new learning (Newman, 2000).

Thus, RBT may be more suitable than organizational economics theories to analyze change processes. The research on organizational change in CEE illustrates that indigenous resources may be a source of value creation even in a fundamentally changed environment. Yet, they require major reconfiguration, and RBT illuminate the processes by which such resources are acquired, adopted, and exploited. However, this research needs to be taken further, and RBT ought to incorporate contextual variables more explicitly in the theoretical reasoning.

Entrepreneurs' Entry and Growth Strategies

The importance of new firm creation for economic transition and growth is widely acknowledged (Peng, 2001a; McMillan and Woodruff, 2002; Estrin et al., 2005), yet entrepreneurship is still a very young field of research in CEE. Although the transition may have opened opportunities for entrepreneurship throughout the region, the actual number of people engaged in entrepreneurial activity is lower in CEE than in countries at similar levels of income. In the index of total entrepreneurial activity, Russia ranked as the second-lowest among 47 countries surveyed in the Global Entrepreneurship Monitor 2002 (Reynolds et al., 2002).

RBT focus on the resources that entrepreneurs can draw upon to explain why CEE countries are relatively weak in developing new firms. Perhaps the single most important driver of start-ups' resourcefulness lies in their founding entrepreneurs (Peng, 2001a; Puffer and McCarthy, 2001). Since entrepreneurship inevitably implies some deviation from average behavior in any given population, some entrepreneurial traits (e.g., a strong achievement orientation, a strong locus of control, and a high risk-taking propensity) seem to transcend cultural values and are found in many countries (Peng, 2000).

Beyond their own resourcefulness, entrepreneurs would have to access complementary resources including human and financial capital. Thus, they would have to be able to employ people and raise capital, which under conditions of imperfect markets is difficult (McMillan and Woodruff, 2002; Estrin et al., 2005; Kriauciunas, 2006). Batjargal (2003) investigates the impact of various aspects of networks for small firm performance in Russia, and finds that that in particular weak ties and the resourcefulness of network contacts enhance revenue growth.

The question of whether entrepreneurs have access to suitable complementary resources arises in particular when they focus on international markets. An interesting finding is that according to a study in Hungary, local start-ups, if they internationalize aggressively, end up having a *lower* likelihood of survival (Lyles et al., 2004). This may be at odds with the advice for CEE firms to seek export markets to counter-balance the lack of domestic demand during the transition. However, firms have build appropriate resources before internationalizing, and this study is a cautionary reminder of the risks of premature overseas ventures for local start-ups.

While these are interesting observations in single country studies, we still lack systematic studies comparing the profiles of large samples of entrepreneurs in CEE with those elsewhere. The processes of resource accumulation and exploitation by entrepreneurs during the transition are not well understood. First steps have been made to explore both the personality traits of entrepreneurs and the resources that they are able to access. RBT may guide further research to deepen our understanding of entrepreneurship in highly imperfect markets.

Evaluation of Theory Application and Development

While generally supporting RBT assertions, CEE research has also encountered some new puzzles and raised new questions. In particular, CEE research highlights a previously overlooked aspect, that is, the types of resources creating and sustaining competitive advantage vary across contexts both cross-sectionally (such as developed versus transition economies, and Central Europe versus former Soviet Union) and longitudinally (such as during the central planning era versus during the transition era). While inherited resources may still be valuable, many local firms do not possess many of the normal resources of Western businesses. Thus, at least initially, adaptation of existing resources and development of new resources are crucial.

In different contexts, competitive advantages are gained on the basis of different resources, especially with respect to capabilities grounded in human capital. For instance, top management and leadership skills, as well as organizational culture may vary considerably across institutional contexts. Future research ought to investigate these variations, and link contextual variables such as local institutions with the processes of resource development and exploitation. Moreover researchers may investigate further how institutional environments modify internal resource reconfiguration processes and integrate this link into rigorous theoretical reasoning and empirical analysis, possibly by incorporating RBT and IT (Filatotchev et al., 2003).

INSTITUTIONAL THEORIES

Institutional Theories in a Transition Context

Since the 1980s, IT have become a major perspective in the social sciences. Institutions are typically defined as the "rules of the game in a society" (North, 1990: 3), which include formal rules (laws and regulations) and informal constraints (customs, norms, and cultures).[4] The core claim of IT is that "actors pursue their interests within institutional constraints" (Ingram and Silverman, 2002: 1). While on the surface this proposition does not sound ground-breaking, its value becomes more evident when one appreciates the historical neglect of institutions in much of IB and management research (until recently). Primarily developed in mature market economies, TCT, AT, and RBT model firms and markets independent of environmental peculiarities. As a result, important institutional factors influencing such markets (e.g., regulations and norms) have often been taken for granted by management researchers.

