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TALES FROM THE WILD EAST: TRADING WITH CENTRAL AND EASTERN EUROPE*

In the former system of trade in the countries of Central and Eastern Europe the State controlled imports and exports. Firms, both domestic and foreign, now have the potential to respond directly to local demand. The aim of the research was to identify how small firms in the South East of England who are exporting to Central and Eastern Europe, have responded to these developments. In particular the authors wanted to explore the stories respondents told about how they become involved in exporting and what their experience of this was.

The collapse of the communist regimes of Central and Eastern Europe has opened up new business opportunities for firms in the West. The former system of managed trade where the State controls imports and exports has given way to a more western, market based one with relatively open borders. Firms, both domestic and foreign, now have the potential to respond directly to local demand.

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SMEs and Exporting

A substantial literature has developed on the relationship between SMEs and exporting (Miesenbock, 1988; Sear, 1995). Much of the literature is concerned with identifying factors which contribute to export performance and success, although definition of criteria and measurement of performance remain problematical issues. Sear (1995) has categorised the literature into a number of groupings including management and product characteristics, com-

petitive pricing strategies, promotion and a range of internal and external factors. Cavusgil and Zou's (1994) study, although concerned with large firms, identified export marketing strategy, the firm's, international competence and managerial commitment as the key determinants of export performance. Sear (1995:29) concludes however that, because of the mixed results of the many studies, 'it is difficult to isolate particular characteristics of the firm and determine their results on the chosen success criteria'. Sear proceeds to propose a more holistic view of the process of exporting. This supports Miesenbock's (1988) conclusion that, in spite of an extensive literature based on empirical studies, there is still no conclusive theory of small business internationalisation.

There have been numerous attempts to theorise the process firms go through when they move from domestic markets and production to foreign markets and, in some cases, foreign production. Foreign market entry theory can be divided into three main approaches, following Young et al (1989), into economics based theories, stages of development models and business strategy approaches.

The economics approach (Dunning, 1981 and 1988; Vernon, 1966) is based largely on an analysis of costs, which are considered to determine the decision to export as well as the mode of market entry. The latter aspect has been developed particularly by Buckley and Casson

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(1985), especially with regard to the choice between exporting and foreign direct investment. The economics approach has been criticised for not considering sufficiently other determinants apart from costs (Buckley, 1991; Dunning, 1993).

The stages of development approach (Bilkey and Tesar, 1977; Root, 1987; Johanson and Wiedersheim Paul, 1975; Rugman, 1985) suggests that firms will develop their overseas activities in an incremental manner, moving from exports to foreign direct investment as their perception of risk decreases and familiarity with the foreign market increases. Root's (1987) model specifically includes collaborative approaches such as joint ventures as a mode of entry. The stages of development approach has been criticised for its assumption of linear development of involvement in foreign investment and a number of research studies (Hood and Young, 1983; Clark and Mallory, 1992) have provided contradictory evidence. In particular, knowledge and experience may enable firms to accelerate their entry into new markets.

The business strategy approach places greater importance on decision making and vested interests. This approach highlights the importance of factors such as 'psychic distance' (Klein and Roth, 1989). International Market Selection (see for example Papadopoulos and Denis, 1988) may be viewed as a framework from within which the firm develops its strategy on foreign markets. In this the firm's decision makers need to investigate amongst other things market size, competition, risk involved and channels of communication.

Most of the previously quoted literature is based on research into manufacturing firms; Erramilli (1990) has summarised the research into service firms. In general service firms behave differently from manufacturing firms because of the inseparability of production and consumption in services, although Erramilli draws a distinction between 'hard' and 'soft' services, 'hard' services being amenable to a separation of production and consumption.

How applicable are the above approaches to the transitional markets of Central and Eastern Europe? Bridgewater and Wensley (1993) found that the level of investment in the region is counter-intuitive to the perceived level of risk. Hicks (1995), in her study of entry and expansion decisions made by western firms in Moscow and St. Petersburg found that the economics approach offered only partial explanations. Moreover, only a minority of firms in the sample complied with the stages of development approach. Both approaches were

particularly deficient in explaining the behaviour of service firms and Hicks (1995) argues for the need to integrate more fully the range of influences and motivations within the firm in existing theory.

Central and Eastern Europe

The collapse of the communist regimes of Central and Eastern Europe in 1989 brought about a clear break in the trading relations between these countries and western trading partners. Before 1989 trading relationships were characterised by a 'general paucity of research efforts' (Naor, 1990) but, in spite of the differences in political and economic systems, there was a large degree of certainty.

