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**Dynamic capabilities of international companies
from Russia and CEE region.**

Master's Thesis by the 2nd year student
Concentration — General Track
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АННОТАЦИЯ

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Название магистерской диссертации	Динамические способности международных компаний из России и стран ЦВЕ
Факультет	Менеджмент
Направление подготовки	Менеджмент
Год	2017
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Описание цели, задач и основных результатов	<p>Целью диссертации является анализ изменения развития динамических способностей на протяжении последних 20 лет в странах ЦВЕ и России и того как внутренние и внешние факторы повлияли на данный процесс.</p> <p>Задачами работы являются определение наиболее важных динамических способностей для компаний из стран ЦВЕ и России в процессе их интернационализации, выявление пробелов в существующей литературе и создание многофакторной теоретической модели, а также проверка её применимости в контексте компаний из стран ЦВЕ и России.</p> <p>Основным результатом является сравнение уровня и направлений развития динамических способностей сегодня и 25 лет назад на основе предложенной теоретической модели и выявление других особых факторов, которые оказались значимыми для интернационализации компаний из данного региона.</p>
Ключевые слова	динамические способности, интернационализация, Россия, ЦВЕ, переходные экономики

ABSTRACT

Master Student's Name	Dmitry Ilinykh
Master Thesis Title	Dynamic Capabilities of International Companies from Russia and CEE Region
Faculty	Management
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Academic Advisor's Name	Doctor of Economics, Associate Professor A.Y. Panibratov
Description of the goal, tasks and main results	<p>The main goal of master thesis is to analyze the shift in dynamic capabilities development of Russian and CEE international firms over the last two decades and explain how external and internal factors influenced this shift.</p> <p>The tasks of the master thesis include defining which dynamic capabilities turned out to be important for companies from Russia and CEE region in their internationalization, addressing the gaps in existing literature and creating a multidimensional theoretical framework and supporting the proposed theoretical framework in the context of companies coming from Russia and</p>

	<p>CEE country.</p> <p>The main results is a comparison of the level and direction of dynamic capabilities development today and 25 years ago basing on the proposed theoretical framework and discovery of other specific factors that played important role in the internationalization of companies from the given region.</p>
Keywords	dynamic capabilities, internationalization, Russia, CEE region, transition economies

Introduction

Swift changes of business environment nowadays forces companies to change and adapt faster in order to achieve sustainable competitive advantages and survive. Especially it is important for companies that decide to internationalize and expand to other markets. Due to the growing importance of dynamic capabilities and companies' ability to develop and employ them, more and more authors pay this attention to this topic.

Interestingly, most new international companies come from developing markets, which is why the focus of research in the area of dynamic capabilities was shifted to these countries (Ramamurti, 2012, Wu&Voss, 2015). However, it is also interesting to see how countries from specific environments were able to develop their dynamic capabilities and internationalize successfully. The Central and Eastern European countries and Russia are so-called transition economies, which implies the uniqueness of their economic development and business environment compared to other countries. We aim to enhance the existing research by drawing scholarly attention to companies from transition economies and their methods and ways of dynamic capabilities development. We argue that it is very interesting topic for research as the internationalization of companies from Russia and CEE region was caused by specific reasons and factors, different from those existing on emerging markets that is why their priorities in dynamic capabilities development may be quite different too.

These specific economic and political conditions may also predetermine the importance of certain dynamic capabilities used by companies coming from these transitions economies. That is why it is important to understand how this fact makes the companies focus their resources on certain dynamic capabilities enablers and allows them to internationalize successfully.

This paper aims at studying the dynamic capabilities of Russian and CEE firms, investigating the shift in dynamic capabilities development over the last two decades, and explaining how external and internal factors influenced this shift. The analysis allows for predicting which dynamic capabilities are the most critical for international firms from Russia and CEE countries.

The objectives of this paper are threefold. First, we aim to reveal what dynamic capabilities turned out to be important for companies from Russia and CEE region in their internationalization. We argue that the development of dynamic capabilities in the conditions of transition economies may be quite different from other markets and the limited number of studies related to this topic does not recognize fundamental factors that may have influenced this

development among leading companies from this region that expand overseas. Moreover, the existing literature focuses on certain type of companies or industries and does not provide the deep analysis of factors that played key role in dynamic capabilities development in a high number of transition economies.

The second objective of the study is to address these gaps and create a multidimensional theoretical framework that encompasses such dimensions as technological aspect of industry, type of ownership, gained experience and knowledge development. In this framework, we adopt the logic that significant changes that were caused by transition processes have changed opportunities and resources available to the companies that led to gradual shift in dynamic capabilities development over the period of last 25 years. We also claim that these four determinants influenced the choice of markets the companies entered and that with time the geography of internationalization has also changed. This framework may potentially enhance the existing knowledge about dynamic capabilities by analyzing the factors that have different nature and that may influence the company on different levels internally as well as externally.

Our third objective is to support the proposed theoretical framework in the context of companies coming from Russia and CEE countries. We conduct an explorative case-based research of 42 companies from Russian and CEE region with an objective to analyze how they achieved their goals and to what extent their dynamic capabilities helped them to expand overseas successfully. These companies are leading in various industries in their countries and they can be found in such prominent reports and journals such as Deloitte Central Europe Top 500 and Expert-400(Эксперт-400 in Russian) and represent an interesting sample for the research. It is interesting to mention that these companies achieved certain success in operating abroad and have entered foreign markets due to various reasons, even before 1990 during closed socialist system. We argue that empirical evidence from international companies from Russia and CEE countries is a sufficient basis for our research and contribute to the existing understanding of dynamic capabilities development present among leading companies from Russia and CEE region. Our findings will then enhanced by experts' answers that will be gathered in the process of research.

Our theoretical chapter consists of three parts that gradually describe the main concept and inconsistencies of dynamic capabilities approach, provide the analysis of the most important dynamic capabilities needed for internationalization with examples of companies coming from emerging markets and, finally, explain the difficulties and gaps that exist in the development of dynamic capabilities in transition economies that we would like to address in our study.

First, it must be determined what the theoretical basis of dynamic capabilities framework is now and how different authors define dynamic capabilities. The concept of dynamic capabilities is still developing as there are many points among scholars and there is no single definition of dynamic capabilities. To be able to understand the value of dynamic capabilities, the scholars try to understand how they could classify them and compare with other well-known concepts of the ways the company may get the competitive advantage in the constantly changing business environment. (David J. Teece, 1997) The positive and negative points of dynamic capabilities used by companies that have them are also not clear as they are still being analyzed. However, some factors certainly affect the development of dynamic capabilities of different companies.

We would like to bridge the development of dynamic capabilities used in internationalization of the companies and analysis of companies that managed to foster and develop dynamic capabilities in their striving for expansion abroad. Since the nature of techniques and methods used by the companies to internationalize may be quite different, it is possible to define several most important dynamic capabilities and factors that influenced them in the companies that wanted to enter foreign markets.

After that, it is necessary to understand the specifics of the economic development of Russia and CEE countries and which factors influenced its companies, its foreign expansion and operations abroad and how their competitive advantages were formed. All these factors may have also influenced the development of their dynamic capabilities. It also means that certain dynamic capabilities could be more important for this particular group of companies. That is why it is necessary to analyze the history of the internationalization of these companies and understand its driving factors as companies from CEE region and Russia have specific features that were mainly determined by their historical development and their special type of economic development and are called transition economies. After 1989-1991, these countries underwent transition processes that changed their economic and political formations. More and more companies began their expansion abroad using various methods of market entry and government support (Panibratov, 2010, Lebedev, Peng, Xie, Stevens, 2015) The experience gained by the CEE and Russian companies in their internationalization and the development of dynamic capabilities cannot be separated from these processes.

The remaining sections of the article include the results of empirical analysis and discussion; we conclude by providing some valuable contributions to theory and practice and also by giving description of limitations and possible ideas for the future research.

Theoretical underpinnings of the research

1.1 The concept of dynamic capabilities

The problem of creating and maintaining a competitive advantage is one of the main problems of strategic management theory. Numerous studies show how firms can achieve competitive advantages by developing its dynamic capabilities. Traditionally, ensuring the sustainability of the competitive advantages are associated with uncertainty factor of causality and with the influence of isolation mechanisms. However, it seems that the retention of competitive advantages due to uncertainty of causal relationships and action of isolation mechanisms is only possible in the short (and perhaps medium) term.

In order to understand how companies exploit and develop their dynamic capabilities, it is important to understand the definition and the nature of these capabilities. There are a lot of scholars who suggest various definitions of this term and the comparison of them is also becoming a very important issue of many scientific papers in recent years. The empirical study shows that dynamic capabilities do lead companies to obtaining competitive advantage and consist of three important elements: strategic sense-making capacity, timely decision-making capacity and change implementation capacity. (Li&Liu, 2014). However, it is not yet clear which conceptualization reflects the true meaning of dynamic capabilities and which definition describes its attributes best. Various definitions have their advantages and disadvantages and are analyzed in detail. Dynamic capabilities have a lot of blind spots and may be purely theoretical notion and the authors suggest forming another understanding of organizational capabilities.

However, the original definition of dynamic capability as a firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments given by David J. Teece in 1997 is still used in many studies dedicated to dynamic capabilities. His recent studies may give broader understanding of dynamic capabilities in practice and their framework used by companies nowadays.(David J. Teece, 2016) Dynamic capabilities allow for the renewal of core competencies of the company, and tie them to the dynamics of the environmental a company operates. Due to this fact dynamic abilities play a leading role in optimization of the strategic course of the company's future. The company should implement formation and modification of its resources and competences in compliance with the conditions of a changing environment, which will remain competitive in the long-term. That is why the ability

can also be interpreted as changing internal and external organizational skills, managerial and functional competencies.

Dynamic capabilities may be divided into two groups or dimensions: regenerative, accounting for modification and development and renewing, responsible for creating and modifying changes in its current operational capability and resource base. In the works of Eisenhardt, dynamic capability is considered to be a combination of simpler capabilities and related routines, some of which may be the basis for other and, therefore, must be acquired first.

There is clear evidence that international diversification positively influence the creation of dynamic capabilities that proves that companies should enter foreign markets in order to develop their dynamic capabilities more effectively.(Wu&Chen, Jiao, 2016) The results of this study show that international diversification positively affects innovation performance and mediators of this process are opportunity-recognizing capability and opportunity-capitalizing capability. The authors of this paper also show the differences between RBV and dynamic capabilities approaches. The essence of the resource-based approach, as is known, implies that there are differences in economic performance of firms operating on the same product market due to the differences in the combination of resources available to the firm and used by it in its operations. Resources represent everything that company can use to achieve competitive advantages. The combination of special resources is commonly called VRIN (Valuable, Rare, Inimitable, Non-substitutable), and provides a company with concentration competitive advantages which consequently leads to additional profits.

The notion of dynamic capabilities has produced some key debates and the general complaint that the concept of dynamic capabilities is far from being consolidated.(Barreto, 2010) Dynamic capabilities framework analyzes the process of formation and preservation of the competitive advantages of the company. In accordance with it, the competitive advantage provided by the presence of the company's dynamic capabilities which means the ability to modify and revise their competence to achieve a better match with the changing external environment. The abilities of firms are perceived as changing internal and external organizational skills, resources, and functional competences. According to the dynamic capabilities framework, competitive advantages created by the use of organizational and management processes, so-called positions meaning assets of all types as well paths - beliefs and habits, limiting future behavior in order to develop a long term high performance routine. Development of dynamic capabilities network and its comparison with resource-based view approach has been attracting attention of numerous scholars during last years.(Arend&Bromiley, 2009) However, managers and practitioners need to get clear recommendations on what exactly they should undertake to improve the company's

position in the changing market conditions.

Regardless of this situation, the important thing is that the understanding of dynamic capacities is a key element for the durability of companies. Looking for this purpose, companies develop changing skills in the same way as the environment, which allows for the integration of various elements that make it possible to do the business and maintain competitive advantages in the long-term. Renewal of competencies, appropriate adaptation and reconfiguration of skills will enable to create better routines and focus on the needs of the customers and their changing demand.

Another interesting finding is that dynamic capabilities have stronger positive effect on company's performance than RBV.(Pezeshkan&Fainshmidt, Nair&Frazier, Markowski, 2016) This means that specific dynamic capabilities such as marketing, technological, innovation dynamic capabilities differently influence performance and competitive advantage and that the companies may determine which dynamic capabilities should be developed first in order to improve company's performance and create a competitive advantage. Furthermore, there are benefits of dynamic capabilities in the process of technological adoption as it is positively affected by externalities, slack resources, entrepreneurial leadership and absorptive capability. (Arifin&Frmanzah, 2015)

Dynamic capabilities are crucial for companies to survive in a financial crisis. Difficult times and recession may even be better for companies in terms of adoption of new technologies due to lower opportunity costs. The findings show that the examples of several companies from different industries prove that dynamic capabilities do increase company's ability to innovate and its evolutionary fitness. (Makkonen&Pohjola, Olkkonen&Koponen, 2014)

There are also studies that show the effectiveness of dynamic capabilities in case of certain industries and even sectors.(Shuen&Feile, Teece, 2016) Unconventionals including new technologies and processes are becoming the key factor of development in the future for this industry. New independent companies use technologies to compete against industry giants. The authors show how such companies apply dynamic capabilities in terms of human management and health, safety, security and environmental risks. This information may be used not only for upstream oil and gas sector but for the whole industry. In this article the authors also argue why Dynamic Capabilities Framework is better to use then the RBV model or the Porter's five forces model.

There is a wide range of factors that somehow influence dynamic capabilities of different companies. For example, innovation and organizational learning may explain why some companies use their dynamic capabilities more successfully then others.(Giniuniene, Jurksiene,

2015) There are also possibly many other factors that may affect dynamic capabilities and firm's performance however their number and nature are still not clear. One of them, dynamic learning mechanism can be one of the crucial factors of dynamic capabilities development for further exploitation of market and hierarchy governance.(Lee&Lin, Chen&Shyr, 2011)

Not all of them are positively correlated. To avoid routinization at the strategic level, the companies with dynamic capabilities should be flexible in order to use them more effectively.(Wohlgemuth, Wenzel, 2016) It means that managers should try to maintain less routinization of processes at the operational level of the companies and try to provide the routinization of processes at the strategic level to make continuous adjustments possible. There are different effects at different organizational levels, and the strategic level is more affected by the higher levels of routinization whereas the operational level is more influenced by lower levels of routinization that support dynamic capabilities.

Measurement of dynamic capabilities

As it was said in the introduction and the first part of theoretical chapter, the concept of dynamic capabilities offers an interesting approach of gaining competitive advantage in constantly changing business environment. However, the attempts to measure the dynamic capabilities and understand how companies may improve them by improving certain external or internal activities of the company is still a big question due to the scarce number of scientific papers related to this problem.

The analysis of existing literature has shown that the number of studies dedicated to decomposition and measurement of dynamic capabilities is quite limited. That is why, we decided to look at all the studies where there is an explicit attempt to explain the true nature of dynamic capabilities and possibilities to measure and assess certain areas of company's activities that do contribute to dynamic capabilities development.

Some of the possible dynamic capabilities measures need explanation itself as they are quite broad notions and shall be described in detail. We will try to determine the main areas where dynamic capabilities may be formed and developed and then apply this approach to emerging markets and after that in the context of companies coming from Russia and CEE countries.

Sensing, seizing and reconfiguring mechanism that could explain the components or how author calls them, microfoundations that explain why some companies can develop dynamic capabilities better than the others can. (Teece, 2009) Dynamic capabilities is quite a new

theoretical concept that is why it is not always possible to clearly describe how they are formed.

In another study that could have a great extent of importance particularly for us, Eisenhardt&Martin, 2000 tried to prove that dynamic capabilities framework is not just a purely theoretical concept that cannot be defined and measured but is very tangible and real. Basing on some illustrative examples of several companies, the authors show that product innovation, strategic decision-making, alliancing are components of dynamic capabilities. The study proves that dynamic capabilities can be seen separately but in most cases it is a combination that gives companies a competitive advantage.

Adaptability, absorptive capability and innovative capability as key indicators of dynamic capabilities. Each of these components needs to be considered in detail in order to understand how exactly they may be fostered and developed in the company. (Wang&Ahmed, 2007)

In the current market situation, the company's ability to adapt is the key to success. Nowadays, when the market situation is rather unstable and it is difficult to exactly predict its the outcome of its fluctuations, the company's ability to react quickly to changes is crucial. Companies must be able to respond flexibly and quickly adapt to this changing environment. Adaptability is very important for any company to be able to compete successfully in fast changing market conditions of nowadays business world. In a dynamic and ever changing world traditional control methods based on rigid plans and programmable solutions do not work anymore. Changes force firms to shift the focus on anticipating changes to the development of methods that can let a company profit from these changes and turn the tide in its favor. Just like in the nature, in order to survive in a rapidly changing environment, it is necessary to adapt to it. To create an adaptive organization it is important to understand the laws and peculiarities of its functioning.

There are different measures of company's adaptive capability. Oktemgil&Gordon, 1997 argue that it implies company's ability to adapt and respond to external opportunities and changing market conditions, to scan the market and allocate its resources according to it. Another measure consists of assessing company's managements efforts to encourage employees to be able to respond quickly to external market changes and challenge old rigid structures and traditions. (Brikinshaw,2004)

A good example of how adaptive capacity helps to catch up quickly with companies from other developed markets is a study about Indian auto components industry(Kumaraswamy&Mudambi, Saranga&Tripathy, 2012)

The absorptive capacity is allowing the company to use both internal and external

knowledge, which in turn affects the company's ability to innovate and adapt to changing environment and ultimately ensure its competitiveness. Formation and stimulation of absorptive capacity is very common in many foreign companies whereas Russian companies often do not pay sufficient attention to this one of the most important factors leading to the achievement of competitive advantages.