In contrast, CEE researchers increasingly realize that institutions are much more than background conditions, and that "institutions *directly* determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy and to create competitive advantage" (Ingram and Silverman, 2002: 20, added italics; see also Carroll et al., 1988). The institutional

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[4] Within the broad institutional literature, there are substantial debates, such as those between institutional economists and sociologists. However, in the relatively disciplinary "neutral" fields of IB and management research, scholars have generally avoided participating in these discipline-based debates and taken the liberty to take the best available insights that can best inform the research questions at hand (see Peng and Heath, 1996; Peng, 2003). This integrative approach is also recommended by Scott (1995). In this article, we choose to follow this approach and do not engage in the debates within various institutional subfields. Specifically, we refer here to "institutions" in the external environment of the firm as analyzed in economics (North, 1990) and sociology (Scott, 1995). This concept of "institutions" incorporates the frequently used concept of culture, which is "a substratum of institutional arrangements" (Hofstede et al. 2002: 800). Therefore, we interpret studies dealing with cultural differences to be within the broader institutional literature focusing on the *informal* aspects of institutional constraints.

transitions sweeping CEE, defined as “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players” (Peng, 2003: 275), highlight the value of IT and also the hazard of failing to appreciate the institutional forces. As a result, CEE research, which coincided with the emergence of IT research in IB and management in general in the 1990s, has played a major role behind the rising influence of this perspective.

[Insert Table 4 about here]

Foreign Investors’ Entry Strategies

Institutional differences are particularly noted by MNEs operating in multiple institutional contexts. Formal rules establish the permissible range of entry strategies (e.g., with respect to equity ownership) and set the stage for possible bargaining between investors and authorities (Brouthers and Bamossy, 1997; Henisz, 2000; Ramamurti, 2001). Moreover, crucial in CEE, informal institutions such as managerial norms and values moderate TC and consequently affect entry decisions (Meyer 2001b). Even decision-makers’ personal emotions, which are influenced by informal institutions, have been shown to influence foreign investments (Van de Laar and De Neubourg, 2005).

The role of institutions is particularly important in acquisitions. In CEE, the institutions surrounding privatization set the context for foreign acquisitions, which have a direct bearing on the post-acquisition strategies (Meyer, 2002) and performance (Uhlenbruck and DeCastro, 2000). Other aspects of entry strategies, such as timing and location, may also be subject to formal and informal institutional constraints. For instance, industry-specific regulation and conditions for tenders to exploit natural resources influence investors’ strategies and the acceleration of their commitment (McCarthy and Puffer, 1997).

While most research in this area has focused on the impact of formal institutions on entry strategies, the recognition of informal institutions (North, 1990) is relatively recent. Peng (2003) hypothesizes that during the early phase of transition when formal market-supporting institutions are less well developed and informal constraints dominate, foreign entrants are more likely to use JVs and alliances as opposed to wholly owned subsidiaries to enter CEE. This is supported by Meyer (2001b) who finds that foreign investors are more likely to use wholly-owned ventures in the CEE countries with more advanced institutional development.

Institutional differences moreover affect operations spanning cultural boundaries because they face differences in informal institutions *within* their organization (Child and Markóczy, 1993; Michailova, 2002). For instance, established business practices in the West may not have the same effect if applied in MNE affiliates in post-socialist societies. Thus, Fey and Björkman (2001) report that in Western affiliates in Russia, teamwork combined with group-based reward systems has a positive effect when applied to non-managerial employees, but *not* for managers. This may be due to the traditionally hierarchical structure of CEE management and its discouragement of taking risk and responsibility.

Overall, the adaptation of strategies, structures, and processes to institutional idiosyncrasies has been recognized as a major challenge for managers. IB and management research has so far taken only first steps to explore these linkages, and to provide advice on how MNE can manage these challenges.

Incumbents' Restructuring Strategies

IT have been applied to analyze various aspects of local firms' restructuring. First, scholars aim to understand the antecedents in terms of the business cultures within CEE organizations. Second, scholars have investigated the phenomenon of widespread use of network-based interaction between agents and firms, and used this observation as a starting point to develop an institution-based view of business strategy (Peng and Heath, 1996).