Since 1989, with the implementation of market reforms in the region, change and uncertainty have expanded and numerous authors (e.g. Quelch et al [1991] and Pitt-Watson [1993] have warned of the widespread opportunities and dangers as well as the need for patience in trading with and dealing in the countries of the region. From the UK perspective it has been noted that British involvement in Central and Eastern Europe lags far behind that of many West European countries, even that of countries such as Belgium and the Netherlands (Pullar-Strecker, 1995).

Furthermore, Hill and Hay (1993) conclude their research study of the export trading activities of British firms in the former socialist countries of Central and Eastern Europe by stating that 'there has been a significant decline in the commercial activity encountered some ten to twelve years ago' (p 104). A major factor contributing to this decline was identified as the region's deterioration foreign currency purchasing power, linked to the decentralisation of foreign trade. These factors went hand-in-hand with UK firms' negative perceptions of market possibilities at a time of general political and economic uncertainty in the region (op.cit.:105). Nevertheless, several firms in the study had increased their involvement in the region through joint ventures, often as a defensive strategy against other European, American and Japanese investors (op.cit.:106).

Methodology

The research was undertaken in three stages over a period of six months:

A number of firms in London and the South East of England who were trading with Central and Eastern

Europe, were identified through contacts with various organisations, such as business clubs and trade associations. Out of approximately 100 firms approached only 14 were found which were small enough to be a part of the research, that is employing 25 or fewer employees.

Preliminary interviews were conducted with five firms to identify some of the issues concerning trading with the region. Based on this and the literature review a semistructured questionnaire was produced.

Face-to-face interviews were undertaken with each of the 14 firms. Respondents were asked to reflect upon their motives for and experiences of trading with Central and Eastern Europe.

Sample Details

Twelve of the firms employed 11 or less staff, with all employing less than 25. Of the 14 firms, eight had been active in Central and Eastern Europe for at least seven years. Five of the firms did all their business with the region while a further four did at least 25% of their business with the region. Amongst the firms was a training company, a freight company, a medical products company and an electrical test equipment company.

Results

The results fall into four areas:

Entry decisions and motives for trading
 Relationships with firms and individuals in the region
 Pre 1990 experiences/post 1990 experiences
 Danger versus pleasure (or Danger = Pleasure) in the Wild East

Entry decisions and motives for trading

There appeared to be two different ways in which the firms had started trading in the region. Either they were pushed, that is they needed to find new markets or they were pulled, that is they were directly approached by individuals or firms for their product or service.

For those firms which had been pushed, there were varying reasons for this. Two firms clearly described how the recession in Britain had encouraged them to look for new markets abroad and from their research, it appeared that there were new and uncharted markets in Central and Eastern Europe. The stories they told were similar in that

they illustrate the degree to which they were pushed by financial forces in this country and also illustrate how they managed the transition.

„The three directors sat down over a pint in a pub and decided either it was a case of closing or developing new markets. We flew a man out there, one of the directors. He turned up at the airport, booked himself into a hotel, found an interpreter took it from there. We were approached after the first meeting out there and the Director who went felt like a magnet in a jar of iron filings. People kept on trying to sell him everything.”

and

„Recession had hit in Britain and we had to find new markets. My son-in-law was very keen on Russia and pushed me into making a trip out there with an American delegation. I met a number of people and came back with two projects.”

Both of these respondents needed to find new markets or they would have been in serious danger of going out of business. Both give the impression that in almost desperation they went out there and, perhaps, to their surprise, came back with some business. It is not clear that either had done much systematic market research or knew an awful lot about what to expect. It is hard to know for sure but in these cases a bit more knowledge of the difficulties involved might have resulted in the firm not trying. Innocence can sometimes be an advantage.

The other major experiences of being pushed, tended to focus on redundancy and the need to develop a business in order to survive. For these respondents, their experiences and contacts in Central and Eastern Europe enabled the development of their business. Unlike the first two firms who appeared to know very little about the Central and Eastern Europe these two respondents already had first hand knowledge of the market.

„I was working for a company who was working in Central and Eastern Europe. They were bought out by a Swiss company and as I did not want to go to Switzerland, I set up my own company. The company I was working for did not want to continue selling other firms' products and so I took that over.”

„I was made redundant from the other company and decided to set up in business using my redundancy money. Because my experience was in the Soviet Union, I decided that it would be a good area for me to work in. I initially started up from home and then expanded.”

On the other side were those who were pulled. The categories fell into three types, they had met Russians either in this country or while working abroad, or they received requests for goods from firms in the region, or they had spotted an opportunity while working for another company and decided to start their won business.