There are 4 stages or elements that form absorptive capacity of the organization: acquisition, assimilation, transformation and exploitation. (Zahra&George, 2002)

- Acquisition is the ability of the organization to identify, assess and acquire external knowledge. This is a generator of knowledge of an organization.
- Assimilation implies the organization's ability to absorb external knowledge.
- Transformation is a firm's ability to implement the newly acquired knowledge to the existing knowledge system. Transformation can be carried out by the addition or removal of knowledge, as well as some of their interpretation.
- Exploitation means the firm's ability to apply new knowledge in commercial purposes in order to achieve organizational objectives

Many different internal and external factors facilitate the development of absorptive capacity. Internal factors include organizational culture, size of the company, education, knowledge and previous experience of employees and investments in R&D and even different managerial practices.

Two main external factors are knowledge environment of a company and cross-leveling which means movement of knowledge between and by external entities such as customers, partners and universities.(Nonaka&Takeuchi, 2003) This fact suggests that an important determinant of external absorbing capacity of the company is the strength of its relationships with other members of the knowledge networks that can include certain organizations - main sources of knowledge such as technical consultants and academic institutions.

R&D could be used as a proxy to absorptive capability or use multidimensional approach: knowledge acquisition, assimilation, transformation and exploitation. There are also several approaches to measuring innovative capability. (Gibson and Brikshaw, 2004)

The deterioration of the company's financial position creates an incentive for innovation. On the other hand, when the company's business is thriving, it is not necessary to change anything in the already-functioning production. As long as the existing products and technology are profitable, the stimulus for innovation in the company is low, since innovation is always associated with risk. (G. Mensch, 1979; A. Kleinknecht, 1981) From the point of view of K. Freeman and J. Clark, 1982 exactly prosperous firms that are confident in the terms of expansion of the market share and profit growth show higher desire for innovations.

Innovations have a dual impact on the dynamics of economic growth as they provide new opportunities for the expansion of the economy and makes it impossible to continue this expansion in traditional way. According to Schumpeter, innovation is accompanied by creative destruction of the economic system, causing its transition from one equilibrium state to another.

In the modern rapidly changing economic and business conditions, innovation is one of the major factors determining national competitiveness (OECD, 2015a) Creation and exploitation of innovation is one of the basic conditions for the formation of sustainable competitive advantages.

Given the fact that the brands and not products play the leading role on the market today, it is necessary not only to invest funds in the development of innovation, but also to create a corporate culture in order to enhance intellectual capital, which is a vital tool to implement any innovative project or programs. Various studies show that intellectual capital significantly affects the national innovation system performance (Lu, Kweh & Huang, 2016)

Alliance activity of the companies itself is a dynamic capability. The companies that have better technologies and know how can extract more benefits from alliances and acquisitions that pursue their technological development. (Anand, Oriani & Vassolo, 2010) However, this way of technological development is even more important for companies that suffer from technological discontinuity. After the fall of the socialist bloc, a lot of companies from Russia and CEE region could not successfully compete against their more technologically advanced counterparts from Western countries. As a result they tried to eliminate this technological gap by partnering with leading Western companies or resorted to acquisitions in Western countries. This finding makes alliances and acquisitions a quite interesting measure of dynamic capabilities in our study.

The companies with experience from previous markets are also more successful in entering new markets. And this experience is even more valuable exactly in the case of entering new markets. Constantly changing market conditions make companies enter various markets and adapt by developing their dynamic capabilities. That is why experience gained from previous market entry is often crucial for developing dynamic capabilities in new markets. (King & Tucci,

2002)

Organizational learning and knowledge management, which include experience accumulation, knowledge articulation and knowledge codification, are crucial for dynamic capability development. Only organizations that are able to learn and apply their knowledge and experience in constantly changing business environment in practice are able to develop their dynamic capabilities and obtain competitive advantage on the market. (Zollo&Winter, 2002)

Knowledge management is a complex of administrative actions to influence processes, methods and forms of organization of social relations in the sphere of production, distribution and use of knowledge, aimed at increasing the efficiency of these processes and implemented in specific economic frameworks. “Knowledge management is a fast-moving field created by the collision of several others, including human resources, organizational development, change management, information technology, brand and reputation management, performance measurement, and evaluation” (Bukowitz&Williams, 1999) Knowledge has the socio-psychological nature, because it includes not only information and personal meanings, but also elements of group consciousness. Most often, it is formed in a joint venture and provides cognitive, evaluative and emotional components of a group's attitude to reality.

The main purpose of knowledge management can be defined as the reduction of the deficit of knowledge by its generation, detection and diffusion and use of knowledge in order to improve the competitiveness of the company. Effective use of information is largely provided by the absence of barriers within the company in the terms of information given to users and customers. For this purpose it is necessary to form a free resource approach towards information. It is known from the practice that most organizations tend to keep in secret the information available to them. Furthermore, there are barriers in the form of unwillingness of top managers to share information with their subordinates.

Organizational learning means adaptation of an organization to the changing conditions and problematic environmental situation by obtaining and processing the information needed for analysis and making the best decisions. Inability to learn will not allow the company to deal with the problems that will result in reduced efficiency and competitiveness. Most companies disappear prematurely due to an inability to learn. They are unable to adapt to changes of the environment. At the same time, some companies exist for many decades, and the reason for this is their ability to develop, change and achieve new goals.

According to Argyris, organizational learning is a process of identifying and correcting errors. Organizations learn through individuals acting as agents: the learning aimed activities of

individuals are produced by the influence of environmental factors that together can be called a learning organizational system.

Organizational learning takes place under two conditions: first, when the organization achieves what it intended to achieve, and secondly, when the discrepancy between the intentions and the actual results is noticed and appropriate adjustments occur.

Three types of organizational learning have been identified. Education of the first type called "single loop" occurs when learning can detect and correct errors. During such learning organization learns to better achieve its objectives at the same time it does not require changes in organizational norms. The second level, so-called "double loop", means learning to learn. This level requires a change in the organization's policy and organizational norms. Third type of organizational learning takes place when the organization conducts research of learning system as well as error correction. This process is called triple-loop learning. (Argyris&Schön, 1978)

Single-loop learning can provide good solutions for routine, repetitive questions, and it helps to perform daily work. Double loop learning is more suitable for complex, tasks which solution can not be found in the automatized way.

The ability to learn is an important competitive advantage. Competitors can copy all other types of resources - capital, labor, raw materials, technology and even the knowledge -, but no one is able to buy, copy or reproduce the organization's ability to learn. Ability to learn and, most importantly, quickly convert new knowledge into actions - is not just learning by trial and error but a deliberate strategy. (Peter Senge, 1994)

Importance of the training process is growing due to the changing role of human resources in organizations. This has led to a greater need for new knowledge and the adaptation of workers' skills to carry out a variety of necessary tasks. It can be said that the emphasis on training in order to learn certain skills has evolved over time (Breuer and Kampkotter, 2013)

However, it is becoming more and more obvious that the employees should not only acquire new knowledge and skills but also have necessary values which give the importance to their work and facilitate the company's development.(Úbeda-García et al., 2013) Strategic direction of companies can seriously influence on training policies. The use of different business growth strategies shows the need of new training programs that have clear and detailed plans of the company's development in the future. After some time, these specific training programs can significantly improve the quality of activities. They also influence the social impact of adopted

strategies.

In order to summarize the key studies, we are using the following table:

Author	Study	Year	Measurement	Key ideas
Teece D.	Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance.	2007	Sensing, seizing and reconfiguring mechanism based on microfoundations	The certain skills, processes, procedures, organizational structures, decision rules, and disciplines are microfoundations of dynamic capabilities that allow companies not only to adapt but also shape business environments they are operating in.
Eisenhardt K., Martin J.	Dynamic capabilities: what are they?	2000	Product innovation, strategic decision-making, alliancing	Depending on the velocity of the market, the outcome and pattern of DCs may be very different
Wang C., Ahmed P.	Dynamic capabilities: A review and research agenda	2007	Adaptability, absorptive capability, innovative capability	There are three component factors that reflect dynamic capabilities development and may be adopted and developed within the company in order to
Anand J., Oriani R., Vassolo R.	Alliance Activity as a Dynamic Capability in the Face of a Discontinuous Technological Change	2010	Alliancing	Capabilities in the traditional technology and the emerging technology have different effects; companies that have better technologies and know how can extract more benefits from alliances and acquisitions that pursue their technological development.
King A., Tucci C.	Incumbent Entry into New Market Niches: The Role of Experience and Managerial Choice in the Creation of	2002	Experience gained from previous markets	Experience in previous markets increased the probability that a firm would enter a new market niche, this experience has greater value if the firm

	Dynamic Capabilities			entered the new market after that
Mitchell W., Capron L., Anand J.	Acquisition based dynamic capabilities	2007	Selection, Identification, Reconfiguration	Experience gained from acquisitions leads to development of ABDC and may give knowledge and increase effectiveness of post-acquisition business activities
Wiklund J., Shepherd D.	The Effectiveness of Alliances and Acquisitions: The Role of Resource Combination Activities	2009	Alliancing; Mergers and Acquisitions Activity	Depending on resource combination activities, different value may be gained from alliances and acquisitions; Dynamic capabilities may be derived from successful acquisitions
Zollo M., Winter S.	Deliberate Learning and the Evolution of Dynamic Capabilities	2002	Organizational learning; knowledge management	Organizations that are able to learn and apply their knowledge and experience in constantly changing business environment in practice are able to develop their dynamic capabilities
Chen H, Lee P.	Drivers of Dynamic Learning Mechanism and Dynamic Knowledge Articulation in Alliance Organizations	2008	Organizational learning, Dynamic learning mechanism(integration power of managers, external linkages, previous experience, repeated practice, and codification of experience)	The better the company articulate its knowledge and dynamic learning mechanism, the higher benefits it may derive from alliances; Dynamic capabilities development depend on dynamic learning mechanism

The mentioned studies show that dynamic capabilities are quite different in nature and may refer to different categories of company's development and internationalization. However, all of them show that the company can only be successful in ever-changing business conditions if it develops these capabilities in order to adapt and be competitive.

For our study, we would like to concentrate on several key dynamic capabilities enablers and

analyze how companies from our sample used them in order to internationalize. To understand what dynamic capabilities enablers may be the most valuable for this research, we need first to look at existing literature about companies from other emerging markets and what kind of dynamic capabilities enablers were prioritized by them in their recent processes of expansion overseas.

1.2 Dynamic capabilities and internationalization of companies from emerging markets

In order to understand better the effectiveness of dynamic capabilities development in Russian and CEE companies, first we must look at how companies internationalize and which dynamic capabilities play the key role in this process. The recent studies in this area focused mainly on the emerging markets, especially from the BRICS countries as all four countries have improved their levels of globalization and inter-regional trade significantly during last decade and are becoming the hubs of the regional economies.(Chen&DeLombaerde, 2014) BRICS members are developing countries, each of which has its own problems. For example, the increase of China's power is inevitably linked to a number of demographic and political challenges. Brazil is experiencing difficulties in terms of administrative and social hierarchy. India is highly vulnerable due to the internal political and social crises. Russia is also experiencing some problems, mainly caused by low oil prices and sanctions. According to the United Nations' Statistics (2015), the share of emerging countries in total world exports was just 42% in 1995, but increased to over 60% in 2013.

The high number of companies from these economies enter foreign markets and start their path of internationalization. Companies from emerging markets are becoming more and more powerful using different competitive advantages granted to them by their home markets. These companies are able to compete successfully against leading companies from developed countries so that the latter ones even have to develop strategies to respond to the new challenges imposed by EMNEs.(Ramamurti, 2012) The main specific advantages that EMNEs use to challenge companies from developed markets are attempts to better understand customer needs, minimal costs of production, frugal innovation methods, operational excellence in adverse environments, privileged access to resources and markets and even first-mover advantage. That is why western companies should be ready to be deeply engaged in emerging markets and be willing to learn from competitors coming from emerging markets.

The thorough analysis of the recent literature gives an opportunity to determine key

dynamic capabilities enablers that helps the companies from emerging markets to internationalize and successfully compete against Western firms. Basing on the previous part of theoretical chapter, we are willing to choose the important dynamic capabilities enablers that reflect the most important areas what companies from emerging companies developed and invested in to expand abroad.

Alliancing activity

Numerous EMNEs' strategic partnerships and relationships with multinationals from developed markets may lead to their competitive advantage in their home markets and strategic acquisitions of MNCs lead to their competitive advantage then in the host nations. In addition, such acquisitions may help multinationals from emerging markets to improve their image abroad. (Madhok & Keyhani, 2012)

New multinationals use various methods to catch up with their Western competitors. One of the best ways for them to do it is a joint venture with multinationals coming from developed markets. (Lynch & Jin, 2016) Multinationals from emerging markets try to expand and compete with multinationals from developed markets by using the use of technical and non-technical innovations. In this process, technical and non-technical types of innovation are equally important for such companies.

It proves that alliancing activity of the companies turn out to be very important for companies from emerging markets as they allow them to achieve multiple goals when entering foreign markets that is why alliancing activity is the first dynamic capability enabler.

Experience gained from previous markets and Acquisition Based Dynamic Capabilities (ABDC)

Companies coming from emerging markets and especially BRICs countries may learn some lessons from their experience of investing in their affiliates abroad. The effectiveness of such investments depends on geographical and technological factors. Sectorial distribution of affiliates also is very important. The results show that European and especially American companies have a large productivity gap (around 30 points) compared to BRICS multinationals. (Sanfilippo, 2015)

Mergers and acquisitions is also one the most widely used strategies by EMNEs in order to get urgently needed knowledge and networks in developed countries. Buckley, Elia & Kafouros, 2014 argue that EMNEs having experience of acquisitions in developed countries increase the positive effect from tangible resources after acquisitions made in developed countries compared

to companies having experience gained only in developing markets. Moreover, greenfield investment experience may even have negative influence on company's performance.

The earlier companies internationalize the stronger is effect of absorptive capability. Earliness of internationalization and its influence on absorptive capability is still quite unclear as it depends on concrete firms and their capabilities. After some time of company's presence on foreign market its absorptive capability becomes less beneficial due to some organizational and operational rigidities. (Wu&Voss, 2015)

Such factors as institutional development, corporate governance and government involvement also have influence on the success of mergers and acquisitions by emerging market companies.(Lebedev&Peng, Xie&Stevens, 2015) In general, the acquisitions made by the companies from emerging markets are beneficial for their development, however such factors as lack of prior M&A experience and managerial hubris may significantly decrease their potential.

All these examples show that often experience accumulated on previous markets may enhance chances of company's successful entry of other markets, for example in terms of mergers&acquisitions. This is why we may assume that experience accumulated on previous markets could be our second dynamic capability enabler for further research. Acquisition Based Dynamic Capabilities also play key role in this case as M&A is quite an effective way to get rid of the lack of technologies or know-how, gain access to distribution network and achieve many other goals of expansion overseas.

Absorptive capability

The findings show that institutional development and factor market development are two factors that help to distinguish three groups of economies: traditional emerging economies, mid-ranging economies and newly developed economies. The differences between them imply using different resources and strategies in order to enhance company's absorptive capacity. The effect of these strategies can be long-term and short-term as multinationals from these countries pursue different goals. (Bilgili, Kedia&Bilgili, 2016)

As internationalization and globalization are considered beneficial for a company, it is very important for international companies to be able to move from regional to global operational level, using such instruments as technology and marketing know-how. (Wu, Pangarkar&Wu, 2016) Technology know-how is more influential and important than marketing know-how as emerging market multinational companies can apply it everywhere. Marketing know-how can be used in

special conditions and needs to be adapted for every single new market a company enters.

Asset augmentation is very important for Indian and other emerging markets multinationals. Cross-border acquisitions let companies catch up with multinationals from developed markets and use the advantages they amass in home countries. Asset augmentation may help emerging markets multinationals enhance their technological and financial resources and improve their performance and competitiveness in general as they let them overcome the problem of “latecomers” and other problems related to the late liberalization of home markets. (Buckley&Munjal, Enderwick&Forsans, 2016)

International firms may face different obstacles such as cultural distance (Li, Li&Wang, 2016) during these operations. The results show that absorptive and learning capacity may significantly help the companies to overcome negative effects of cultural distance.

Another very important instrument for international companies is reverse knowledge transfer as it can be seen in the context of Indian companies. (Nair, Demirbag&Mellahi, 2016) The importance of reverse knowledge transfer for companies from developing markets is vital. It shows that different factors positively influence successful reverse knowledge transfer: subsidiary capability, knowledge relevance, and absorptive capacity. The study shows that absorptive capacity – one of the key dynamic capabilities – plays key role in this process.

However, sometimes knowledge transfer within multinationals may hurt subsidiary performance when this process involves peer subsidiaries. (Li&Lee, 2015) There are two types of knowledge in multinational companies – from headquarters and from peer subsidiaries. The factor that influences this process is entrepreneurial culture of a subsidiary. However, the authors admit that other factors that were not considered in this study may also affect the knowledge transfer process.

All these studies show how important absorptive capability may be for companies from emerging markets in their strive for internationalization. The ability to acquire and make use of new knowledge effectively is one of the direct ways of getting competitive advantage. Thus, we will assume that absorptive capability will be taken as the third dynamic capability enabler.