The first stream of research has applied IT to study local incumbents or individuals. Many studies take an "East versus West" perspective, focusing on differences of national cultures as a result of institutional differences (Pearce et al., 2000; Welsh et al., 1993). A common starting point is the argument that socialism has created a distinct "bloc culture." For example, Frese and colleagues (1996) find that workers in eastern Germany show less initiative at work than their western German counterparts, and that patterns of individual behavior in eastern Germany are more similar compared with its neighboring countries in CEE than with western Germany. Similarly, Makhija and Stewart (2002) document a lower level of willingness to take risk among Czech managers, relative to US peers.

The "bloc culture" has been explored in several studies describing distinct institutional characteristics in transition economies. For example, Pearce and colleagues (2000) argue that because of the communist "neotraditionalist" political system, CEE organizations are highly particularist rather than universalist – that is, employees are rewarded based on who they are and what relationship they have with the persons in power, rather than based on some universal, merit-based general rules. The influence of such institutional factors, however, competes with that of personal and professional characteristics.[5]

Cultures, and thus informal institutions, are often presumed to be constant, but CEE research has demonstrated that this is not the case. Many studies cited above relate cultural differences to different past and present institutional frameworks. This implies that they would fade away as CEE institutions converge with those in Western Europe. The region is going through a major cultural upheaval, as many individuals were abruptly confronted with Western culture represented by marketing, media, and consultants – a phenomenon called "collective

[5] For instance, Markóczy (2000) finds that common beliefs among individuals in Hungarian firms are more strongly associated with membership in the same functional area than with nationality.

culture shock” (Feichtinger and Fink, 1998). Thus, cultures change over time. For instance, younger Russians (under 30 years of age) have radically different value systems than the older generation (Ardichvili and Gasparishvili, 2003). However, some scholars observe fundamental cultural differences based on *national*, rather than bloc, culture, which are likely to be more persistent (Vlachoutsicos, 2000; Buck 2003). CEE research has begun to analyze the dynamic and mutual interaction between businesses and changing institutional environments. This research may further explore the persistent and transient aspects of culture, as well as the determinants of cultural change.[6]

The second major line of IT research has analyzed how differences in informal institutions shape the ways local incumbents conduct their business. A key insight is the identification of network-based strategies during the transition. Many CEE countries’ culture historically favors relying on personal relationships (e.g., *blat* in Russia) to get things done (Ledeneva, 1998). The shortage economy during the communist era has institutionalized some of the informal networking practices. Therefore, it is not surprising that CEE managers tend to resort to personal connections to achieve organizational goals during the transition.

Peng and Heath (1996) argue that the prevalence of network-based strategies is a reaction to the institutional frameworks in transition economies. The institutional conditions influence the relative merits of the three firm growth strategies featured in the literature: (1) Generic expansion calls for an internal supply of resources such as capital, technology, and managers. (2) Mergers and acquisitions (M&As) require functioning strategic factor markets. (3) Developing networks and alliances needs to build trust and mutual understanding. While the institutional

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[6] A particularly fruitful opportunity for research on cultural change arises with the expansion of the EU, which now incorporates most Central European and Baltic countries. Given that individuals and firms in EU member countries are presumably more homogenous than those in non-member countries, it will be interesting to hypothesize the *convergence* of individual beliefs and business strategies between Central and Western European EU member countries and the *divergence* between them and the former Soviet Union countries (except the Baltics, which have joined the EU).

frameworks supporting the first two strategies are formal ones, those for the last strategy are largely of an informal nature (Peng, 2000, 2003).

In CEE, generic expansion, based on firms' own resources, has typically been infeasible, at least initially, because many firms had to downsize. Second, handicapped by a lack of functioning formal capital markets, M&As were not realistic either. In consequence, informal, network-based growth strategies were favored by a variety of firms (Peng and Heath, 1996). These strategies emphasize intangible assets embodied in managers' micro, interpersonal ties and firms' macro, interorganizational relationships with various domestic and foreign partners – in short, a *micro-macro* link. Throughout CEE, the emergence of such a micro-macro link has been reported in the Czech Republic (Spicer et al., 2000), Hungary (Stark, 1996), Russia (Ledeneva, 1998; Batjargal, 2003; Michailova and Worm, 2003), and Ukraine (Bridgewater, 1999).