Those that had met Russians in this country or abroad, tended to continue the business and develop it. Two examples of this are:

„I was working in West Africa for another company and we were approached by a British company because a friend of mine was working there and they were working with Russians. The Russians had been trying for 9 years to sell their tractors into Tanzania without success.

My company managed to sort it out in 9 months. The Russians then gave their tractor franchise to another company but once you gain their confidence they start offering work.”

„It happened by accident. I owned a hotel and I met with some Russians and went to St. Petersburg. I struck on a business idea and took it from there.”

Neither of these had gone out of their way to trade with Central and Eastern Europe but a business opportunity had presented itself which they were able to exploit.

Firms which had received orders tended to be less keen on developing contacts and seemed happy to wait for other orders to come through rather than go out and look for work as opposed to those firms that relied heavily on Central and Eastern Europe for business. Two examples of this are:

„It just happened to be another area. It all happened after the changes. Enquires came in from all over the place, but this link was developed via our Austrian agent.”

and

„We trade world-wide. There are no borders or barriers.”

For these two firms, trade with Central and Eastern Europe was not a priority. They were trading with other parts of the world and did not feel that this region was an area they wanted to push themselves into. However, they were also unlikely not to follow up on a business opportunity.

Some of the respondents planned their business while working for another company and at least one had taken the clients of his former employer. For these few individuals, the start-up costs were minimal; they undertook much of the research while working for their previous

company; they negotiated while on business trips for their former employer and were able to start the business on day one of setting up. For these entry to Central and Eastern European markets was part of a well thought out business strategy. As one interviewee said:

„I had contacts from a previous company I worked for. They gave me contracts because they knew me.”

To summarise the reasons for becoming active in exporting to Central and Eastern Europe can be broken down as follows;

Trading with Central and Eastern Europe

Knowledge of Central and Eastern Europe	pushed	pulled
no previous knowledge	business failing	friend's contact/accident
previous knowledge	redundancy	start own business

Those firms that fall into the pulled with previous knowledge category probably conform most to models of exporting that stress systematic market research. These respondents had time to research possible customers and in some instances set up or very nearly set up contracts before they started trading for themselves. Those respondents who were made redundant, or who could see that they were going to lose their jobs also, to a degree, planned. They were able to use their previous knowledge to good effect. Those respondents who were already trading elsewhere and became involved almost by chance make it sound almost too easy. Perhaps they are always on the lookout for new opportunities, sometimes they are successful and sometimes not. We cannot report on those other firms that were in similar positions and had a chance to trade in the region but failed. They would not have been in our sample frame. Similarly we have those respondents who were pushed into the region because of lack of demand in their existing markets. There may be numerous other failing or now failed firms that hit upon trading with firms in Central and Eastern Europe by chance or accident but failed. They are no longer around for us to sample. For both the pulled and pushed chance or accident group the reasons they succeeded remain unclear.

Relationships with firms and individuals in the region

On the whole the impression gained from the interviews was one of low trust between the British firms and their trading partners. Respondents projected the feeling that

they did not altogether trust their counterparts in the region, although most recognised that this might be due to the cultural difference and the extent to which up to 70 years of communism have affected the way in which business is undertaken. Although they may not have had direct experience, most of the firms discussed the communist regime and the effect it had on trade. Russians, in particular, appeared to have the reputation of being 'crazy' and liking a 'drink' now and again.

In response to the question „Do the differences in culture affect the way in which you do business and if so how?” the comments and statements tended to be polarised into negative and positive, with a few falling in between. Some of the more derogatory statements have been linked together to show the degree to which wide ranging stereotypes were used:

„It is similar to France - They are chauvinistic, they think the Russian way is the right way. They do not take kindly to disruptions in their life. They are used to doing business in a much more leisurely way: drinking and entertaining.”

„Totally. I have to get to their level. They are mentally weird at times. They have this communist microchip in their brain. They think that Westerners have a lot of money to spend.”

„There are no differences in negotiations between Africa and the Former Soviet Union (FSU). Both expect handouts. Hungary is more European and they want orders based on quality.”

„Yes, the Russians are mad, they are mentally different. In Western Europe we are much more direct although this is changing in Russia. They used to be naive although they are becoming more realistic. They are different culturally which was partly formed by communism. Although there are different mentalities within the FSU. European Russia is different from Kazakhstan.”

„Yes. The biggest difference is with the older people and they are more difficult because of their communist background. The local culture can actually help business and drinking is still important. If you drink with them you become a friend.”

„I was very used to working in developing countries in the Arab world and I found there was a willingness by the Arabs to develop and do business which I have not found in Russia in particular. The Czech Republic and Poland are much easier.”