Innovation capability

The evolution of innovation helped some emerging countries such as Brazil and helped its companies internationalize. There are different examples of Brazilian multinationals from

different industries and competitive advantages. It is quite important as some of them may have different approaches to innovational processes within the company. Different capabilities and competences such as administrative and technological have helped Brazilian MNEs go global and it means that in most cases innovation facilitates internationalization of a company. The internationalization was successful and brought a lot of positive experience for the companies. (Fleury&Fleury, Borini, 2013)

The main factors that influence innovational development of companies in BRICS countries illustrate why that these countries are not at the top of the list due to several reasons that are mainly caused by government's policies. The findings show that high levels of government ownership and export ratio represent obstacles on the company's way to innovation. At the same time, investing in company's employees and obtaining product certification may increase company's chances to succeed on its path to innovation. (Cui, Jiao&Jiao, 2016)

In order to be successful overseas, the companies from emerging markets should be able to transform their competitive advantages into capabilities through several stages: innovation capabilities, internal maturation and strategic partnerships with firms from developed countries.(Kotabe&Kothari, 2016) Initial capability to innovate is crucial for emerging market multinationals. After that, EMNE's get competitive advantage first in their home markets and then host markets through learning, marketing and other capabilities.

The last but not least dynamic capability enabler for this research is innovation capability. Innovation capability often gives the company the initial basis for further gains that may include increased market share or higher revenues. As it can be seen from the example of EMNEs, the government also may help and foster this important capability.

1.3 Dynamic capabilities of Russian and CEE companies

It was found that although the number of studies about dynamic capabilities of emerging market multinationals is quite high and continues to grow, unfortunately, there are not many articles that could describe the development of dynamic capabilities in Russian and CEE multinationals or at least show the successful examples of their exploitation. As this group of companies come from so-called transition economies, their internationalization, development and dynamic capabilities development may differ from other well-known examples.

That is why this part of literature review is dedicated to deep analysis of scientific sources

telling about dynamic capabilities in practice and existing conditions in Russian and CEE companies that may somehow influence their development and how the companies may transform them into competitive advantages and use them in the future. Although there are studies about specific companies or industries that have a goal to show dynamic capabilities development, there are no global papers that would observe these processes in the largest companies in both CEE region and Russia. It means that there is a certain research gap and that this study could potentially discover some deviations from models and patterns of dynamic capabilities framework that have been found in the past. It also means that this particular study may be very useful for further research and analysis of dynamic capabilities of Russian and CEE companies due to the fact that this topic has not yet been covered sufficiently.

In our study we have an objective to analyze firms from transition economies as Russia and Central and Eastern European countries had to face the process of economic transformation since the end of 80s – so-called transition from regulated to relatively free markets which included changes in economic, political and social spheres.

Instability is an integral part of this transition process, which not only temporarily disturbs the stability of the system but also weakens it. It gradually gives a way to a different economic system. This instability is the cause of the special dynamism of development irreversibility of economic system changes and on the other - the growth of uncertainty of economic transition.

All these countries have undergone similar processes with some differences caused by specific factors. These processes included liberalization, macroeconomic stabilization, reorganization and privatization, legal and institutional reforms.

It should be also not forgotten that the very conditions of a transition economy are of a historical character. In addition, the transition of the economy depends on the characteristics of the region as well as on the characteristics of individual countries, which means that even well-known general laws manifest themselves differently in different conditions in the transition economies.

This study includes companies from Central and Eastern Europe and Russia which is quite unusual as these countries represent different political systems. However, due to numerous common traits coming from socialist system the companies from these countries face similar problems related to internationalization process.

That is why the idea of putting firms from CEE region and Russia in one group and measuring the effects of their dynamic capabilities in such context is viable and can be applied to

the chosen group of companies

Although there are quite a few studies dedicated to dynamic capabilities of companies from transition economies, it is possible to assess the current level of dynamic capabilities development in such companies basing on various research papers about their internationalization and business environment on their home markets that facilitated this process or made it even more difficult for them to expand abroad.

Basing on existing literature, we will try to determine how important the dynamic capability enablers that played the key role in the case of companies from emerging markets are for international firms from Russia and CEE countries.

The transition process that enables companies to change their organizational structure is achieved gradually. (Dixon, Meyer&Day, 2010) This process includes three stages. The first one is called breaking with the past as to build the new structures the company has to get rid of the old ones. Exploitation and deployment phase encompasses learning how to use dynamic capabilities in the best way in order to facilitate the reconfiguration of resources. The third stage is exploration and innovation. Its goal is not the short-term survival as it was during the first and partially the second stages. It should give the company a sustainable competitive advantage and flexibility.

What is very important here is the fact that the companies should develop their capabilities and routines in the specific business climate of CEE region and just copying the existing ones from successful Western companies. All these stages develop require dynamic capabilities and leadership styles. In case of CEE regions it was a very difficult task to overcome the existing mindset of managers who grew up in the conditions of socialist system and regulated markets.

Internationalization of CEE companies was a real challenge due to the scarcity of resources, lack of knowledge and strong competition. However, for some of them it was a way to survive and succeed abroad as well as on the home market. A good example of such companies is Hungarian MOL. The methods and resources Hungarian oil and gas giant used in order to succeed on domestic and foreign markets were quite different. (Buzády, 2010) There were three important stages of MOL internationalization. Each of them had its own goals and problems.

In terms of dynamic capabilities framework, the most important is the fact that the knowledge and organizational learning were the most needed capabilities at all three stages of this

process. Strong competition from Western and Russian oil companies forced MOL to pursue its goals by means of fast mergers and acquisitions. Due to many similarities, geographical proximity and lack of resources, smaller oil companies from other countries of Central and East Europe became main aims of the MOL's growth strategy.

The example of MOL internationalization also describes the overall situation in several Central and Eastern European countries and gives an overview of processes happening with oil and gas industries in those companies. Most of them experienced the same problems. That is why they could not resist acquisitions and mergers initiated by their more successful competitors from Western countries, Russia or even their neighbors such as Hungary. However, some of them could benefit from it, for example, Croatian oil company INA for which this strategic partnership meant knowledge transfer in various fields from supply management to recruiting.

The study by Cyfert&Krzakiewicz, 2016 investigates the nature of factors that lead to forming and development of dynamic capabilities among Polish enterprises. Basing on the existing literature, the authors describe three approaches to the definition of dynamic capabilities. The first one is based on the tenets of evolutionary theory and the concept of strategy founded in the classical microeconomic logic. The second one gives the managers the leading role in creation of dynamic capabilities. The third one is derived from the original concept of dynamic capabilities formulated by Teece.

The authors argue that to build and maintain dynamic capabilities, it is necessary to incorporate mechanisms of real-time response to changes in the environment into the organizational management system (Krzakiewicz, Cyfert 2014). The results show that human and financial resources and skills had strong influence on the dynamic capabilities development of Polish firms. At the same time structural and institutional resources and skills significance was much lower. However, the study shows that all these categories are important in this context.

Although there many cases of successful internationalization of Polish MNEs, they are still considered to be in the stage of "infancy"(Trapczynski, 2015) Most of their activities abroad are in neighboring countries of CEE Region. The major investment motives for them are distribution channels, foreign market access and further expansion.

The foreign investments of Polish multinationals are beneficial in general, however the performance of foreign affiliates is often lower than expected. That is why it is still difficult to say that Polish companies can successfully face the problems that may arise during internationalization. The support on the side of the government could improve the situation in the

future.

The main stimulating factor of Polish companies internationalization is fast economic growth and rising competition in Polish market. In terms of FDI inflows and outflows Poland is a leading country in CEE region. Its number of companies doing business abroad is already high and rising. (Jasiniak, 2015)

In context of our research one of the most interesting findings is that the leading form of entering the markets by Polish companies is greenfield investments and not cross-border M&As. It shows that Polish companies were ready to invest heavily in their activities abroad that is also explained by high rates of economic growth.

It is still difficult to say how effectively Polish companies use the results of investing abroad and at what extent it improves their innovativeness and ability to compete successfully abroad and in Poland.

Six factors that influenced Polish SME internationalization were following: managerial expertise, dynamic capabilities, risk aversion, alliance capabilities, foreign market orientation and markets knowledge. The studies showed that all of them had positive influence on company's ability to internationalize and be successful abroad. This research paper as well as many other ones dedicated to internationalization show that dynamic capabilities became an integral part of company's success nowadays. (Ayandé&Sabourin, 2015)

Poland as a leading economy in CEE region and Europe's sixth biggest economy is a good example of showing how important internationalization is for companies coming from fast growing economy. The authors also argue that the Polish companies that took part in the survey, use almost the same techniques and strategies as large companies for their internationalization and foreign markets penetration.

Experience from previous markets

There are different theories of internationalization such as Uppsala model or network-based model and they are also applicable to companies from CEE region. (Ferencikova, Ferencikova, 2015) Various studies mentioned in that article prove that key principles and strategies such as psychic distance of Uppsala model or business connections of network-based model are equally important for companies founded in transition economies such as Poland or Slovakia. However, in some cases such as MNCs or IT start-ups, these theories fail to explain their methods and strategies of internationalization.

Sometimes, in case of companies from emerging economies the necessity to internationalize and operate abroad is caused by unfavorable business and political environments in their domestic markets. (Anil, Tatoglu&Ozkasap 2014)

However, in such cases, their internationalization is gradual as they often lack needed resources and capabilities. (Vissak, Zhang, 2015) In their study, the authors show that this type of internationalization has many drawbacks and companies may de- and re-internationalize during the process as it happened with one door producer from Belarus. However, this way of internationalization is still possible and may be used in some cases.

There are several trends in the internationalization of Polish enterprises. First of all, internal factors drive internationalization much more than external ones. The size of Polish market and high competition force Polish companies to expand abroad. Another important factor is the personality of the leader, his/her determination and experience. The first stage of internationalization seems to be the most difficult for Polish companies which is not surprising. Fast growing Polish companies definitely prefer more direct foreign market entry forms. (Śliwiński, 2012)

The methods of internationalization and competitiveness of Polish companies have significantly improved since 2004. The pattern of internationalization and strategic attitude of Polish companies and companies from developed countries are becoming more and more similar. However, Polish companies lack the state's support and assistance programs which are widely used by Western enterprises.

The growing internationalization inevitably leads to the increase of the degree of complexity of the process because of the necessity of integration into the certain national markets. Because of it the integration and expansion to the external markets should be implemented by achieving the compromise between integration (control and management) and consumption of resources. Thus, the identification of related market entry issues and possible barriers, as well as identification of suitable alternative strategies of action is crucial.

The analysis of the effects of dynamic capabilities in the IT companies in Romania shows that sources of dynamic capabilities may be different but the creation of dynamic capabilities always is done through a strategic process.(Tuteanu&Serban,2013)

General patterns of internationalization among CEE show that after the fall of socialist system, the companies trying to internationalize faced a lot of obstacles related to lack of resources, know-how, networks, state support and strong competition in other markets. That is why many start-up companies preferred to develop staying in their domestic market while existing companies that had some connections with their foreign partners from the past often chose the path of internationalization. Another reason for early internationalization of companies coming from CEE region may be EU membership and opportunities provided by this.

For some IT companies lack of know-how was not a serious problem in order to succeed abroad. Partially it can be explained by the fact that their most valuable assets are human resources. Similar patterns can be found for other IT companies from CEE region as well. (Ferencikova, Hluskova, 2015)

Acquisition Based Dynamic Capabilities

The importance of mergers and acquisitions for multinationals from emerging and transition economies has already been mentioned. However the motives of it can vary significantly (Lebedev, Peng, Xie, Stevens, 2015) Market power motivation was leading reason for companies to start acquisitions in CEE region during privatization.

Another important peculiarity of companies from transition economies taking part in merger&acquisition processes is political influence as a lot of them were or are state-owned enterprises. Government intervention in some cases can be significant.

However, the consequences of mergers&acquisition are difficult to assess and they may be positive, negative or have no effect. As it can be seen from many sources such deals were widely used by companies from CEE region to get needed knowledge and networks abroad.

Foreign direct investments among countries of CEE region have specific pattern. For example, most of FDI flows in this region are often determined by historical or secessionist ties between countries such as Slovakia and Czech Republic or Slovenia and Croatia(Sass, 2016) It means that enterprises from these countries tend to invest in the countries with the smallest psychic distance. MNEs from CEE countries are very active in neighboring countries of CEE region and it is a good target for them to start their internationalization globally. However, the intra-CEE FDI level is still quite low and it may improve in the future as the countries of CEE region get more and more involved in global processes.

Innovation capability

The internationalization of Polish companies proves that there can be problems related to the image of Polish products on European markets. (Sliwinski, Sliwinska, 2015) Overcoming this negative image is crucial for some companies in order to succeed.

It also means that for such companies product and technology are the most important factor of growth on international market. Partner's relations and networks relate to the second most influential group of factors that stimulate Polish companies' growth internationally.

Innovation and ability to innovate is a crucial component of dynamic capabilities. However, most of the countries in CEE region can be classified as moderate or even modest innovators (Sára, Csedó, Fejes, Tóth, Pörzse, 2013) Education level is one of the main reasons of such situation. Another problem is limited financial resources, especially in case of SMEs. That is why large multinational companies in CEE countries can allow themselves to allocate a part of their resources for innovation whereas smaller companies try to involve capital from external sources like EU grants, venture capitals, private equity firms, governmental subventions or business angels.

As a result, knowledge management and innovativeness of CEE companies is often underdeveloped compared to their Western counterparts. One of the methods of changing this fact is partnerships with regional or global partners, mergers and acquisitions to shorten the technological and knowledge distance and improve company's ability to innovate. EU policies and implications also facilitate the development of innovative capabilities.

Improving the efficiency of the companies coming from CEE region economy through better education, increasing market efficiency and labor productivity, the development of financial markets, technological equipment and openness will enable the transition to the next level of business model development and the use of innovation (The Global Competitiveness ..., 2011)

Despite the moderate economic opportunities of many CEE companies, currently there is a tendency to strengthen their innovative activity, especially in the field of product and technological innovation, which are the instrument that is able to influence the entire business process.

Adaptability

Examples of successful Hungarian exporters prove that proactive and flexible companies perform much better. (Onodi, 2014) Adaptability significantly increase company's chances to succeed in its exporting activities. The authors also argue that companies with better resources and capabilities including dynamic capabilities are better exporters.

Companies manifest their dynamic capabilities as soon as they have to adapt to changing business environment. It is fair also for companies coming from the CEE region. HGF Hungarian SMEs were able to develop their dynamic capabilities when faced new challenges and had to change their organizational structure rapidly. (Szalavetz, 2015)

Knowledge management

In CEE countries the perception of knowledge management importance for company's development is also still developing. In Poland only one in five surveyed companies tries to implement knowledge management innovations. (Nowacki&Bachnik, 2016) The motivation for it varies among companies from different industries as their stage of development, barriers and threats influence their readiness to invest in knowledge management innovations. The companies also pay different amount of attention to three processes of knowledge management: acquiring, leveraging and sharing.

Human capital

The importance of human capital and return migrants is very high for the CEE region as there are a lot of people coming from CEE countries and working abroad in other European countries. This factor can positively influence entrepreneurship in the countries of CEE region and improve competitiveness of companies in general. (Gittins&Fink, 2015) Such return migrants have needed knowledge and experience they managed to acquire abroad and can apply them to development of companies in their home countries.

Russian companies

The importance of Russian companies on the world stage is growing rather slow. In 2010, in the list of 500 the world's largest corporations by market capitalization volumes included only

six companies from Russia(Fortune, 2010)

Foreign expansion of Russian companies as the most important sign of the active inclusion of Russia into the global economy means the growth of its international competitiveness, which contributes to improving national competitiveness as well. The large part of new Russian companies wants to become global and make real steps in this direction, acquiring new assets abroad. In general, the movement of Russian investments abroad corresponds to the usual internationalization scenario of companies worldwide.

The internationalization of Russian companies can not be easily compared to similar processes in other developing countries as it has several major differences. First of all, the lack of experience of Russian multinationals as they started their expansion only in 1990s. Companies from developed and even developing countries may have decades of experience related to their overseas operations.

Macroeconomic and political conditions of Russia are quite different compared to other countries. It means high presence of the state in economic activity, low level of economy diversification and very short period of market economy. These factors have a strong influence on the development of Russian multinational companies and their expansion abroad.

Most of leading Russian multinationals are companies from energy industry. That is why we may argue that Russian MNCs are “natural resource champions” which also reflects the development and peculiarities of Russian economic development. (McCarthy, Puffer, Vikhanski, 2009)

The internationalization of Russian companies started in tradable sector in the late 19th century, but after the two world wars in this process was dominated by exports of raw materials. Before the collapse of the Soviet Union there were no more than 500 Soviet companies operating abroad. This fact is explained by the fact that their economic activities had more political than economic reasons.

In 1990s right after the disintegration of the Soviet Union there were several cases of internationalization attempts of Russian companies in the CIS states. These processes involved restructuration and consolidation of former state-owned companies that by the means of mergers and acquisitions consolidated its assets that were located in the new independent states. That is how the first group of Russian multinational companies emerged. (Filatochev, Buck, Wright, 2007)

Another group of Russian MNC emerged as a pure result of nationalization of former state-owned companies. Most of well-known and best-performing Russian MNCs today belong to this

type multinational companies.(McCarthy, Puffer, Vikhanski, 2009)

When Vladimir Putin came to power in 2000, a lot of efforts were made in order to put an end to “wild capitalism” that meant the rise of oligarchs and was thriving in Russia during 1990s after the collapse of the Soviet Union. The result of this policy led to the fact that the internationalization of Russian companies has allowed for a significant global integration.