The nature of relationships and the intensity of networking evolve with institutional change such that future strategies may be less reliant on personal networks (Peng, 2003). However, how institutional changes translate into behavioral change at the individual and firm levels remains a major research agenda. In particular, networks themselves may become institutionalized and a source of inertia, such that changes in formal institutions may only after considerable time lags lead to more arm's-length transactions.

Entrepreneurs' Entry and Growth Strategies

IT research has identified crucial barriers to the establishment, survival and growth of entrepreneurial firms (Estrin et al., 2005). A major World Bank project has identified the costs and time associated with establishing a new firm (Djankov et al., 2002). By many of these indicators, CEE is approaching West European levels, but with crucial exceptions. For example, in Romania, it takes 97 days and 54% of per capita GDP to set up a new business; in Russia, 57 days and 43%; and in Hungary, 39 days and 101%. In contrast, in the United States, it only takes 4 days and 1.7% of per capita GDP to start up a new venture; in Denmark, 3 days and 11% (Djankov et al., 2002: 18-20).

Even after overcoming these barriers to entry, entrepreneurs have to operate without effective formal market-supporting institutions. Some authors emphasize the lack of credit for small firms (Pissarides et al., 2003; Kriauciunas, 2006) while others see the main obstacles in a wide range of informal institutions (Johnson et al., 2000; McMillan and Woodruff, 2002; Aidis and Mickiewicz, 2004), such as "tax and regulatory burden, combined with the plunder by the numerous tax and regulatory authorities," and "incumbents' use of authorities and/or racketeers to erect barriers against new entrants" (Kontorovich, 1999).

Like privatized incumbent firms, many newly established firms seek informal institutional support, such as personal networks, informal credit, and bartering, to substitute for formal institutions such as courts (McMillan and Woodruff, 2002: 162). As a result, entrepreneurial networking in transition economies has been noted for its intensity (Peng, 2001a). Since smaller firms are disproportionately affected by market imperfections, they often have to intensify their networking activities with larger, more legitimate, and more powerful players (McMillan and Woodruff, 2002; Peng, 2001a). Theoretically, one would expect that the intensity of such networking would decrease as start-ups focus on more market capability-based strategies when market-supporting institutional transitions deepen (Peng, 2003). Yet, we still lack clear empirical evidence on which institutions affect the pattern of networking, and how institutional change would change the intensity of networking.

Evaluation of Theory Application and Development

IT thrive because of their simplicity in logic and complexity in operationalization (McKinley et al., 1999). While few will dispute the simple proposition that "institutions matter," how they matter remains a subject not only of intense scholarly interests but also of significant public policy debates. In the privatization literature, an influential school of thought argues that upon privatizing SOEs, effective restructuring would *presumably* follow (Boycko et al., 1995: 150). However, in the absence of market-supporting institutions, the "triumphant completion" of privatization in countries such as Russia (Boycko et al., 1995: 8) may end up being a "premature verdict" (Williamson, 2000: 610). IB and management research on CEE has reinforced and enriched IT, by arguing that "markets are *always* embedded in institutions. There is no atomistic market of textbook theory, because such markets cannot be observed in practice" (Kogut and Spicer, 2002: 9, added italics). On the other hand, despite rapid progress, leading institutional theorists confess, "we are still very ignorant about institutions" (Williamson, 2000: 595).

The existing non-CEE institutional literature tends to flow from a set of known institutional "rules of the game" and then to explore certain organizational responses (Ingram and Silverman, 2002; North, 1990). As a result, the literature does not provide a ready set of answers to new questions emerging in CEE (Table 4). For instance, "How do organizations play the new game when the new rules are not completely known?" (Peng, 2003: 283), and how does rapid institutional change co-evolve with organizational change? CEE research has moved the frontier of IT research by providing some *initial* answers (or experiments) as to how these relevant, interesting, but largely untackled questions can be entertained. These efforts thus lead to the emergence of an institution-based view of business strategy, which complements the existing industry- and resource-based views (Peng, 2006). For instance, the refutation of the "Lego" model of the firm (discussed earlier) directly speaks to the importance of the IT.

CONCLUSION: A FUTURE RESEARCH AGENDA

The “natural experiments” in transition economies continue to generate unique research needs and opportunities. Table 5 outlines a number of puzzles and questions for future research. First, TCT and AT research faces a context where some of their standard assumptions do not apply. This requires finer-grained modeling of incentives and agency relationships, incorporating formal as well as informal lines of power of various stakeholders in the specific context.