„Attitude and speed of response is difficult. In the wider context of the European scene they are not professional. On a general scale it is worse over there than it

is over here. They've never had to go and fight in the market.”

These types of statements were prevalent throughout the interviews and focused mainly on Russians. Although some of the comments about the difficulties of changing from a command economy to a market economy indicate difficulties for the British company, the way in which the statements were made suggests that there is very little evidence of negotiation or recognition of how the firms had managed to work through these cultural issues. There was a suggestion in the interviews that the use of partners alleviates some of the cultural difficulties and that using agents can take away any problems that may arise. As one interviewee said:

„We have to adapt ourselves for each country we work with. We want to keep a low profile in the FSU because of the Mafia. A lot of smuggling also used to take place as well as bribery but this has now lessened. We are happy to do business but do not want the hassles. We usually use a third party and therefore avoid the problems.”

Other respondents reiterated this by saying that their local office would undertake the negotiations in the countries concerned.

This feeling of distrust is contrasted by other respondents who had clearly built up friendships and trust. For example,

„They're foreigners to us and we are to them. The timber trade tends to work on trust and the cultural differences make that harder.”

However, he had obviously tried to bridge the cultural divide when he said:

„The timber trade is very personal and we know their families and they know ours”

Another interviewee said:

„I have had my third liver transplant (a reference to the amount of drinking they did together). The Russians are friends and I am less wary of them.”

While another interviewee confirmed this view by saying:

„I find the Russians are much more open and more approachable than large firms in the West. It is easier to talk to the right person. Because of our relationships with our Russian customers, they are much more prepared to give advice and to give us introductions.”

Pre 1990 Experiences/Post 1990 Experiences

Eight of the firms interviewed had traded prior to 1990 and all, bar three, described how it was easier to trade prior to the changes. The contracts they had with the Foreign Trade Organisations provided stability of income and identifiable people with whom to negotiate. As one interviewee said:

„It was much easier before 1990. Although the administration was harder, it was easier because you worked through the Foreign Trade Organisations and they would buy for the whole country. If they trusted you, they would buy everything from you. Previously negotiations were done on personality rather than price, now it is price as well. It is now the same as the West. Also even though the Foreign Trade Organisations might be slow in paying, some of the hospitals are now going bankrupt and instead of selling once for the whole country, you have to sell to each individual hospital, although we have never had a bad debt, just slow payers. However there are more opportunities now and more money although there is more competition.”

For the newer firms, those trading since 1990, their lack of experience of the Foreign Trade Organisations may have actually made their entry into the new market economy easier. They had no former experiences with which to compare nor did they have to change the way in which they operated.

Danger versus pleasure (or Danger = Pleasure) in the „Wild East”

While the reasons for initially trading in the region may appear to fall into the categories of pushed or pulled, it also became apparent that other factors played a part.

An interesting development of this research and one which resulted in the focus of the research title, is the stories which underpinned all the interviews. These stories focus on how the firms became involved in trading in Central and Eastern Europe, their experiences of trading and their views on working with people and firms in the region. Instead of investigating trading with the region as an activity divorced from those who experience it, we decided to focus in the study of the interviews and the stories contained within them, in which the respondents reproduce and transform their images of trading with Central and Eastern Europe.

Many of the respondents commented on the dangers of trading with Central and Eastern Europe, and this led

us to compare the respondents' comments with the popular imagery of the Wild West.

The Wild West as represented in popular culture, especially in the Western film, is a powerful mythical terrain. Horrocks (1995) comments on it as being '...a true mythical system' (p 60). He goes on to elaborate several themes that run through popular culture's representation of the West. One of these deals with the conflict of '...taming the wilderness and the establishment of law and order' (p73). Horrocks shows how films, when dealing with this, play off the tension between the excitement of the lawlessness and the dullness of the ultimately successful capitalism. As he says: 'Towns have to be tamed, but once they're tamed, the western isn't interested in them' (p 74).

The imagery of Central and Eastern Europe has just this „western” feel about it. There is an excitement of being caught up in the danger. These individuals are like the traders that pushed out from the Eastern sea-board of the emergent USA to open up the West. Money and fortunes are there to be made but, at least at the level of our mythical understanding of the West, so was death in the form of an unfortunate meeting with the likes of Billy the Kid.

Cold War Eastern Europe, too, has achieved a mythical status as a region of danger where western spies fought for 'good' against 'evil'. Such individuals became fictionalised and popularised in characters such as Len Deighton's Harry Palmer and Ian Fleming's James Bond. A whole imagery of Cold War Eastern Europe has become diffused in the way the region is perceived in the West, and there are striking similarities between the notions of the Wild West and the Wild East.