The Russian multinationals' mergers and acquisitions were concentrated on the CIS region as these countries have geographical location closest to Russia, common history and in many cases similar cultural peculiarities. This fact means that Russian companies choose so-called natural markets for its expansion which increases the chances of such expansion to be successful.(Casanova, 2004)

Some Russian companies used another successful strategies for their subsequent internationalization. They started expansion to another regions of Russia first, and after that, having accumulated enough experience, knowledge and specific competitive advantages. After that such companies expand to the CIS region and then other countries.

According to Panibratov, 2010, the internationalized Russian companies' in spite of the broad variety of their motives and strategies have two key features in common. They had quick access to foreign markets through numerous opportunities in commodity markets and a close relationship with the Russian state, the value of which for the leading multinationals Russia continues to grow due to the lack of a clear incentive policy and now this issue is of particular importance.

This explains why nowadays the internationalization of Russian companies is still focused on the mining industry. Because of this fact, it seems that the internationalization of the entire Russian economy and business serves the purpose of modernization of the Russian companies, and as a possible result of it - getting rid of dependence on the energy and mining industries.

Russia as a part of BRICs was one of the countries with high FDI and high internationalization rates during 2000s. However, most of the studies dedicated to internationalization of companies coming from BRICs concentrate on India and China. Possible reasons explaining this fact may be the concentration of foreign economic activity in a number of large Russian companies and several industries and lack of political support. Russian government promotes the internationalization of local companies in an unclear way. In contrast, there is a clear

policy to stimulate foreign investment in China, so-called Zou Chu Qu.(Filippov, 2010)

However, comprehensive Internationalization and global integration is unthinkable under conditions of exporting solely commodities. In addition to the expansion of the market, the objectives of many Russian companies are the internalization of the inputs and outputs of the value chain, own innovation, as well as the overall management risk by the means of geographical and sectoral diversification. The last goal is strategic and can be reached only through direct investments.

Russian companies that are investing abroad are primarily represented by the public and private companies from energy industry. (Kalotay&Sulstarova, 2010) Large Russian enterprises engaged in direct investment abroad, have several important characteristics:

- 1) They are monopolists or oligopolists on their home market;
- 2) They have a strong competitive position in their respective industries;
- 3) They receive significant revenues from exports, which then are sent in the form of direct investment abroad;
- 4)They recognized the importance of a global presence to maintain or expand its international competitiveness.

Russian companies from certain industries, in particular oil and gas industry, energy industry and the banking sector, could count on wide support on the part of the state during the process of internationalization and are to some extent under its control. (Panibratov, 2010)

Russian investments in the CIS, tend to be concentrated in strategic areas such as energy and infrastructure, whereas in developed countries, the Russian businesses are gaining comparatively small share of the market and their strategy is aimed, first of all, at the implementation of the strengths of the product and the company itself.

A large proportion (about 60%) of Russian FDI is accounted for the major oil and gas corporations, 25% relates to the metallurgical industry. In the telecommunications industry the interests of Russian companies and role of Russian FDI are also growing fast.

There are many methods the Russian government uses to encourage foreign expansion of private Russian oil and gas complex. Practice shows that the main reasons for Russian companies to acquire assets abroad are following:

- 1) The development of core business by acquiring targeted segments of foreign markets and getting experience in a developed market;

2)Forming an integrated multinational company and its consolidation with the increase of the market share;

3)Diversification of assets with the aim of insurance of major shareholders

Companies from different industries have specific reasons of internationalization. According to Panibratov, 2008, various competitive action types such as product, price, marketing and capacity were motives of Russian companies in construction industry to internationalize. Their goals are also different from multinational companies in general and include compensation of the lack of plots or improving their image.

Innovation capability

Russian economic policy and country's economic development have a certain influence on the forming and development of Russian multinationals. Unfortunately, there are some factors that negatively impact Russian companies' innovation and dynamic capabilities development. As the comparative study of BRICS countries shows, high levels of government ownership and export ratio represent obstacles on the company's way to innovation (Jiao&Jiao, 2016) However, in some cases we can see that state-owned enterprises in Russia may have some advantages in innovation development. (Gershman&Thurner, 2016)

There are also numerous attempts to create areas unified economically between Russia and other members of the CIS for the further mutually beneficial economic cooperation and development. However, the countries that appeared after the collapse of the Soviet Union have different economic and political conditions. That is why the results of the integration may be very unpredictable.(Hartwell, 2013)

Two very important composition elements of dynamic capabilities – adaptation and innovation capabilities – allowed for the successful organizational transformation of Russian oil company, Yukos. Adaptive capacity was needed to adapt to the market conditions by using knowledge from the West and be able to survive and compete in the new economic model. Dixon, Meyer&Day, 2014)

Russian government is trying to change the current “resource-based growth model”. That is why it is very important to set long-term priorities for science&technology(S&T) and innovation in order to achieve future economic growth. It opens windows of opportunities for entering prospective markets while creating new ones and provides a basis for technological modernisation of various sectors of the economy and for generating much-needed skilled and

competent labor force(Meissner, Gokhberg, & Sokolov, 2013).

However, during last decade, the majority of Russian companies have not been able to engage successfully in the processes of creation and implementation of innovations. Russian companies prefer to buy needed machines and spare parts abroad, not investing in the development of their own ones. The cooperation with universities and other scientific entities remains to be quite low and innovation development in Russian companies is not as effective as it could be due to various limitations.(Gokhberg, Kuznetsova, Roud, 2012)

Russia failed to create the effective national innovation system. Structural problems of economy, low investments in R&D, lack of unified actions of all engaged actors create a lot of problems on Russia's path to innovation development. Another group of problems include the impossibility to copy successful examples of innovation practices that can be seen in European countries due to country's specifics that include history and culture. The innovation and technological gap in Russia can even increase in the near future. However, Russia has a good science and technology base accumulated during the Soviet times and it should consider this fact. (Gokhberg, Kuznetsova, Roud, 2012)

The modern problems of innovation development of Russia are quite similar and can be compared to the problems of innovation development countries of Soviet bloc had to deal with. The author claims that Russia lacks strong innovation policy on the part of the government and has to overcome high levels of corruption and nepotism – main obstacles on the path to technological progress of Russia nowadays. There are different measures Russian government has already taken and which it is planning to take in years to come. The short comparative analysis of BRICS countries shows that Russia urgently needs to improve its innovation policy in order not to lose the race against its main contenders. (Klochikhin, 2012)

Supporting innovation in the private sector is also a good way to encourage innovations and its development in Russia as it is considered to be the core of many national innovation systems.(Kosals, 2004, Gianella&Tompson, 2007) However, in most cases the private sector's role remains small in Russia as the main driver of innovation is state-owned companies due to some historical and political reasons.

Acquisition Based Dynamic Capabilities

For market entry strategies Russian companies in most cases choose investments in the

form of greenfield projects as well as mergers and acquisitions (M&A). Although the process of internationalization began with mergers and acquisitions in the CIS countries, now Russian firms implement this strategy mainly in the developed countries of Europe and the United States.

This strategy seems to be quite reasonable as internationally, the M&A as the market entry method is becoming more and more widely used by investors from developing countries such as BRICs countries that want to enter developed markets. Moreover, for developing economies M&A plays an important role in the economy. For instance, at the peak of Russian M&A activities in 2007, the M&A volume accounted for more than 10% of the Russian GDP (Radygin, 2010)

However, lack of acquisition experience of Russian companies due to the different market conditions in the Soviet Union can decrease the positive effect of Russian companies acquisitions and moderate their performance following M&A processes.

The reasons for that are different: legal issues, weak institutions governing market transaction, corruption and low level of information transparency. The latter accounts for the high number of difficulties of the due diligence process. Another serious problem in Russia is a lack of professional intermediaries for the execution of transactions.(Radygin, 2010)

Most of leading Russian companies are state-owned which means that these companies enjoy certain advantages; however, it can create additional obstacles This fact can mean worse performance of acquirers due to a possible intermingling of political and profit objectives. Another problems include lower internal efficiency incentives and stronger organizational rigidities that are associated with state-ownership.(Bertrand and Betschinger, 2012)

The authors conclude that Russian companies suffer from the inability to leverage value due to low M&A experience and capabilities, especially when making international acquisitions. At the same time, there is a positive interaction between domestic and cross-border deals in acquisition programs.

Absorptive capacity

Russian companies should pay more attention and devote more resources to develop absorptive capacity as it is possibly the most rapid and balanced development strategy for regions characterized by environments which are adverse to change and innovation. (Moutinho, 2016) Companies must pursue the objective of development and effective use of their knowledge, investing the resources (financial, human and time) in the education and training of the their employees. However, firms should understand that the materialization of the impact of such

investments may take a long time.

Therefore, it is unnecessary to give up such investments only because it does not lead to immediate profit growth. Second, companies should encourage communication between employees performing different functions, think and solve common problems in teams, rather than leaving it to the discretion of leaders. Third, all the levels of the organization should implement the strategy of building a learning organization.

Organizational learning

For Russian companies the concept of training and retraining as an objective needed for innovative development may be especially interesting. In its basis lies the establishment and development of an employee as a creative person, supported by long-term investments into the workforce with a focus on its continuous professional growth.

Creation and maintaining a constantly learning organization in working condition is very difficult. For the creation, collection and dissemination of intellectual values for modern successful companies it is necessary to create appropriate infrastructure. Examples of the leading foreign and Russian companies such as MTS and Sberbank show that most efficient tools of doing it is creation and development of corporate training centers. Long-term multi-stage training programs provided by these centers are an essential element of the company's strategic development.

Russian companies development towards a learning organization is quite a new phenomenon which means that they can face certain difficulties. The first obstacle is that the organizational learning in Russian companies is often considered as unfavorable investment. Among the managers of modern Russian firms there is still the belief that investing in training is ineffective. These managers say that a specialist that are taught by the company are not devoted to the company and the learning may turn out to be a waste of time and money if such specialists leave the company. However, making the education one of the most important priorities of the company nowadays is vital for organizational learning.

The second barrier is that the managers often consider training only in the context of learning new material. In fact a successful program of organizational learning must always be focused on personal and professional development of employees. Each learning organization recognizes the importance of formation of the desire for self-improvement, ability to change the usual forms of activity as a high qualified specialist should be able to learn and adapt his knowledge.

And the third problem arises in cases where the company's management is convinced of the need for change in organizations through training, but the training program is considered as a first aid in the solution of urgent problems. With this approach in mind top managers may overlook the fact that organizational learning must always be systematic and focused, as it is an integral part of the strategic development of the company. Organizational learning should be considered as a necessary tool of successful development of the company in the future.

Knowledge management

For Russian companies knowledge management still often represent an obstacle due to cultural aspects and Soviet past where confidentiality was one the main priorities. Russian managers often prefer not to pay much attention to this problem since they are more concerned with social and employment security issues(Husted&Michailova, 2002)These facts show that nowadays leading Russian multinationals strive to optimize their knowledge management and information sharing in order to improve their efficiency.

It should be noted that there is a serious lack of empirical basis for assessing the dynamic capabilities of Russian companies. Unfortunately, the identification and detection of dynamic capabilities, evaluation of their role in strengthening the competitive position of domestic companies is difficult due to lack of knowledge and closeness of the strategic planning and management in Russia. Now there is no clear systematization of the factors that have the most important influence on the dynamic capabilities of companies, and form the core competencies that leaves room for further research.

It is interesting to mention that innovation capability has been analyzed in many studies dedicated to Russia but most of them describe low development of it among Russian international enterprises. It may mean that innovation capability plays not as important role as other dynamic capabilities enablers. That is why it is possible that our assumption about the validity of all dynamic capabilities enablers needed for internationalization in this study will change in the process of data collection.

1.4. Conceptual framework and propositions

We argue that the priorities in the development of dynamic capabilities found in the process of our literature analysis have been changing with time. Transition economies such as Russia and CEE countries have been gradually adapting to existing economic conditions as did the companies

coming from these countries. We develop our propositions and conceptual framework with an aim of showing which factors accounted for this shift and how they influenced the internationalization processes of companies from given countries. It will also allow to understand how the importance of certain dynamic capabilities changed during two last decades and what factors were responsible for these changes.

Ownership and company's strategies

Internationalization is often quite a difficult task that demands a lot of resources and efforts from a company. That is why companies try to choose the most convenient ways and methods of internationalization in order to succeed.

In our study, we claim that one of the reasons of late internationalization among SOEs was concentration on domestic market. For SOEs in 1990s the domestic markets became the main target as they were not forced to expand abroad due to increased competition and could gradually develop and modernize their technologies and knowledge on domestic market as the government guaranteed the support and protection of such companies.

So-called national champions in Russia and CEE countries gradually increased their assets domestically and accumulated their resources during 1990s. (Panibratov, 2009) After that, approximately in the mid-2000s, they started swift internationalization in CIS and CEE regions and beyond. The government support and large pool of resources allowed them to undertake even risky acquisitions that were not always effective. (Bertrand&Betschinger, 2012)

The good examples of such successful national champions are companies can be found in natural resource industry.(Buzády, 2010; Panibratov, 2009, Gorynia, M., Nowak, J.& Wolniak, R.,2010) However, the negative consequence of SOEs development is their concentration of their main activities on domestic market due to the fact that they often enjoy special preferences and even quasi-monopolist position that is a significant obstacle to such important dynamic capabilities enablers as innovation and absorptive capabilities.

At the same time, the private companies in Russia and CEE region started their internationalization earlier and were more flexible and able to adapt to new conditions. However, there were also other reasons of early internationalization. There are examples of companies that had to internationalize due to some economic or political difficulties and the result of such internationalization was far from successful (Anil, Tatoglu&Ozkasap, 2014)

Such companies also were not constrained by some national interests as it can be seen in the case of SOEs where their strategies often depend significantly on geopolitical interests of

certain countries. In the context of dynamic capabilities development, it is important to mention that the various partnerships and alliances were especially important for SOEs that preferred to develop their knowledge and technologies domestically. Examples of Gazprom and Romgaz show that such cooperation did help them to develop and gain experience and know-how that was urgently needed to be able to compete in modern conditions abroad.

Proposition 1: The goals and strategies of SOEs in Russia and CEE countries have changed after 25 years of development as they had concentrated on domestic markets in 1990s but since the mid-2000s they are more eager and able to expand abroad which positively influenced their dynamic capabilities development.

The extent of technology and internationalization

Technology and know-how is a vital component of dynamic capabilities and they allow companies to make more use of acquisitions. (Anand, Oriani&Vassolo, 2010) Long period of socialist economic system led to a serious technological lag among former socialist countries. The companies had outdated equipment and know-how as they had almost no incentives to modernize. However, after 1990 they faced a real challenge as companies that came to the markets of CEE region and Russia were much better prepared and technologically advanced.

The studies show that the level of innovation and R&D development in Russia is rather low (Gokhberg, Kuznetsova, Roud, 2012, Kosals, 2004, Gianella&Tompson, 2007 and in CEE countries it is moderate or even modest. (Sára, Csedó, Fejes, Tóth, Pörzse, 2013)

That is why the companies from CEE that wanted to compete successfully not only on domestic market but also abroad had to somehow solve this problem. One of the most logical ways to do it were acquisitions of foreign companies as it was an easy and fast way to improve the technological processes and get the needed know-how. However, different factors could have decreased the possible positive effects of some acquisitions(Bertrand&Betschinger, 2012; Buckley, Elia&Kafouros, 2014) Cooperation with foreign leading companies was also a great opportunity for technological breakthrough.

Basing on the empirical results and answers of the experts, we argue that industries that are more dependent on technologies were more able to internationalize globally without regional limitations. They did not have typical problems of companies that are closely tied to local

preferences of consumers and markets as their products and services are truly needed worldwide.

The innovation and absorptive capabilities were key tools for these companies on their path of internationalization and they were able to employ their knowledge and technologically based acquisitions and partnerships to allow for growth and expansion abroad. The IT and pharmaceutical companies are clear examples of industries that were able to develop the aforementioned dynamic capability enablers.

These and other technologically intensive industries in their expansion may be also looking for some key technologies and R&D from other companies that could be smoothly integrated in their production line.

Proposition 2: Technologically intensive companies from Russia and CEE region were able to achieve global presence due to their ability to foster and employ innovation and knowledge.

Experience and choice of markets abroad

The so-called Uppsala model implies that the company chooses markets that are easy to access and have the shortest psychic distance.(Johanson & Vahlne, 1977)This model also has its defects so the model still is a subject of argues among scientists.

CEE companies also choose this way as it is quite logical and does not depend on certain countries or regions.(Ferencikova&Ferencikova, 2015) For the companies from CEE region, the most logical direction of their internationalization is other countries of Central and East Europe. They had pretty the same economic and political system and their development after 1990 was also quite similar.(Sass, 2017; Dixon, Meyer&Day, 2010) In case of Yugoslavia, they also share ethnic and language unity. For Russian companies the first location to pay attention to is the CIS region. In this case, the ties are even tighter as these countries were the part of the one state – the Soviet Union and earlier Russian Empire which makes them closely interconnected and easy for Russian companies to adapt.

The experience gained in one markets may significantly increase company's competitiveness in other markets. That is why the choice of initial market of internationalization is quite important.(King&Tucci, 2002)

Being able to start from CEE region and then internationalize gradually may increase

company's chances to understand the main threats and opportunities of its international strategy and also adapt itself in less risky conditions for further expansion.