[Insert Table 5 about here]

Future RBT research may explore which resources are most crucial in such environments, and how context-specific resources are developed by interaction of global and local processes. A second line of research may analyze the adaptation of resources transferred from mature market economies to transition economies and the absorptive capacity facilitating such transfer and adaptation. At a more general level, the creation, transfer, and exploitation of resources during radical change merits analysis grounded in an evolutionary perspective.

Scholars analyzing the impact of institutions on individual and firm behavior may want to develop this research towards a comprehensive theory. This would require finer-grained explanations of *how* formal and informal institutions matter. At least two areas await further development. First, thus far, much institutional analysis has primarily focused on the comparison between CEE and the West, the latter often being represented by the United States. While useful to a certain extent, such comparison fails to explore institutional similarities and differences in other settings. Using for example Italy or France as a benchmark, it would be less surprising to find an institutional environment in which personal networks are important and where SOEs contribute a major share in the economy. In addition, variations across transition and emerging economies (e.g., CEE versus China) remain poorly understood. So far only few studies directly compare business in China and a CEE economy (Child and Markóczy, 1993; Buck et al., 2000; White and Linden, 2002; Michailova and Worm, 2003; Hitt el al, 2004).

Another research direction is to sort out the "boiling cauldron of ideas" within the broad "church" called new institutionalism (Williamson, 2000: 610). At present, IB and management research has identified a number of institutionally derived forces, such as transaction costs (Meyer, 2001b), political risks (Henisz, 2000), and relational networks (Peng and Heath, 1996). While these mechanisms are, to a large degree, complementary, future research needs to integrate them in more comprehensive theorizing.

While being the first in the literature to comprehensively review theoretically driven CEE research in IB and management, this article is not without its limitations. First, it fails to cover non-management research.[7] Second, similar to Werner (2002: 278), our identification of the three sets of leading theories is based on our own readings of (and contributions to) the literature. This admittedly reflects some of our own biases. Finally, we have only focused on one region, CEE. However, similar phenomena also arise in research on other emerging economies (Wright et al., 2005). For example, Khanna and Rivkin's (2001) work on diversification strategies in emerging economies clearly points to the impact of institutional factors on business strategies. Estrin and Meyer (2004) report that the brownfield phenomenon first identified in CEE (Meyer and Estrin 2001) is also found as far away as Egypt and India.

Overall, we anticipate that future research will integrate currently separate research efforts in different regions with more comparative studies, including CEE and other regions such as Asia, Latin America, and Africa. Moreover, we expect that some of the issues analyzed in CEE are of interest to other regions. For instance, CEE has been at the forefront of privatization.

[7] While we acknowledge that the lack of coverage of non-management research on CEE is a limitation, it is important to note that management is the largest contributing discipline to IB research in general and to *JIBS* in particular (Peng, 2001b: 822). In addition, relative to management, other business disciplines such as accounting,

Thus, issues of post-privatization governance as well as integration of acquired former SOEs are likely to emerge in other regions as well. More broadly, we believe that the institution-based view of business strategy is likely to contribute to the global strategy research agenda. In conclusion, we hope that our discussion of the pertinent theories will stimulate future research not only in CEE but also well beyond CEE.

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finance, marketing, and MIS have less coverage on IB (Werner and Brouthers, 2003: Tables 1 and 2) and much less on CEE.

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Table 1. Leading Theories, Organizational Domains, and Representative Studies[a]