The powerful images of Eastern Europe and the Soviet Union portrayed in films and novels (pre 1990) helped to maintain a climate of unreality and fear coupled with excitement and romance. Spying was regularly seen in films and novels, for example James Bond and John Le Carre, and although most of the respondents did not directly discuss the buzz this gave them when travelling to and in the Soviet Union and behind the Iron Curtain, one interviewee did talk about the excitement he felt in being part of this romantic image.

Since 1990 the Russian Mafia has usurped this role and the atmosphere generated by the Mafia was strongly expressed by several respondents. The descriptions given contrast starkly with the opposing image of enjoyment of trading in this region.

On the danger side, one interviewee showed us an article published in a Sunday magazine about the Mafia

and a businessman who was frightened for his life. The picture in the magazine was of a businessman in his hotel room surrounded by armed security men. This image of danger was maintained throughout the interview with discussion about one of their staff members in Russia who had been attacked by the Mafia. The interviewee said:

„One of our staff was very seriously hurt when acid was thrown at him. We had to send out medical supplies to him. As a result we now hide behind the cloak of the ----- and have no dealings with individuals.”

Another described his initial partners as „crooks”. He explained that these partners had tried to take away his clients and had used him only to obtain visas. The interviewee also described how they would not have a joint venture agreement because the assets were moveable and therefore could be „impounded” by the Mafia. He gave two examples of this. The first was of a truck driver who was approached by some men in a la-by. They made him an offer to buy the truck and goods and when he refused, he was forced to hand over his truck with its container. The second example he gave was visiting his previous partners. They had numerous foreign trucks which at the time seemed strange to him. It was only after his later experience, when they had tried to steal his customers and on hearing about the truck driver’s experience, that he became aware that the foreign trucks had not been bought but „impounded”.

Although these types of stories were reflected in different ways in the interviews, a number of respondents said they had not been bothered by the Mafia. They seemed to realise the dangers but were careful about whom they traded with. In connection with this one interviewee said:

„We do not pay protection or bribes. We have not had any problems with the Mafia because we have a low profile.”

The images of danger raise interesting questions as to why firms, especially small firms, continue to trade with a region that is suggested to be fraught with danger.

The answers to this are not necessarily obvious and are, at this stage, speculative. First it is clear that if a large proportion of business comes from trading in this region then it would not be in the interest of the company to stop trading. Second, the atmosphere of danger may encourage certain personalities to trade in these regions. This was suggested by one of the respondents who said:

„If you travel to Georgia, then people are interested and impressed by your daring. They see you as intrepid and adventurous. If you go to Luton, then nobody takes

any notice. In fact they say „Why do you want to go there?” They might also say this about Georgia, but there is a feeling that they are also impressed.”

Third by emphasising the hardships, dangers and difficulties as opposed to the pleasure, competitors are discouraged from entering the market. He added that this did not mean there weren’t dangers and hardships, but the stories might be embellished to make it sound more difficult than it actually is.

In contrast to the stories of danger were the stories of enjoyment and pleasure in working in the region. One interviewee said:

„Enjoyment is the main part for going and trading with the former Soviet Union.”

and

„There is a lot of good fishing and I love fishing.”

Conclusions

Trading with Central and Eastern Europe, especially with Russia is not easy. Respondents found the relationship with their customers or agents often difficult and the dangers, real or imagined, of the area were often mentioned. But at the same time respondents took a certain pride and pleasure in recounting how their firm had prospered in spite of this. Given the current state of Central and Eastern Europe many will be put off trading because of the risk involved. Others will not be. Some appreciation of the respondent’s level of risk acceptance or to be more precise the collective level of risk acceptance for the firm’s decision makers needs to be considered. This in turn is influenced by the current and projected state the business is in. If you can see your business going under then you might well be prepared to accept a higher level of risk than if your business was reasonably secure. But it is even more than this as in some cases the respondents actually give the impression that trading with the region gave them a buzz. We should not, though, overplay this as it is clear that for many of the firms trading with Central and Eastern Europe it was simply an extension of their existing business. It had its difficulties but these could be overcome without too much fuss.

As economic and political conditions normalise, other firms will be attracted into the region. Some of the existing firms will flourish in these improved conditions, while others will wane and even die. As the actual and perceived risks of trading shift different people will be

attracted to the region. Some of the 'old' hands will be replaced but just as in the Wild West once it was 'tamed' stories were still told, so will stories of trading with the Wild East once it is 'tamed' be told.

In my day you were lucky to have any electricity at all in Georgia. The occasional power cut would have been luxury.

I can remember when you needed an armed escort to go to St. Petersburg.

These two quotes are, of course, made up!

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