On the other hand, our empirical findings and experts' opinions show that there are clear examples of successful companies that were able to internationalize in distant markets such as West Europe or North America. The explanation of this fact lies in the right choice of partnerships, acquisitions and different type of products and services. (Wiklund&Shepherd, 2009)

The recent expansion of some companies abroad that they in many cases are not forced to limit themselves to CEE or CIS region due to their novelty and relative independence from local consumers' preferences. These companies are doing business in natural resource industry mainly and seek new resource bases or technologies that could improve their efficiency or decrease costs.

Proposition 3: There are international companies in CEE region and Russia that do not depend on experience accumulation and whose strategies that deviate from gradual internationalization pattern due to their specific goals and priorities.

Key changes in knowledge development

The economic conditions of socialist systems that existed in Russia and CEE countries led to serious lagging in R&D and innovations development. The technologies and equipment of many companies were outdated and could not match with their Western analogues. Of course, this problem also was a result of weak government support of innovation programs and mindsets of managers that used to do business in different economic and political conditions and did not see the necessity to change. (Klochikhin E, 2012; Dixon, Meyer&Day, 2010)

The first and foremost aim of many companies in 1990s was to decrease this technological gap in order to be competitive and create modern services and products. Of course, for some industries this problem was even more urgent and forced them to implement plan of actions aimed at solving this problem. (Sára, Csedő, Fejes, Tóth, Pörzse, 2013)

Basing on the literature, we argue that the companies used various partnerships and joint ventures with the leading Western companies in order to boost their technological base. It allowed to learn a lot and modernize swiftly which led to further internationalization of such companies and their high competitiveness abroad. (Anand, Oriani&Vassolo, 2010; Giniuniene, Jurksiene, 2015) The companies from Russian and CEE region may have needed these alliances even more than companies from other countries in order to raise their level of competitiveness and get the

needed skills to be competitive enough to expand abroad. Some companies that were acquired by Western giants were able to adapt their know-how to the international level due to huge investments and support of their parent companies.

However, over last 25 years the companies have accumulated needed resources and knowledge and were able to establish gradually their own R&D labs and cooperation with national institutions. Moreover, there are many government programs in many countries of CEE regions and Russia that pursue innovation development in the country and contribute to these processes within the companies. (Gokhberg&Roud, 2012; Klochikhin E, 2012; Gianella&Tompson, 2007).

It shows that the companies are able to foster its absorption and innovation capabilities on their own and be competitive on international level.

Proposition 4: The companies from Russia and CEE countries actively used partnerships and joint ventures in the beginning of transition process due to the lack of resources and technology lag but were able to shift to their own R&D and innovation development due to improved economic conditions within the company and countries in general.

The political and economic situation nowadays and 25 years before in Russia and CEE region has changed a lot which could have influenced the shift from companies' priorities and plans of internationalization significantly. This fact may also reflect the choice of dynamic capabilities needed for internationalization among the companies coming from Russia and CEE region and change in their development.

We claim that often the lack of resources, experience and technologies was a major obstacle for the companies' internationalization in the 1990s but in 2000s they managed overcome that difficulties and expand successfully. Often, the use of various alliances and acquisitions helped them to gain needed knowledge and access to new technologies and resources.

In our study, we argue that the importance specific dynamic capabilities enablers have also changed due to the improved financial and operational pool of resources available to the companies after 25 years of their development. That is why they are able to develop many products or services on their own nowadays and do not depend on suppliers overseas.

The Figure 1 illustrates the four dimensions that include all the mentioned factors that played significant role in the internationalization of companies from Russia and CEE region. It shows how the influence of these factors led to the different geographic location of markets these companies entered 25 years ago and now. We divide them into three groups: CEE and CIS regions

which usually represent the initial stage of internationalization, West Europe which is logical continuation that requires higher costs and standards and America, Asia and Africa which typically mean that company has enough resources to go global.

The companies were gaining their experience by gradual development within the country with the use of alliances and acquisitions and modernized not only their technologies but management practices and adapted to the new economic reality. It allowed them to gradually penetrate neighboring markets or even move beyond them. We unite all these components in our second determinant – *accumulated experience*.

We argue that this is one of the reasons why companies foster their R&D and innovations on their own now compared to collaboration and partnerships with Western companies that were quite widespread in the 1990s. That is why we add *knowledge development* which includes R&D and innovation development to our conceptual framework.

Other two dimensions of our framework have different nature. One reason of late internationalization of SOEs was concentration on domestic market. Especially this is typical for SOEs that were not forced to expand abroad due to increased competition and could gradually develop and modernize their technologies and knowledge on domestic market as the government guaranteed the support and protection of such companies. That is why we argue that *type of ownership* also influenced the certain areas of dynamic capabilities development and competitiveness of companies abroad.

The last determinant of our theoretical model is the dependency of industries on technology. Some of industries even in 1990s were able to internationalize successfully due to the fact that technologically intensive type of industry made them invest heavily in innovation and technology which allowed them to “break” regional limits which other industries were not able to do. The *type of industry* reflects this factor in our framework.

Overall, the framework depicts how the companies’ priorities in choice of markets change with time due to the shift of various factors that account for change in dynamic capabilities development in these companies.

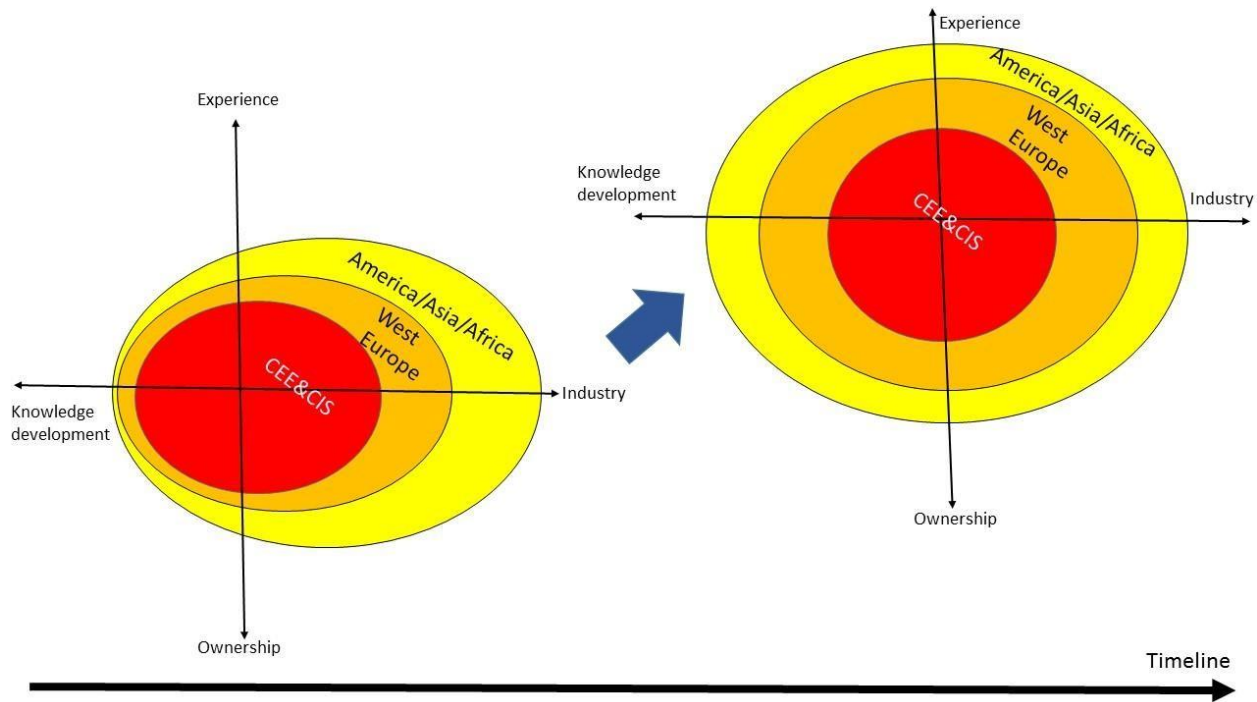


Figure 1. Theoretical framework

Summary

In the first chapter, we first provided the analysis of dynamic capabilities concept and its main opportunities and contradictions. It also includes the overview of the methods and instruments in existing literature that may allow to somehow measure dynamic capabilities development. After that, we identified the most important dynamic capabilities that played the key role in the internationalization of companies coming from emerging markets, first of all BRICs countries.

We have analyzed the existing literature about potential dynamic capabilities of international companies from Russia and CEE countries. All enablers of dynamic capabilities could potentially be assessed in the given context of transition economies as all of them were more or less employed in the process of internationalization.

Basing on the analysis of literature, we decided to develop our propositions and create a conceptual framework that could potentially explain the factors that may explain the shift of dynamic capabilities development among the companies from Russia and CEE countries.

However, as we have already said, there is a research gap related to dynamic capabilities of Russian companies and CEE companies from different industries as most of the existing studies show the development of dynamic capabilities in certain sectors of economy such as IT or natural

sources.

2. Methodology

2.1 Research design

The choice of methodology in this study was based on the needs to explore and analyze in depth how and to what extent international companies from Russia and CEE companies were able to choose and develop their dynamic capabilities and what factors influenced their development. That is why we decided to choose exploratory research that implied conducting a qualitative study. In order to collect the needed data for the research, multiple case study approach will be used as a main method. (Eisenhardt, 1989) This approach may allow for examining the underlying factors and reasons of choosing certain enablers of dynamic capabilities and for the better understanding of internal and external factors that could have played important role in this process.

Data collection

Data collection phases

Data collection process consisted of a number of phases and was explorative in its nature. The chosen approach led to the improved understanding of the researched phenomenon. The data collection process started with an investigation of various sources of secondary data about the international companies from Russia and CEE countries, which included media articles and industry reports. The data then was structured and analyzed in order to get a detailed understanding of the international companies from Russia and CEE countries. Data regarding main players, segmentation, growth dynamics, positions of companies in world and regional rankings, possible obstacles to development and important industry regulations was thoroughly studied with an objective of providing us with the overall understanding of the sectors specifics and an opportunity of preliminary analysis of the companies that may be included in the potential sample. The aspects that were analyzed by us in the first phase of data collection were different characteristics of the international Russian companies and companies from CEE region. The results of this overview and analysis were then used for the choice of the companies from selected countries. In addition, the collected information was used for the development of possible questions for experts taking part in our research.

In the second phase, after collecting the preliminary data, we decided to focus on the choice

of companies with the use of reports and media sources. In accordance with the objectives of the study, we focused on selection of the companies that have international operations. The results of this extensive search allowed us to find suitable cases of companies for further investigation.

The third phase implied creating a questionnaire for seven experts that specialize on CEE region and analysis of their answers in order to support or undermine our findings. The list of experts is given in the form of a table (see Appendix A). The questionnaire included following statements and questions. The answers of the experts should give additional information about the factors that could have influenced certain choice of dynamic capabilities by CEE companies and their way of internationalization.

Statements / Propositions

1) CEE firms feel that their products are not competitive enough in Western markets and that is why they prefer to start from CEE region.

From the analysis of literature, we have found that CEE companies often choose markets close to them, first of all, other CEE countries (Trapczynski, 2015, Śliwiński, 2012, Sliwinski, Sliwinska, 2015). Such expansion may be caused by the fear of managers that their companies' goods and services may not be competitive in Western markets.

2) CEE firms region suffer from the liability of foreignness or other country-image related problems such as that the products of the company are regarded inferior or of lower quality in Western markets.

Another serious problem that may be an obstacle on CEE companies' way to internationalization is that their products may be perceived as inferior by Western consumer (Śliwiński, 2012, Sliwinski, Sliwinska, 2015). That is why they may prefer to expand to markets that are close in the terms of quality perception.

3) The private CEE firms are more able to adapt and be innovative abroad than the state-owned companies.

The internationalization of state-owned companies often implies government support and cooperation on political level. Such companies often have enough resources to invest in and develop their dynamic capabilities; however, they may also be less able to do it compared with private companies due to their leading positions on domestic market and government aid. (Buzády, 2010, Panibratov, 2010, Kalotay&Sulstarova, 2011)

4) CEE firms experience the lack of knowledge of important technological processes or innovations.

Various studies show that many companies from Russia and CEE countries suffer from technological gap, which may influence their decision where and how to internationalize. (Lebedev, Peng, Xie, Stevens, 2015, Gokhberg, Roud, 2012, Sára, Csedő, Fejes, Tóth, Pörzse, 2013) There is a number of ways how companies are able to overcome this problem. However, CEE companies may prioritize certain methods of technological and innovation development over the others.

5) Managers of the CEE firms fear that their companies would not be able to adapt their strategies and products to other regions and prefer to concentrate on CEE region or even not start internationalization at all.

The companies' capability to adapt and change is crucial for CEE companies coming from transition economies. There are successful examples of CEE companies that managed to adapt in order to expand abroad, however it is still a serious problem of many firms in CEE region. (Trapczynski, 2015, Dixon, Meyer&Day, 2010, Dixon, Meyer&Day, 2014)

Questions

1) How did the accession to EU influence the decision to internationalize? Were there any positive or negative changes for the CEE companies?

The EU accession of CEE countries that started in 2004 could have influenced the companies internationalization strategies due to intensified competition and new opportunities on the common European market. (Sára, Csedő, Fejes, Tóth, Pörzse, 2013, Sliwinski, Sliwiska, 2015) We are willing to understand whether this accession brought more positive or negative changes to the companies and how it changed their key capabilities development needed for higher level of competitiveness..

2) Are there any specific industries in CEE countries that may count on the government's support to internationalize?

Studies about Russian companies show that Russian government was interested and helped the companies from energy industry to internationalize. (McCarthy, Puiffer, Vikhanski, 2009,

Filippov, 2010, Panibratov, 2010) This industry is crucial for Russian economy and Russian government was interested in helping certain companies to succeed overseas. Thus, it would be helpful for us to understand whether companies from certain industries in CEE countries also were supported by their governments in their internationalization processes.

3) Do CEE firms prefer to develop their R&D on their own and domestic institutions or they strive for cooperation with the foreign companies to enhance their know-how and technologies?

The lack of technologies forces CEE companies to develop this area in order to be competitive on domestic and foreign markets. (Dixon, Meyer&Day, 2014 Trapczynski, 2015) The companies may cooperate with institutions in their country, create their own R&D centers or develop technologies and knowledge in collaboration with the leading multinational companies. For our research, it is important to understand which way of R&D development is preferred more by the companies from CEE region, as it is an important enabler of absorptive capability.

The results of the questionnaire will be used in order to underline or refute the findings of the research and get the additional information about the trends of CEE companies' internationalization and development.

Case selection

Purposeful sample technique (Patton, 2002) was chosen for the selection process in our study. Due to the fact that the main goal of our study was to examine how international companies from Russian and CEE countries develop and employ their dynamic capabilities abroad, we concentrated only on firms that have already demonstrated significant internationalization results and are successful in their business activities overseas. It is quite important to underline that the focus of this research was set to determine what enablers of dynamic capabilities turned out to be important for companies that were able to internationalize successfully and compete in foreign markets. In the process of selection, various criteria such as the number and location of countries of international operations, the share of international operations in total revenues, the location of R&D centers, products and services offered overseas were evaluated. The selected firms may show different level of internationalization which could be explained by various reasons including the industry, scale, resources, strategies and ownership of the presented companies. After this thorough investigation of the companies' background, motives and stages of their internationalization process, 45 firms were selected for the further analysis.

In the selection process, we also tried to include various sectors of economies in order to determine certain patterns of companies' priorities in the context of dynamic capabilities development.

Case data analysis

Data analysis consisted of several phases. In order to compare the companies' strategies of internationalization and find out the factors that contributed to their success and led to the formation of certain dynamic capabilities we decided to implement the content analysis in order to organize and categorize the data from different cases in order to make some important comparisons. The headings of the themes or so-called dynamic capabilities enablers include R&D activities, number and geography of internationalization, purposes and forms of market entry methods. These categories were coded so that it allowed for possible comparisons between presented cases (Lewis, 1998). In the process of this categorization, additional factors have been added to the analysis and to the further aggregation of the results. We were able to determine the several major dynamic enablers that could be important in the context of companies from Russia and CEE countries: 1) absorption capability, 2) alliancing activity, 3) accumulation of experience from previous markets, 4) acquisition based dynamic capabilities and 5) innovation capability. These dynamic capabilities enablers were chosen basing on the analysis of existing literature about possible measurement of dynamic capabilities.

The multi-case design is applied in order to support the logic of replication. The given set of cases is used as a series of confirmation that will support or disconfirm the statements of this study. After that, we applied the analytical replication technique in order to determine which dynamic capabilities enablers were crucial for international companies from Russia and CEE region with the use of set of case evidence. (Yin, 1994; Gilbert, 2005) The analysis is based on existing assumption that when the finding is present in more than one case, its generalizability is strengthened. After this phase is finished, we combine the opinions and answers of the experts with our secondary information in order to check for accuracy of the analysis and validity of the findings and conclusions.

In addition, we have excluded three firms in the process of analysis due to the fact that they had concentrated most part of their business activities on their domestic markets despite of doing business abroad. However, their experience and specifics of their internationalization process will be also taken into account for drawing conclusions about the different types of dynamic capabilities employed by the successful companies from CEE countries and Russia in their operations overseas. Thus, the final analysis and description of dynamic capabilities and

factors that could influence their development will be based on 42 case enterprises.