Theories	Foreign investors' entry strategies	Local incumbents' restructuring strategies	Entrepreneurs' entry and growth strategies
Transaction cost/agency theory	Brouthers et al. (1999) Meyer (2001b) *** Nakos & Brouthers (2002) Brouthers & Brouthers (2003) ***	Buck et al. (1998) Filatotchev, et al. (2000, 2003) *** Peng et al. (2003)	No studies identified
Resource-based theories	Child & Czegledy (1996) Lyles & Salk (1996) McCarthy & Puffer (1997) Steensma & Lyles (2000) Uhlenbruck & DeCastro (2000) *** Fey & Beamish (2001) *** Lane et al. (2001) Meyer & Estrin (2001) Minbaeva et al. (2003) Meyer & Lieb-Dóczy (2003)	Clark & Soulsby (1995) *** Allmendinger & Hackman (1996) *** Suhomlinova (1999) *** Spicer et al. (2000) ## *** Dobrev (2000) Newman (2000) *** Uhlenbruck et al. (2003) Makhija (2003)* Sorge & Brussig (2003)	Puffer & McCarthy (2001) Batjargal (2003) Lyles et al. (2004)
Institutional theories	Child & Markóczy (1993) * Brouthers & Bamossy (1997) Bridgewater (1999) * Buck et al. (2000) # Fey & Björkman (2001) Brouthers & Brouthers (2001) Michailova (2002) Meyer (2002)	Carroll et al. (1988) Welsh et al. (1993) Luthans et al. (1993) Puffer (1994) * Frese et al. (1996) Peng & Heath (1996) ## Whitley et al. (1996) Ralston et al. (1997) Whitley & Csaban (1998) Mueller & Clarke (1998) Weber & Hsee (1998) May et al. (2000) Pearce, et al. (2000) Makhija & Stewart (2002) White & Linden (2002) Buck (2003) Peng (2003) # Csaban et al. (2003)	McCarthy et al. (1997) Peng (2001a) ** Ardichvili & Gasparishvili (2003)

Notes: a. The listed studies are representative ones. This table is not an exhaustive list of relevant articles. * also draws upon TC, ** also draws upon RBT, *** also draws upon IT. # covers both foreign and local firms. ## covers both local incumbents and start-ups.

Table 2. CEE Issues Associated with Transaction Cost Economics and Agency Theory

Challenge to theory	***Implications***	***Methodological challenges***
TC are very high due to "weak" institutions and high uncertainty	Relative to developed economies, TC are even harder to measure in CEE, which lowers predictive power of the theory	Need for better direct and/or indirect measures, i.e., what contextual influences drive TC?
TC vary across markets, in different ways then in mature market economies	Need to identify which TC are of particular concern to which types of business transactions	
Agency relationships are complex and vaguely defined	Relationships are hard to model and predictive power of conventional models is weak	Need to capture both formal and informal sources of power governing principal-agent relationships

Table 3. CEE Issues Associated with Resource-Based Theories

Challenge to theory	***Implications***	***Methodological challenges***
Contextual conditions influence which resources provide competitive advantage (and fulfill the VRIO criteria)	Capabilities such as strategic flexibility and context-specific resources may be more important, while certain traditional resources are non-transferable	Identification of resources that provide competitive advantage in the given context, and new measures for them. Proxies used in Western research may not be transferable
Foreigners (investors, scholars) may face obstacles in recognizing the idiosyncratic qualities and importance of resources in an unfamiliar context.	Lack of understanding of the context inhibits the analysis of resources, such that, for instance, perceptions of organizational fit may be spurious.	Identification and measurement of key resources needs to incorporate the context.
Contextual conditions moderate processes of developing, transferring, and exploiting resources	Acquisition of tacit knowledge from other organizations such foreign partners, catch-up, organizational learning, "unlearning" old routines	Need for new models and theories to capture these processes under consideration of contextual variables
Change of resources are evolutionary processes and thus often gradual and interdependent, but occasionally radical and discontinuous	Change processes such as combination of resources are hard to fine-tune and may lead to unexpected outcomes	Understanding and modeling of incidences of radical and discontinuous change within evolutionary processes

Table 4: CEE Issues Associated with Institutional Theories

Challenge to theory	***Implications***	***Methodological challenges***
Institutions, especially informal ones, are highly idiosyncratic, and may vary along dimensions not previously analyzed	Businesses need to adapt to each institutional context, e.g. for effective HR strategies	Need for good constructs and measures to capture countries' informal institutions (in addition to formal institutions)
Institutions are in constant change, creating a highly volatile environment and uncertainty about future institutional arrangement.	Organizational forms of both local and foreign businesses have to be designed for flexibility, and be frequently readjusted.	Need to identify and measure the changes and impact of both formal and informal institutions over time. Need to study the impact of institutional uncertainty and volatility on business
Cultural change under foreign influence, and emergence of subcultures	Contrary to what is often assumed, culture may not be a constant	Need to assess of culture need to be regularly updated, and the change processes as such be studied
Rapid institutional change interacts with organizational change	Rapid co-evolutionary change between institutions and organizations	Need to observe, record, and model the interdependent change processes