Data selection

The companies from CEE region that were targeted in this study were taken from the report 2016 Deloitte Central Europe Top 500 which is the list of 500 largest Central and Eastern European companies in terms of sales which represent the wide number of various industries in the countries of CEE region. This report is published on yearly basis and includes analysis and statistics regarding economic development of the region. Deloitte is one of the "Big Four" accounting firms and the largest professional services network in the world by revenue and number of professionals. Deloitte provides wide range of services including audit, tax, consulting, enterprise risk and financial advisory services .

The 2016 edition of the Deloitte CE Top 500 report ranked the largest companies from the 18 countries from Central and Eastern Europe. It also includes the opinions of some of the region's most prominent business leaders, which is also quite important for this study as it relies on different sources including opinions of experts and business leaders. Of course, due to the size and economic discrepancy, the number of companies by country varies significantly. The top 3 countries in this list in terms of the quantity of leading companies are Poland (182 companies), Czech Republic(74 companies) and Hungary(67 companies). The statistics in the report show that this region is growing steadily and every year there are many new companies on the list.

Russian companies were chosen from Expert 400 for the year 2016 that shows the largest Russian companies in terms of sales. After 20 years of existence as Expert RA was founded in 1997, the rating is recognized by entrepreneurs, bankers, analysts, government institutions and is widely used as a unique source of information about Russian companies in Russia and abroad. The rankings are published annually and contain information about last trends and situation around leading Russian businesses and economy in general.

For this study, the subsidiaries of foreign MNEs were excluded as well as companies with no international activity or companies for which no data could be found.

The final sample consists of 42 companies. There are 9 companies from Russia, 8 from Poland, 7 from Czech Republic, 4 from Hungary, 3 from Romania, 5 from Slovenia, 3 from Croatia, 2 from Serbia and one Ukrainian company. The logic of this distribution is an attempt of targeting companies from different countries taking into account their size and economic development.

This sample includes companies from large number of industries that include oil&gas, retail, food, pharmaceutical, software construction, banking, telecoms, automotive, metallurgy, electricity and logistics. There are private as well as public or state-owned companies on the list.

The list of the companies includes companies that could start their internationalization even before the year 1991 – before the fall of the communist system as well as companies that chose this path right after 1991 or even in the late 2000s.

The major characteristics of the companies needed for our study including the goals of acquisition, alliances, stages of internationalization and other important factors are described in the research.

2.2. Data description

The sample itself has a lot of peculiarities that could partly account for the findings of this study. 20 companies out of 42 – almost half of the sample – can be related to natural resources industry which is quite obvious fact for Russia and some countries from CEE region. Other sectors are represented more or less equally and there is no serious prevalence of some certain industries among them.

Only 9 companies are public or state-owned companies – it may be a sign that among the chosen companies from Russia and CEE region private companies are often more effective and more flexible in terms of internationalization.

Cases of Dacia and Skoda, two famous car producers should be considered separately as they both were bought by Western car giants Renault and VW, respectively. These acquisitions tremendously improved their financial and operational results. It also let them expand abroad and become global due to smoothly functioning distribution channels and other opportunities provided by their new parent companies.

This case shows how Skoda used knowledge, technologies and investments given by VW in order to become successful in domestic market and abroad. It also received new better supplier

chains and connections needed to start its expansion. This is the most successful example of development of a company coming from CEE region.

The first thing Renault did was the full-scaled modernization of the Dacia factory in Mioveni as part of their investment. The production of cars is five times more than it was before the acquisition of the company.

The case of Dacia is similar to Skoda. Renault has given to the company new technologies, know-how, finance and new markets abroad. The Dacia brand is marketed in most of the Western and Eastern European countries, as well as in some Northern African countries, such as Algeria, Tunisia or Morocco. Its models have also been produced by Renault in its production sites on other and sold under its own brand or other specific local brands. The opportunities given by Renault saved the company and made it one of the leading car brands in Europe. Product portfolio was also very important for here.

There is a group of companies that started their expansion a long time before the fall of socialist system. For example, Polish CIECH operated internationally since the very beginning – 1945. As it had connections and experience after 1991 it did not rush to expand its international presence but instead tried to strengthen its position on domestic market. Foreign acquisitions made in 2007-2008 for various chemical manufacturing processing purposes let CIECH become one of the leading European chemical companies. The company tries to invest in innovations as much as other European companies do – it means that company is actively trying to compete successfully against its competitors. The acquisitions in Romania and Germany only strengthened the position of CIECH as one of the leading chemical companies in Europe.

Active expansion plus experience and constant investments in innovations made Gorenje one of leading white goods producers in Europe. As it started its internationalization in 1960s, in 1991 it had already a giant network in various countries worldwide. The unique approach of Gorenje Group and its effort to be at the forefront of innovation – innovation-based company even started its own R&D institute. It invests not only in white goods but also in all related areas. (Everything for the home strategy) Another strong side of Gorenje is constant training of its employees.

Slovenian Kolektor has started its internationalization in 1968 when a long-term contract on joint investing and cooperation with the German company Kautt & Bux was signed. Throughout 50 years of its history the company has gained a lot of experience from its operations abroad. Since

1999 the company has intensified its expansion and several important acquisitions were made. The company is virtually global and does not limit itself to CEE region. Each acquisition diversifies the company's business profile as it has business units very different areas.

Innovations, investing into top technologies, quality managing systems, and especially highly competent employees are the impetus of progress. One of the most important strategic goals of the company is the radical innovativeness – a company boasting more than 50 patents, as well as the mass innovativeness - where all employees contribute.

Pharmaceutical companies are striving for technology and gaining access to new synergies. Gedeon Richter was able to be active abroad even in the harsh conditions of socialist system in Hungary. It has successfully penetrated Polish and Czechoslovak markets and then Soviet Union. Later in 1970s it started its expansion in Western countries. Nowadays the company has a tremendous distribution network in Central and Eastern Europe. It is covering almost 100 countries in five continents around the world. The Company maintains a direct presence in 30 countries, with a total of four manufacturing sites, 30 representative offices and 14 commercial subsidiaries and wholesalers.

The company also actively adds new products to its portfolio. The company actively invests in its technological process taking place in companies acquired by Gedeon Richter. It also has 2 joint ventures - in India and in Germany, with Helm AG.

The company's acquisitions can be characterized as technology driven but some of them led to geographical diversification(Mediplus) - this acquisition is a further step in the company's expansion in Latin America. With this expansion, Gedeon Richter aims to become a global player in the female healthcare business and diversification of risks(Finox) due to sanctions imposed on Russia. Company actively invests in female healthcare innovations.

Another pharmaceutical company from Slovenia, Krka also started its expansion in 1960s and has accumulated experience and know-how on foreign markets. It is actively investing in innovations and technologies on its plants. The main markets of Krka are CEE region and Russia, however they would like to increase their share in West Europe in the near future. Yugoslavian market has always been their top priority due to close historical and cultural ties, psychic and geographical distance but now the company is trying to focus on other markets. They have constantly been increasing their product portfolio and improved their vertically integrated business model.

Having accumulated enough experience abroad and looking for new targets, the company has started the path of mergers&acquisitions in the late 2000s. The acquisition of Alternova AT in 2008 was an effective way to enter Austrian market as it enabled Krka to start business activities immediately. Alternova AT had the needed number of medical representatives, experienced management team and appropriate infrastructure. All of which is well complemented with Krka's broad product portfolio and new product pipeline, which are the result of a vertically integrated business model. Acquisition of TAD Pharma GmbH pursued the same goals in Germany. Krka even has a joint venture in Kenya called DAWA.

Agrokor had gained experience in importing/exporting operations before 1990s. This company has diversified portfolio and it started its full-scale expansion in 2000. It is actively looking for possible targets in CEE region. It even succeeded to buy Mercator, the largest retail company in CEE region. Now the company is ready to penetrate other markets as it has enough resources and experience to do it. The company is also trying to be at the forefront of innovation.

Company is investing and developing its innovations not on a stand-alone basis. It is also achieved by collaborating with various research institutes and companies and academic community. Its approach to innovation also includes partnerships and cooperations within its group of companies and suppliers.

One of the most prominent achievements of the company is its partnership with the University Innovation Network of the Croatian Innovators' Association and Zagreb University, founded with a view to making sure that knowledge and technologies developed in Croatia contribute to the global competitiveness of the Croatian economy and stimulate regional development. The best practices of world leading companies helped Agrokor to create the new innovation building procedures and learning practices.

The second group of companies started their internationalization right after the year 1991 which meant the complete change of economic system. Some of them were founded before that moment but made decision to start their internationalization after 1991 due to some economic or political reasons. Other companies in this group were founded in the started processes of transition economies and chose the path of internationalization from the very beginning of their activity.

The first such company in our sample is Polish CAN-PACK Ltd. The company started its internationalization quite early in 1996 when CAN-PACK Ltd. in Moscow was created. After that a lot of can factories were opened all over the world. Acquisitions were aimed at technological development and diversification and expansion.

The current organizational structure of Can-Pack Group is based on five industrial holdings: beverage cans, food and chemicals packaging, glass containers, closures for bottles and developer services. The service division centralizes support functions provided to all Group companies (accounting, personnel management, recycling, transport packaging trade, IT, etc.) Integration of activities achieved in this way allows for adapting the management structure to the needs of a dynamically growing organization and enables increased product specialization.

Large retailing company LPP S.A. bases its strategy on focusing its activities on the design, distribution and creation of own brands. The company shows fast growth and development and strived for fast expansion since 1997 after six years since its opening.

The company is able to reduce its fixed costs greatly as it does not have its own production capacity. All the money is spent on brand improvement, advertisement and distribution efforts to promote the products of the company .

In order to fully develop and exploit their growth potential, the company has to open new stores in different countries. The company tries to actively expand its product portfolio which is also a key to success of the company in the future. The company has stores in six different geographic regions on three continents. These regions offer various opportunities of growth due to their different levels of economic development. However, main focus is made on CEE region as the company has started its expansion exactly in the countries of Central and East Europe.

The Polish producers from the food sector such as Maspex have been making investments abroad for a long time now. First, the company concentrated on domestic market and after a couple of acquisition continued to expand abroad. For Maspex, CEE and Russia are main ares of its growth and investments abroad.

Among its most prominent acquisitions are Walmark, the leading company on the Czech and Slovakian beverage market, the Hungarian Plusssz, the Bulgarian juice manufacturer, Queen's. Active expansion since the very beginning and creation of new products and their launch on foreign markets are factors that allowed the company to succeed in its internationalization.

For Slovenian oil distributing company Petrol Group Oil it was not difficult to regain parts of its markets in former Yugoslavia in the 1990s. Company that continues its expansion on former Yugoslavian market and South Eastern Europe. As it is easier to do due to various factors and does not need much resources or skills the company is more or less successfully internationalized in this limited area. It gradually develops its experience of foreign expansion and it is possible that

in the future the company will pay attention to other countries of CEE region. About half of the sum spent on investments goes to the energy and environmental systems innovations.

Croatian Atlantic Grupa has started its expansion from former Yugoslavian market but now it is also actively expanding in Western Europe. The company is investing in its distribution channels and its brands which are quite well-known in Europe already. Since 1991, the company has gone the path from national company to regional company and then European one. It strives for control over production and distribution of its products in the countries of its presence. It is also trying to add new products to its portfolio and launch them on foreign markets. Its expansion to new markets also includes acquisitions in key markets such as Slovenia and Germany.

The company is a perfect example of gradual expansion achieved through accumulation of experience and know-how from leading companies of FMCG, strengthening its position on national market and constant investing in its brands.

Russian oil giant Lukoil has started its internationalization quite early, trying to be present on European and American markets. The use of financial resources and support of the state it rapidly acquired several companies abroad and even became leading oil&gas company in some cases – for example, in Bulgaria.

Lukoil started its activity in the Republic of Bulgaria in 1999, becoming the owner of a controlling stake in Neftochim AD, the largest oil refining enterprise in the Balkan Peninsula. Developing new business lines and modernizing production, LUKoil invested more than \$ 3 billion in the economy of Bulgaria.

In 2000 the company acquired American Getty Petroleum Marketing Inc. which allowed Lukoil obtain the network of gas stations and distribution channels in the US. Lukoil has entered partnerships with a number of foreign majors including Atlantic Richfield (Arco) which is now part of BP, Italy's Agip and, most recently, ConocoPhillips. These partnerships have given the company needed technological and managerial knowledge and also market's knowledge. Maybe that is why it penetrated American market so rapidly and has been operating there for quite a long time.

The company has also completed several acquisitions in order to get access to distribution channels in several countries. Nowadays, The company is virtually global and does not limit itself in its operations.

The third group of companies, so-called latecomers, started their internationalization in the mid 2000s or even later. They decided to choose the late strategy of internationalization as they did not have enough resources, experience or intention to expand abroad earlier. Sometimes, it also depended on the size of the market or company's specific strategies or even political issues in case of state-owned enterprises.

Polish oil giant PKN Orlen is the largest company in CEE region. Its growth in CEE region could be explained by merely economic reasons and desire to grow. After the dynamic growth through acquisitions and geographic expansion in 2002-2006 the company decided to focus on organic development and efficiency improvement. It actively invests in new technologies and its subsidiaries in countries abroad, especially its Lithuanian subsidiary. First, it became domestic leader. Its expansion started with Germany in 2002 and then Orlen formed a joint venture with Basell. This joint venture is now the only Polish producer of polyolefins, and is the largest domestic producer of plastics. Then Orlen continued to expand in CEE region using acquisitions. After that the company has been heavily investing in its subsidiaries and in 2014 it was the time to start expansion to Canada due to new resource opportunities.

Another Polish company, Boryszew was quite late in terms of internationalization. One of the key development targets of the Group was the direct access to marketing rank I products for the automotive industry. The path of mergers&acquisitions was chosen by Boryszew in order to implement this plan. The first on the list of acquisitions was MAFLOW International Group, a manufacturer of assembled pipes and flexibles designed for all the automotive industry.

By purchasing the MAFLOW Group in 2010, Boryszew SA automotive industry has acquired a top OEM and can have a strategic access to the automotive market to become a major international actor in the domain, and one of the 100 leaders in the world. In December 2011, the Polish group acquired Ymos - the German manufacturer of metal and plastic car components four months after the company declared bankruptcy.

The acquisition will allow Boryszew to synergise the injection moulding capacities of Ymos and Theysohn Kunststoff, a German car parts supplier the Polish group took over in July 2011. The acquisition of WEDO allowed Boryszew to improve its position as a full service supplier of plastic components.

It can be seen that Boryszew also concentrated mainly on Polish market and only in 2010 decided to acquire foreign assets – first in order to get a strategic access to the automotive market on different continents and acquisition of several German companies pursued its innovation development in automotive industry and then invested heavily in innovations.

ABC Data, Polish leader in the market of IT hardware and consumer electronics distribution, is the only company in the industry that managed to build a strong presence in eight CEE countries, with direct business operations in Poland, the Czech Republic, Slovakia, Romania, Lithuania, Latvia, Estonia and Hungary. With over 25 years of experience in the distribution of computer hardware, software and consumer electronics, the Group has been able to create the most comprehensive portfolio on the market, comprising 100,000 products from over 400 leading suppliers. Despite the fact that the Company's portfolio, in line with its policy, is systematically widened with products from new sectors, the main domain of the Company's operation is still IT distribution and providing services connected with it.

The company started its active expansion abroad since the year 2006. It is widely present in CEE region. It invests actively in new products and innovations in order to be leading on the market. The company is also considering M&A initiatives that will give the potential for further development by complementing the existing areas of activity and helping to develop new competencies for ABC Data. In case of ABC Data logistics play another key role as it is crucial for this company to have good supply chains.

Group of companies Asseco Group originates from Poland but has become global and diversified its activities from the production of software to doing operations in banking and financial sphere, insurance institutions and even public administration. It started its expansion from Slovakia and CEE region but now it is doing business globally.

As soon as Asseco enters new market, it combines the benefits provided by the knowledge and know-how of local professionals and the company's international experience which allows for successful start and implementation of various projects. Main investments are made in research in development which is very important for such group of companies as Asseco Group.

In 2015, 77% of the sales of the Group originated from foreign markets. Asseco Poland S.A. consistently pursues its development strategy which aims to build a global information technology company specializing in software development and provision of highly advanced IT services. As far as acquisition-driven expansion is concerned, the company focuses on emerging markets that are characterized by high economic growth and increasing demand for IT technologies. The company's acquisitions pursue technological development of Asseco Group.

Hungarian chemical raw material manufacturing company was founded in 1949. First step on its path of internationalization was done 2000 when the company acquired Moravské Chemické Závody, Czech aniline producer. However, the company experienced severe difficulties due to financial reasons and was bought by Chinese company Wanhua in 2011. Wanhua has injected substantial capital into BorsodChem as well as investing in high-end technology, talent and teams. It allowed the company to survive and continue its expansion abroad. Both of BorsodChem's acquisitions are important technological assets which helped the company not to depend on external suppliers. They are also increasing their product line rapidly.

Skoda Transportation started diversification of its product portfolio from the key industry of production of railway vehicles to include the sphere of public urban transport. Since the end of the 1990s there has been extensive modernisation of subway train units and increasing production of modern low-floor trams.

Skoda Transportation is the largest company specializing in transportation engineering in Central and Eastern Europe. Škoda has been very successful in traditional Central European and Eastern markets.

The company has started its active expansion in the late 2000s. Its first large acquisition was a subsidiary Germany. The main goal of this acquisition was to have a sales/technical support/maintenance unit responsible for the business development in Germany, Austria and Switzerland. Acquisition of Finnish TransTech in 2015 allowed Skoda Transportation to become a key player on the Finnish market and strengthen its position in Skandinavia. The company also got the access to the know-how in specific climate conditions.

The company also decided to enter American market after establishing the new subsidiary company Skoda Transportation USA, LLC. It clearly shows that the company does not limit itself to CEE region but wants to be present globally.

CEZ Group of companies has a diversified range of activities including generation, distribution, trade in, and sales of electricity and heat, trade in and sales of natural gas, and coal extraction. It was achieved also by active expansion of the company since 2005 after acquisition of three Bulgarian distribution companies. After that there were several acquisitions in Romania, Poland and Bulgaria. In 2007 CEZ Group started its partnership with MOL, a Hungarian oil and gas corporation, aimed at building gas power plants. The company concentrates mainly on CEE region but it also entered the Turkish market.

The main aims of these acquisitions and joint venture are entering new countries,

diversification of production portfolio, strengthening position of reliable energy supplier for large consumers/multinationals. Savings, decreasing costs. The company is mostly investing in its abroad projects.

Agrofert has perfectly diversified its business activities as it has more than 200 companies from such industries as food production, agriculture, chemistry, ground machinery distribution, forestry, timber harvesting, wood work, renewable resources, biofuels, and media. It was achieved mainly by acquisitions and exactly the acquisitions were a key to company's success

In the 1990s the company concentrated on domestic market acquiring Czech companies and broadening its portfolio. After 2000, it started its international expansion. The main aim of the company was diversification and constant non-organic growth in order to create the largest food complex in Eastern Europe.

Vertically integrated energy utility EPH, formed in 2009, started with a small portfolio of coal-fired CHP solely in the Czech Republic. Now EPH is a vertically integrated energy group that consists of more than 50 companies. The company uses financial resources for new acquisitions to grow and diversify. However, these deals are often doubtful from financial point of view.

Another Czech company that is actively investing in its technologies is Metrostav. After stagnation of 1990's this construction company is actively involved in various projects in different countries. Its employees are getting experience in foreign projects and company becomes more and more known abroad. It also has several branches and subsidiaries for better cooperation and search of new projects. The company also broadens its portfolio and tries to participate in various types of projects however it is known best for its tunnel construction technologies.

Metrostav employs advanced technologies and systematically develops its key proprietary know-how with the aim of enhancing its technical expertise in the construction sector on a continuous basis. Metrostav places emphasis on employee training, developing corporate culture, and building the reputation of a respected company. The company develops capabilities itself focusing on know-how and employee training.

LAMA ENERGY GROUP started its foreign expansion in 2011 and since then its main focus is concentrated on Canada and US. The first step of LAMA's internationalization was made right after its decision to expand to North American markets as in 2011 Petrolama Energy Canada, Inc., was founded. In addition to the continuation of trade in petroleum products, the investment in Petrolama Energy Canada allowed LAMA ENERGY GROUP to participate in a project to build

a crude oil terminal for oil processing in Alida, Saskatchewan.

LAMA ENERGY GROUP is investing actively in new technologies of drilling and know-how. The company has been diversifying its portfolio since 2007 and made several acquisitions in Czech Republic in order to strengthen its position in domestic market.

In 2004 Romanian Petrom was acquired by Austrian oil company OMV which allowed it to boost its financial and operational resources. Petrom purchased OMV's subsidiaries in Romania, Bulgaria and Serbia and Montenegro and is actively developing its facilities in this region since 2006. OMV has given new technologies and know-how and finance for modernization. After Petrom had become a part of OMV it significantly strengthened its positions in the region and is ready for further expansion. Its area of activities includes CEE countries and CIS countries. The main reasons of company's fast growth were modernization of facilities and equipment in accordance with future EU standards, as well as the introduction of up-to-date and automated production processes in the refineries. In addition, investments were made in order to increase marketing efficiency.

Romgaz, Romanian state-owned largest natural gas producer and the main supplier in Romania chose different path of its development. Management practices, technological know-how and the experience gained in the cooperation with foreign corporations in Romania allowed the company to accumulate needed experience and technologies to start its expansion overseas. In the year 2007, Romgaz became the co-holder of rights and obligations in three exploration sites in Slovakia and two in Poland. The company has also diversified its portfolio, for example, it also became electric power supplier. Romgaz's had been cooperating with such industry giants as Lukoil, ExxonMobil and Schlumberger in order to improve its capabilities and be more competitive in Romania and abroad.

Slovenian energy Gen-I Group is considered to be one of the most innovative and rapidly growing firms in south-east Europe's energy market. The company has been expanding abroad since the very moment of its creation in 2004. It succeeded in entering 22 markets with the use of its subsidiaries in just 10 years.

Innovative technologies allowed the company to grow fast and expand internationally. GEN-I Group concentrated on CEE region first however it is also present in West Europe and Asia now. The use of know-how and synergies between subsidiaries gives the company a competitive.

Croatian INA is the company that is investing in its plants in order to be at the same level with the European standards. It is active in several countries such as Egypt and Angola. MOL has

invested a lot in this company in order to give it new technologies and know-how. Company's refineries were severely damaged during the Croatian War of Independence which meant serious financial loss. However it was able to reconstruct and modernize it later.

The only Ukrainian company in the sample is called Metinvest. This company was founded in 2006 and already in 2008 it has started its internationalization. Before and after it Metinvest has been choosing smaller steel companies in Ukraine as well in order to increase its resource base and strengthen its position on domestic market. International acquisitions are needed for company to raise its technological standards and know-how and diversify its production portfolio which is based on its vertically integrated system. For example, the UCC acquisition gave an access to quality coking coal in the United States. Acquisition of Italian Trameal gave access to the steel quarto mill plates which is quite new technology in this area. Metinvest has now combined its resource base in Ukraine with new technologies. It is also trying to be innovative to compete abroad successfully.

Serbian oil company NIS has started its full-scale internationalization only in 2010. It has its affiliated companies in several countries of CEE region and CIS. Gazprom bought the majority of shares of NIS in 2008 and it led to huge investments in the company by Gazprom which gave it new resources and technologies to start its path of internationalization. Oil exploitation commenced in Angola in 1985. It means that the company has already been operating internationally before 1990s. The company is trying to broaden its product line and provide new services in order to grow organically.

Serbian EFT is pursuing an ambitious plan of investment across south-east Europe. The Group's aim is to become the first privately owned, major energy producer and electric trader in the region. EFT is a unique European energy trading and investment concern, with a principal operating focus on the countries of central and south-east Europe, but now it also expanded to the Baltics and Turkey. Its ability to invest is necessary for its survival and development.

For Hungarian oil giant MOL the decade after 1991 was a period of challenges and opportunities. In terms of dynamic capabilities framework, the most important is the fact that the knowledge and organizational learning were the most needed capabilities for its internationalization. Strong competition from Western and Russian oil companies forced MOL to pursue its goals by means of fast mergers and acquisitions. Due to many similarities, geographical proximity and lack of resources, smaller oil companies from other countries of Central and East

Europe became main aims of the MOL's growth strategy. Partnerships also played a very important role in the company's internationalization.

Russian oil giants pursued similar goals but their story of expansion is different. Gazprom used political support and started with countries coming mainly from CIS region. The very interesting is cooperation of Gazprom and German Wintershall as Gazprom could get know-how and technologies from this collaboration that has been lasting for 25 years already.

For some Russian companies – exporters, additional revenue growth was achieved through the export mechanism. It gave an opportunity to make a profit due to a significant difference in prices for products in the domestic and world markets.

Gazprom is aiming at control of exploration and transportation in countries it is active right now. It means that monopolist position in many cases defines its activities and it does not facilitate the development of dynamic capabilities. Gazprom in its foreign operations often faces not only problems of quality competition, but also with fierce political resistance of European countries, consumers of Russian gas. The label of the "state monopolist" was too tightly attached to the company, which frightens off the governments and commercial structures of many gas consuming countries.

Rosneft also lacked needed technology and had outdated equipment at the moment when it was founded. Huge investments from the state helped the company at the first stage of its development. The partnership with ExxonMobil was needed to get access to technological know-how. The company is constantly investing in its technologies of exploration and refining processes.

Russian state-owned banks Sberbank and VTB had to gain resources and establish on the Russian financial market before starting their investments abroad. Sberbank has started its expansion in 2006 in CIS region with a series of acquisitions in Kazakhstan, Ukraine and Belarus. After that it penetrated European, Chinese and Turkish markets. Its brand promotion has made its brand the most valuable among Russian companies. So the strategy of Sberbank's internationalization was gradual starting with countries with similar political and economical structure and countries that have historical and cultural ties with Russia and then opening its offices and making acquisitions in Europe and Asia.

VTB started its internationalization in 2000s when it acquired several banks in West Europe and continued its expansion in CIS region. VTB has gradually expanded also to Asia and Africa. The company has been supported by the government and is actively involved in many projects aimed at political cooperation with China.

Inter RAO, the diversified energy holding company from Russia, started its expansion in 2005 when it has completed several acquisitions in CIS and Turkey countries. The company's goal was to become a truly international company, however the share of revenue from foreign activity has never been higher than 10%. The company has been constantly growing on national market and adding new branches and companies to its network.

Severstal had different plans of internationalization compared to other Russian companies since the very beginning. Since 2003, Severstal's has been continuing its active expansion which started with the acquisition of the bankrupt American metallurgical concern Rouge Industries. This acquisitions allowed Severstal to take second place in terms of gold production among Russian companies. The joint ventures gave the company an access to new resource base. It shows that the company pursued technological advancement and the diversification globally since the very beginning. The company has diversified its assets greatly during several last years.

Russian telecoms VimpelCom and Megafon had to consolidate their activities in Russia due to the huge size of the market. Only when VimpelCom has won large segments of the mobile market across Russia, it began its expansion abroad. Group companies operate in Kazakhstan, Ukraine and Tajikistan (since 2005), Uzbekistan, Georgia and Armenia (2006), Vietnam and Cambodia (since 2008). However, the company left the markets of Vietnam and Cambodia in 2012. The company has also formed a joint venture with Italian Hutchison Group.

It is a clear example of gradual internationalization – first the company entered CIS market and then chose other unsaturated markets where it was easier to expand. The same thing happened to Megafon. Since 1993, Megafon led its expansion from NorthWestern region to the rest of Russia and in 2002 started its expansion abroad in Tajikistan. It was made possible by the joint venture with the local telecommunication company. In Abkhazia in 2008 there was an acquisition of local company by Megafon and in 2012 it founded its subsidiary in Ukraine. But it shows that the company is still limited by CIS region and its investments are spent mainly on new technologies as it is much more important to be competitive on Russian market, the largest of all markets in CIS.

Summary

In the second chapter, we have given the description of our research design. It illustrates the main stages of research such as case selection, data collection, case data analysis and data description. The thorough analysis of the industry and type of 42 companies selected for this study was also provided.

The choice of statements and questions developed for experts that could give us additional information about the factors that influenced companies' choices related to their expansion abroad was explained and supported by certain ideas that were found in the literature.

Data description gives a short overview of companies' profiles and their international activities. It gives a general understanding of the methods of internationalization the companies used, the time period when the company started its expansion abroad and the location of markets the company is active nowadays.

3. Results of data analysis

3.1 Main findings and dynamic capabilities validity

In order to draw conclusions about how the companies in the sample employ and develop their dynamic capabilities, we should look at certain characteristics and patterns that can be seen from the ways of internationalization these companies used. Looking at different aspect of companies' internationalization can give an understanding of how successfully the companies develop dynamic capabilities and what kind of dynamic capabilities were more important for them. The following tables illustrate how these companies can be separated in several groups and what lessons can other companies from CEE region and Russia learn from this division.

The time period of internationalization	Number of companies
“Old-timers”(before 1991)	6
“Opportunists”(1991-2000)	8
“Latecomers”(2000-2016)	28

Table 1: Division by the time of internationalization

Companies that..	concentrated on CEE/CIS region	Continued to expand to other regions
Started from CEE/CIS regions	11	17
Expanded to other region first	-	14

Table 2: Geography of internationalization

	Acquisitions	Alliances(combined with acquisitions)	Acquired by foreign companies	Subsidiaries and other
Number of companies	13	21	5	3

Table 3: Type of market entry

	Technologies	Diversification	Cost optimization	Other reasons of expansion
Number of companies	5	8	4	17

Table 4: Main purpose of acquisition

The first objective of our empirical research was to find out whether all dynamic capability enablers were important for the companies from Russia and CEE region on their path of

internationalization. Several important findings may help us to determine the true factors of company's success and the priorities in the context of dynamic capability framework.

Alliancing activity, R&D, Acquisition based dynamic capabilities and experience accumulation truly played key role in company's way of internationalization and contributed to companies' success abroad. However, innovation capability was not that significant for companies in our sample. Only certain sectors such as IT and pharmaceutical that depend a lot on innovation capability used it in order to break into foreign markets.

That is why the findings do support our suggestion about the dynamic enablers used by CEE and Russian companies for their internationalization. In order to understand factors that could have affected the way the companies implemented their internationalization strategies we use the answers given by the experts.

The analysis of literature and empirical results show that sometimes that gradual internationalization that starts with CEE region may be caused by the fact that CEE firms feel that their products are not competitive.

Level of competitiveness

Expert 1 suggests that while there are indeed various firms that focus on the CEE market, there are also many of them that feel comfortable on Western markets. It is true especially for high-technology, start-up firms that in any case must build their customer network from zero, and see the high-income Western countries as prime targets.

Expert 2 argues that those firms that focus on their more traditional CEE markets do it for a variety of reasons, not just competitiveness in the narrow sense, including familiarity with the local market, with local taste, with local customer requirements, cultural affinities, the existence of established networks of potential distributors, well-established brands etc.

According to Expert 3, our statement applies rather to industries in the "traditional economy" (food, beverages, retailing...), not in the digital one (ICT, innovative hi-tech firms). Former tend to build their strategies on existing (traditional) relationships, local/regional market knowledge, distribution systems and favorable consumer memories (of good old times, e.g., brands in former Yugoslavia

Expert 4 argues that in Poland firms are more willing to offer the products in Western markets after the EU accession, simultaneously developing the business in the CEE. It also

severely depends on industries. The companies from IT industry (Comarch, CD Projekt) or for instance producing yachts (Galeon, Atlantic Marine) are very competitive players in Western markets.

Expert 5 expresses the opinion that CEE countries background is quite different. The decision for CEE firms to be more inclined to enter other CEE and/or emerging/transitional markets has to do more with the types of markets – their market structure and types of consumers/demand and the limited resources CEE firms possess. This refers not only to financial resources, but also human resources and foreign market experience. On top of this, lower cultural and psychic distance further moderates these relationships.

Expert 6 believes that the main reason they prefer to start from the CEE region is that CEE firms are more familiar with the business culture, and national and political culture of other CEE regions than they are with those of Western markets. They also might share a common language, e.g., Russian in Former FSU countries. This is more typical for Uppsala model of gradual internationalization.

The cost advantage of CEE firms is often based on wage levels and asset prices, which may be lower in CEE economies. Once these advantages are removed – when operating in Western markets – they lose their advantages, but do not gain the capabilities their Western competitors have, and so perceive competitive disadvantage even when operating in Western markets.

Expert 7 assumes that the particular expertise of many CEE firms lies in capabilities that allow them to use resources more efficiently and therefore enables them to focus more on cost than a differentiation based strategy. Western markets are sophisticated, with consumers requiring refined branding and tailoring of product attributes. They also have large players with advanced market standing, knowledge and customer loyalty. The capabilities of CEE firms have evolved in their home market environments, in which customers are more cost sensitive and less loyal. CEE firms may perceive their capabilities to best pursue low cost strategies and therefore may feel disadvantaged in comparison to Western firms to compete in the higher requirement markets.

Liability of foreignness

Another reason for CEE firms to start internationalization in neighboring markets is that they may suffer from the liability of foreignness or other country-image related problems such as that the products of the company are regarded inferior or of lower quality in Western markets.

Expert 1 suggests that firms became very heterogeneous, there are few such firms, but

many are aware of the importance of quality and claim that they have to offer even better solutions in order to compete to Western firms. “Liability of CEE” requires high quality for competitive price, and firms are aware of it.

According to interviews with the managers high/top quality and reliable supply is a precondition for international markets and country of origin may be the reason that WE firms try to negotiate lower prices (for example automotive industry, suppliers to German firms)

For example, the fact that Hungary has a rather negative image in neighbouring Romania or Slovakia, makes the selling of products labelled “made in Hungary” more difficult, and the presence of Hungarian firms more complicated (although that barrier is successfully overcome of some firms such as MOL, or the OTP Bank, or the pharma producer Richter). It is true, however, that this image problem is larger in Western markets, where “Eastern” products are viewed as the synonym of inferior quality. This is mostly an image problem because in reality CEE products comply with the same quality standards as the Western ones. It is also paradoxical in the sense that some of the Western brands are produced at least partly in the CEE, and there Western consumers see no problem. CEE firms adapt to this by hiding their brands or country of origin. In the case of Graphisoft mentioned above, the company hides its origin and uses a “societas Europaea” legal structure that is used by big names such as Airbus, BASF, E.ON, LVMH Moët Hennessy Louis Vuitton, Porsche Automobil Holding etc. This way they can say “made in Europe”.