Table 5. Some Puzzles and Future Questions

Theories	**Foreign investors' entry strategies**	**Local incumbents' restructuring strategies**	**Entrepreneurs' entry and growth strategies**
Organizational economics theories	How do variations of transaction costs between countries and over time explain variations of entry modes (Brouthers and Brouthers, 2003)?	Why are outside board directors and new managers, hypothesized by standard AT models, *unable* to make a difference in firm performance (Peng et al., 2003)?	What are the appropriate governance structures for local start-ups?
Resource-based theories	Why is perceived organizational fit between foreign and domestic firms, long regarded as a crucial resource for acquisition success, *negatively* correlated with post-acquisition performance (Uhlenbruck and De Castro, 2000)?	How do firms manage the reconfiguration of their resources necessitated by a changing environment (Newman, 2000; Uhlenbruck et al., 2003)?	Why do some start-ups which aggressively internationalize, often regarded as a crucial capability to help them succeed, have a *lower* likelihood of survival (Lyles et al., 2004)?
Institutional theories	How do informal institutions complement formal institutions to explain foreign investor's entry strategies (Meyer, 2001b; Bevan et al., 2004)?	Recognizing that culture is neither constant nor static, how do change processes of national culture and organizational change interact?	Will start-ups de-emphasize an intense, networking strategy and migrate toward a more market capability-based strategy as institutional transition deepens (Peng, 2003)?

Appendix: Mapping the Contributions

In preparation for this article, we have systematically collected all CEE-related articles in 13 leading IB and management journals published during 1986-2004 (inclusive). They include 137 articles published by eight North America-based journals, namely, the *Academy of Management Journal* (9 articles), *Academy of Management Review* (4), *Administrative Science Quarterly* (2), *Journal of Business Research* (8), *Journal of International Business Studies* (26), *Journal of International Management* (5), *Journal of World Business* (72), *Organization Science* (4), and *Strategic Management Journal* (7). A total of 81 articles are published by four Western Europe-based journals, namely, *International Business Review* (21), *Journal of Management Studies* (11), *Management International Review* (19), and *Organization Studies* (30). A full list of these 218 articles can be found in the literature review section of the *JIBS* website (http:// http://copenhagen.jibs.net/LitReviewsInfo.asp).

Table A reports some summary data on this diverse research. In columns 1 and 2 we report the leading individual and institutional contributors ranked in terms of the weighted numbers of publications in these top journals. Russia expert Sheila Puffer and her institution, Northeastern University, emerge as the most prolific contributors. Columns 3 and 4 list the most frequently cited papers in the SSCI database as of December 31, 2004. The most cited works include papers that cover both CEE and Asia, be it theoretical papers such as Peng and Heath (1996), empirical studies such as Child and Markóczy (1993), Ralston et al. (1997), and Hitt et al. (2000), or the introduction to a special issue by Hoskisson et al. (2000). The most cited papers analyzing business in a specific CEE country are Frese et al. (1996) on worker motivation in East and West Germany and Newman (2000) on enterprises in the Czech Republic.

Tabulating citations in this form is not without methodological problems. First, because we only systematically cover IB and management journals, we do not pay systematic attention to influential research in economics (e.g., Estrin [2002], Macmillan and Woodruff [2002]) and sociology (e.g., Stark [1996], Ledeneva [1998]). Second, some influential research has been published as books, such as Peng (2000: 46 citations), Johnson and Loveman (1996: 23), Meyer (1998: 23), Estrin et al. (1997: 19), and Antal-Mokos (1998: 18). However, because books are not clearly identified in SSCI, we are unable to provide exact citation counts for all relevant books. Finally, the SSCI database as well as our own database has a better coverage of US-based journals than of European or Asian journals. Notably, there is no CEE-based management journal included in the SSCI database. This probably leads to relatively stronger ratings for scholars cited in North American journals, compared to those who may be influential within the CEE region.

Table A: Contributor Analysis

	1 Most prolific individual contributors (number of publications) **a**	2 Most prolific institutional contributors (number of publications) **a**	3 Citation analysis, full dataset (1986-2004) **b**	4 Citation analysis, articles published in the last five years (1999-2004) **b**
1	Sheila Puffer (5.7 / 10)	Northeastern University, USA (10.2 / 12)	Peng & Heath, AMR 1996 (79)	Hoskisson et al., AMJ 2000 (46)
2	Detelin Elenkov (4.0 / 4)	Copenhagen Business School, Denmark (6.4 / 10)	Frese et al., AMJ 1996 (57)	Hitt et al., AMJ 2000 (40)
3	Daniel McCarthy (3.7 / 8)	Stockholm School of Economics[c] (5.2 / 8)	Child & Markóczy, JMS 1993 (52)	Newman, AMR 2000 (26)
4	Klaus Meyer (3.7 / 6)	University of Nottingham, UK (4.5 / 8)	Ralston et al., JIBS 1997 (51)	Uhlenbruck & De Castro, AMJ 2000 (20)
5	Livia Markóczy (3.5 / 4)	University of Cambridge, UK (4.3 / 5)	Lyles & Salk, JIBS 1996 (47)	Steensma & Lyles, SMJ 2000 (20)
6	Trevor Buck (3.1 / 8)	Indiana University, USA (4.2 / 8)	Hoskisson et al., AMJ 2000 (46)	Filatotchev et al. AMJ 2000 (15)
7	Keith Brouthers (3.0 / 8)	Ohio State University, USA (3.8 / 5)	Welsh et al., AMJ 1993 (42)	Lane et al., SMJ 2001 (16)
8	Klaus Uhlenbruck (3.0 / 6)	University of South Carolina, USA (3.7 / 4)	Hitt et al., AMJ 2000 (40)	Peng, AME 2001 (13)
9	Carl Fey (2.5 / 6)	University of California Riverside, USA (3.0 / 4)	Puffer & McCarthy, CMR 1995 (31)	Brouthers & Brouthers, JIBS 2001 (13)
10	Lance Brouthers (2.5 / 6)	Adelphi University New York, USA (3.0 / 3)	Filatotchev et al., CMR 1996 (29)	Spicer et al., AMR 2000 (12)
11	Ed Clark (2.5 / 4)	Georgetown University, USA (3.0 / 3)	Weber & Hsee, MSc 1998 (28)	Peng, AMR 2003 (11)
12	Mona Makhija (2.5 / 3)	Nottingham Trent University, UK (3.0 / 3)	Newman, AMR 2000 (26)	Meyer, JIBS 2001 (11)
13	Marjorie Lyles (2.4 / 6)	Texas A&M University, USA (2.7 / 7)	Holt et al., CMR 1994 (22)	Dobrev, OSt 2000 (11)
14	Igor Filatotchev (2.3 / 8)	De Montford University, UK (2.4 / 6)	Allmendinger & Hackman ASQ 1996 (21)	Fey & Bjorkman, JIBS 2001 (9)
15	Laslo Tihanyi (2.0 / 5)	Budapest U. of Econ. Science, Hungary (2.4 / 6)	Uhlenbruck & De Castro, AMJ 2000 (20)	Buck et al., JWB 2000 (9)
16	Snejina Michailova (2.0 / 2)	University of Wisconsin, USA (2.3 / 6)	Steensma & Lyles, SMJ 2000 (20)	Fey et al., IJHRM 2000 (9)
	Stanislav Dobrev (2.0 / 2)	University of Nebraska, USA (2.3 / 4)	Markoczy, AMJ 1997 (20)	Fahy et al., JIBS 2000 (9)
18	Mike Wright (1.9 / 7)	University of Washington, USA (2.3 / 4)	Child & Czegledy, OSt 1996 (20)	Pearce et al., OSc 2000 (8)
19	Mike Peng (1.8 / 3)	University of East London, UK (2.2. / 5)	Elenkov, CMR 1998 (17)	Michailova, AME 2000 (8)
20	Laslo Csaban (1.5 / 4) Richard Whitley (1.5 / 4)	University of Pennsylvania (2.0 / 3)	Ramamurti, JIBS 1992 (17)	Uhlenbruck et al., JMS 2003 (7)

Notes

a. Based on 218 publications in 13 top IB and management journals published during 1986-2004 (inclusive). These journals are the *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *International Business Review*, *Journal of Business Research*, *Journal of International Business Studies*, *Journal of International Management*, *Journal of Management Studies*, *Journal of World Business*, *Management International Review*, *Organization Science*, *Organization Studies*, and *Strategic Management Journal*. The first number is "adjusted" giving partial credit for all co-authored papers, and the second number refers to an author's total number of articles. See Lu (2003) and Peng (2001b) for details of this method.

b. Number of citations in brackets, as of December 31, 2004, according to the Social Sciences Citation Index

c. Stockholm School of Economics includes faculty of both campuses in Sweden and Russia.