For expert 2, CEE firms do suffer from the liability of foreignness particularly in host countries where the image of their home country is not positive. It can apply to both inside the CEE region or to Western markets. This is often still true and present, however successful firms/exporters broke his stereotype and develop a range of strategies to overcome this stereotype. Some even use affiliates abroad and more global branding

Expert 3 supports this idea of concealing the real country of origin. COO is still one of the main trade/entry barriers to foreign markets when the companies target end consumers. When the companies use a local middlemen/OEM then their origin is disguised - COO is used by them to lower price of intermediate or final products of CEE firms (e.g., contract manufacturing). Often they establish subsidiaries in West European countries or USA and run international business through them. Or the companies use labels such as “Made in EU”. In some cases the companies are able to find a way to load their products up with positive associations (design, taste...) and innovative features that override COO (e.g., Inglot cosmetics from Poland).

According to expert 4, today the situation is different regarding the quality of Polish products which is higher and very well received on foreign markets. However, there are still some

markets like for instance German where “Made in Germany” is still potential problem for Polish products and their quality.

Expert 5 believes that it really depends on the type of market and type of product/service. End-consumer markets are more tricky for CEE firms than industrial markets. It is more difficult to promote products compared to services, especially branded-type products.

The reliability of product quality, delivery, etc. might be good initially, but then might decline if not closely monitored. Expert 6’s answer is interesting as he enters the new negative factor that may be seen in CEE countries and Russia as well. The major country-image problem in many CEE countries is corruption and the threat of interference in business dealings by those countries’ governments (e.g., fear of expropriation and violation of property rights)

According to Expert 7, CEE firms may not have either the financial resources or the capabilities to build a brand, which can effectively compete in sophisticated consumer markets.

Innovation capability and ownership

We argue that private companies are more able to be flexible and innovative abroad. That is why they may also adapt better to different conditions of doing business abroad.

In case of the question about the state-owned and private companies’ the opinions are quite different. For Expert 1, it depends on the way the Government exercises control over its outward investing firms. For instance, in the Hungarian case, MOL and Richter are (minority) State owned companies, and the influence of their State does not stop them from being adaptive and innovative. The same applies to CEZ from the Czech Republic and PKN Orlen. Naturally, there is the issue of size of companies – many State-owned firms are large, and that can be a disadvantage for innovation. Moreover, the State can have strategic priorities to impose that can hinder innovation.

Expert 2 supports our statement as evidence shows that state owned firms lack agile reaction, good management and good corporate governance; they are less risk prone, and often not ready to take risks relates to internationalization; even if they do enter internationalization, their strategies are often shaped more by political than economic reasons.

Expert 3 argues that private firms are more dependent on foreign sales. They are more exposed to competitive pressure what stimulates innovation. SOE are more often found in monopolistic/protected markets and are leaning towards the domestic market (energy, utilities, commodities, pharma), so they have cash cows at home that help to finance their international

endeavors.

Expert 4 suggests that private companies are more flexible in operational things and have faster making decision process. At the same time innovative Polish state-owned companies can be found that are also quite innovative abroad.

Expert 5 agrees with our statement. Private companies tend to be more agile and flexible. They don't have the luxury of enjoying "soft budget constraints" and tend to staff/hire much better.

Expert 6 agrees in general as much of the potential adaptation and innovation abroad may depend on access to capital and influential connections. SOEs can have an advantage if they are heavily subsidized and have government connections. But SOEs also might be less innovative or adapt more slowly abroad if they are weighed down by heavy bureaucracies.

Expert 7 fully agrees with our third statement. According to him, anything state owned will be less competitive than private owned. The reasons include employment conditions that are less capable to facilitate performance-based contracts and non-profit motives of the state as owner filter into the strategic decisions of the firms. Adaptation and innovativeness are the vehicles for firms to measure, seek and achieve profit. With a lesser ability to enforce performance and with objective setting digressing from pure profit motive, SOEs are at a disadvantage.

The SOE advantage in the home country – which may stem from preferential access to procurement markets, favorable legal conditions or a responsive legislative body. This however in foreign markets, outside of the CEE home country, will not put these SOEs to advantage.

Lack of technologies and innovations

Basing on empirical findings, we argue that CEE still lack technologies and innovation development and use various methods to shorten this gap. However, there were significant changes since the start of transition process.

Expert 1 assumes that the it is true to the vast majority of small and medium-sized enterprises (SMEs) of the region that lack the innovatory spirit, and it is mostly due to the heritage of communist times, under which innovation was strongly discouraged or suspected as a variety of "speculation" (in various countries a criminal act), and to the way transition to market economy was carried out, with little consideration to nurturing local entrepreneurship and local enterprises. But then there are some firms that have managed to get linked to global value chains, and become first- or second-tier suppliers to global firms.

Expert 2 also agrees that CEE firms face difficulties with access to capital and consequently also knowledge, recently also due to brain drain and escape of talents. Still, some CEE firms developed into global niche player and are even knowledge leaders in their fields (and the relative number within industry or total corporate sector might not be lower than in developed countries)

Expert 3 argues that it is true that CEE firms lag West European ones in innovation performance (modest + moderate innovators). The innovation ecosystem is not well developed yet. There are fewer innovative firms but that also stems from the dominance of foreign FDI in those countries. They are dominating some industries (automotive, banking, food retailing, energy distribution, manufacturing ...) and leave little room for domestic firms. Good examples of innovative domestic firms could be found in the ICT and pharma sector, and then of course some “isolated inventors” in B2C and B2B.

Expert 4 emphasizes on the fact that certain industries such as IT or airline industry. In his opinion, Polish firms have important technological processes and innovations – the good example can be Beyond company – one of the biggest Data Center provider in Poland with high-tech solutions or CD Projekt Company – owner and producer of “Witcher Game” – very famous game in Europe but also in USA. On the other hand there are very successful Polish start-ups offering services not in Poland but for instance in US or in Western markets (Spotify, Estimote).

According to expert 5, CEE firms have done a lot in terms of technological and innovative catch-up. In some ways, these areas are where their competitive strength often lies. When it comes to R&D and technical personnel, the costs of such staff are usually a fraction of costs in the West, while their educational profiles are (almost) at par with the West. On the contrary, it could be an advantage, as they can hire more such people. CEE firms are also used to work under more constrained conditions, making them more resourceful and innovative in different kind of ways. Lastly, they also tend to operate in markets where consumers are very sophisticated, but more price sensitive. They demand Western quality and choice options.

Expert 6 argues that the statement is true due to insufficient capital to conduct R&D and commercialize innovations. Additionally, technical specialists might lack sufficient management and marketing experience to bring new technological processes or innovations to fruition.

For Expert 7, the issue with technologies is a make-or-buy type problem. If CEE firms need to buy, they will be faced with a global price level, tailored to Western companies, eliminating their cost advantage.

If CEE firms build their own technologies, they either keep them proprietary in which case they lose the ability to generate additional revenue streams, or sell to Western markets in which

case they lose the proprietary access to these, therefore technology development can never result in a localized advantage in CEE markets.

Management fears and adaptability

We argue that the decisions made by management and fears shared by them that the companies would not be able to adapt their strategies and products to other regions explain why many companies prefer to concentrate on CEE region or even not start internationalization at all.

For Expert 1, the large majority of SME start-ups remain very small and only domestic during their life cycle. Only a handful of them grow fast and become international. It is true to all countries of the world. The share of firms remaining domestic may indeed be high in CEE in international comparison. It is true, however, that they often complain about the lack of public support, especially compared with their Western (European) competitors.

Expert 2 disagrees with the statement as the market strategies are more related to market structure, distance (costs/learning) and institutional frameworks than to the quality of products/services. Those that select CEE markets as major markets, still many do not see CEE consumers (on B2B or B2C) as less demanding in spite of lower buying power on average (intensive segmentations in CEE is also going on, and a rising share of more demanding/premium consumers). Even in CEE they face Western fierce competition.

According to expert 3, in order to grow and become successful CEE firms have to internationalize. Home markets in CE/SEE are too small to reach a critical mass. They need EOS to be competitive also in the home market. And they have the chance to gain a higher margin abroad than at home and to learn about latest developments in their industry (consumer demand, product innovations).

Expert 4 does not agree with the last statement as the current managers are “international oriented” with very good international skills and competences to deal in international markets – it is visible in many industries – the good example could be CCC – Polish company producing and offering shoes in many international markets not only in the CEE but also in Western countries. The other example could be TZMO company having business for instance in India for many years or Inglot or Ziaja from cosmetics industry or Solaris and PESA from automotive industry. So due to the joining the EU market Polish companies are even more “international oriented” in different markets.

For expert 5, the adaptability may be not the main problem. Managerial mindsets might be more narrow and constrained (i.e. due to a lack of international experience), organizational cultures might be a problem (a lot of organizational inbreeding, homogeneity, longer employee tenures etc.) and national cultures. CEE cultures tend to be very risk averse. A lot of them don't like change.

Expert 6 mentions similar obstacles. It might be an aversion to risk taking that is inherent in internationalizing in countries with different national cultures, and political, economic and business systems. If the CEE market is not saturated, then there is little motivation to expand to other regions.

Expert 7 believes that CEE managers are not unreasonable or irrational in any possible way. Much more so, they are probably more rational than their Western counterparts are. However, the brain drain is a big issue in this domain as well, and good managers may be attracted by a higher price environment. Therefore, there may be a negative selection process across CEE managers, resulting in an evolutionary process that leaves CEE firms with managers lacking the skills to lead their organizations to success in Western markets, and therefore may actually avoid going there.

EU accession: pros and cons

We argue that EU accession was a significant driving force of internationalization as common market increased the companies' opportunities but at the same time became a challenge for many companies and forced them to modernize and grow in more competitive environment.

For expert 1, EU accession had quite a positive impact on the companies' competitiveness. EU accession has changed the question of market access dramatically. On the one hand, CEE markets opened to competition from Western countries, forcing local firms to improve quality and pricing to remain alive. Local companies could disappear quickly or bought up by stronger competitors. CEE firms had to apply qualities and standards they were not necessarily familiar to them. Some of the certifications could become quite costly to them. But on the other hand, accession opened Western markets to them. They could sell without limits, and more quickly (as customs controls also disappeared). Because of these pressures, naturally CEE firms had to internationalize to Western markets quickly, and in the quality required there. In other words, there was a push for accelerated internationalization.

According to expert 2, the influence of the EU accession was in several directions. The enlargement increased the level and the diversity in internationalization as well as the awareness that internationalization is needed.

Already the accession agreement speeded up internationalization in both inward and outward direction. The effects can be seen in raised and diversified exports and imports and the increase of FDI. Increase of inward FDI supported the increase of outward FDI.

The major change was change in market structure and often increased regulation, increased competition, some industries were less prepared and faced large crowding out of domestic firms while some of them demonstrated positive changes of increased competition such as increased productivity, increased export- intensity, improved managerial capacities and rising innovation activities. The introduction of euro brought positive changes as well

Expert 3's opinion is following: CEE-EU firms should have an easier access to the wealthy markets of old EU-15. But in practice no trade-barrier and less bureaucratic burden doesn't mean automatically easy access – the company needs to find distributors, build its own sales channels or find other ways how to connect with prospects (latter works better for digital products). It is easier for them to participate in public tenders. Summing up, the EU accession is a clear advantage, it is up to the companies what to make out of it. Of course, it is easier to expand to the Common Market, use their comparative cost advantage in public tenders, but they still have to do their (international) management homework.

According to expert 4, there a lot of positive changes for the Polish companies – access to new markets, possibility of mutual alliances or JVs with foreign partners from EU, development of businesses in different EU countries. One negative thing could be international competitive pressure but in the end it brings the higher quality and better skills and competences for Polish managers.

However, EU accession did not always turned out to be as good for companies as they considered it to be. Expert 5 believes that CEE countries were too much focused on entering the EU. They really didn't think what will happen afterwards. They quickly realized that a single market doesn't necessarily mean an even playing field, if the company doesn't have the right competitive advantage basis, adjust your strategies and learn. Particularly after the 2008 crisis there has been a lot of disillusionment.

Talking about Poland, Expert 6 underlines the positive effect of joining the EU Poland is an excellent example of a CEE country that benefited immensely from its EU membership. For instance, its local companies made parts, which were then included in automobiles assembled for multinational auto manufacturers that were exported to Germany.

Removal of access barriers naturally positively influences any internationalization decision.

So was the case for CEE firms. However, as Expert 7 underlines, they may not have necessarily started targeting far away markets, just because the entry barriers were not there anymore. Good examples of this are the Hungarian regional multinationals (MOL, OTP) which became dominant in the regional markets, made accessible by the EU single market agreement.

Negative effects were a lot more abundant. Access to home markets for additional competition of companies with strong international brand names intensified competition and captured the higher value added customer segments, leading to the loss of markets/revenues.

Internationalization and government support

It is also interesting to look at how the governments in CEE region support various industries in their internationalization processes as it clearly happened in BRICs countries and Russia.

Expert 1 agrees that the governments usually support the internationalization of their flagship firms, especially the ones in which they have ownership stakes. In the majority of countries, they are natural-resource-based firms, banks, utilities or telecom companies. In this sense, CEE is similar to other regions. It is true that its governments have less expertise and less resources to support the outward investing firms that say governments of advanced countries such as France or Germany. And perhaps awareness about the importance of outward FDI by these flagship companies for national competitiveness is lower.

Expert 2 argues that no specific sectors are especially selected for support (promotion strategies generally avoid sectoral selection), promotion is generally oriented into SMEs, high tech firms or R&D intensive firms that create high value added jobs.

Expert 3 supports this opinion and argues that the governments support SMEs and innovative mid-caps in export promotion programs that are tailored to them (participation in trade fairs, trade missions, financial support for contacting foreign prospects, executive trainings). The big companies know better how to help themselves.

Expert 4 assumes that there is a specific plan to support the internationalization of Polish companies by Polish government. It may be seen in IT or military industry or automotive industry or in other industries. The good example can be the latest Hannover International Fairs where 200 firms from Poland presented high-tech solutions, products and services.

Expert 5 underlines several industries such as agriculture, selected service sectors and

logistics. Particularly logistics call for more government involvement and inter-country cooperation. To some extent also tourism. In general, it is more about the service sectors, maybe certain manufacturing sectors, like infrastructure and energy perhaps, as well.

Expert 6 just refers to many industries that are on the strategic industries list.

If the current free trade arrangements remain in place, governments will find it difficult to support internationalization of specific firms in particular industries.

However, Expert 7 thinks that in industries where the government can contribute to allowing firms to continually capitalize on location advantages may benefit. These include industries where local excess capacities can be marketed, like petrochemical sector, medical sector, agriculture; industries which require sophisticated supporting resources (in particular human resources) are essential and contribute to the bulk of expenses, such as business services, education, R&D; industries requiring specific location configurations, such as transport and logistics.

R&D development: then and now

We argue that the way CEE firms prefer to develop their R&D changed significantly over the last 25 years. Nowadays many companies do it on their own or cooperate with domestic institutions whereas in 1990s they strived for cooperation with the foreign companies to enhance their know how and technologies.

Expert 1 suggests that R&D expenditure support the idea that companies develop innovations and R&D more domestically than in partnerships or other methods. Business enterprise expenditure on R&D (BERD) of CEE countries is very low, and foreign-owned firms carry out most of it. That is an indication of a generally low propensity of local firms to spend on R&D. Majority of firms develop R&D domestically (as a rule they establish strong R&D on their own), once established at home they search for cooperation internationally (or move abroad to diminish country of origin effect), both within and outside Europe.

According to Expert 2, foreign own affiliates in CEE are also increasingly involved in innovation cooperation and they intensify cooperation faster and stimulate innovation cooperation with local suppliers and buyers. The “culture” of cooperation has changed recently in the last ten years with the development of GVC. Lack of resources stimulated international cooperation.

For expert 3, strong and innovative companies always have their own R&D – otherwise they have to copy and then they are probably too weak to differentiate downstream (product quality/innovativeness, branding, distribution). Otherwise, they buy technology and combine the

inputs in a clever way – but then again they need differentiation in downstream activities. Given the need for capital to finance growth, R&D and to build up global distribution channels successful firms face the decision to team up with leading foreign firms or sell out to them – that is often the price they have to pay when they want to reach a new (global) level. For CE/SEE firms home markets are too small to source all necessary knowledge, technology and capital there.

Expert 4 argues that it depends on the company and industry. In more advanced industries sometimes it is much better to involve foreign companies to develop R&D through alliances and partnerships – to get an access to specific know how, but there are also companies from IT or biopharmaceutical industry which have their own R&D departments. R&D alliances are even more challenging for Polish companies while the companies have to simultaneously share knowledge while trying to prevent knowledge spillovers.

From Expert 5's experience of collaborating with Slovenian and Western Balkan firms, their problem is that they feel they have to do everything themselves and go at it alone. Cooperation, particularly when it comes to R&D is not really a strong suit of CEE firms. It is a result of interaction between national cultures and organizational heritages from the socialist past. If they decided to cooperate, they would much rather cooperate with a Western firm than with other firms in their country or the region.

Expert 6 believes that it depends on the industry and how technologically advanced it is. Another important factor is government restrictions on strategic alliances with foreign companies.

For Expert 7, the question depends on whether knowledge sharing can alleviate the costs of R&D between partner organizations, or whether there is a cost advantage of conducting R&D in CEE. CEE companies who focus on internal markets seem to be more reliant on knowledge sharing from external sources. Firms developing R&D in CEE can either be home market or export oriented, depending on the degree of cost and other advantages R&D in CEE is able to give them.

Expert 4 also determined the main factors that allowed the Polish company Orlen internationalize successfully and allowed for fast growth and development:

- 1) state support and the strategic relevance of the sector from the point of view of the government
- 2) strategic acquisition of the Lithuanian refinery (upstream activities) and of Czech and German gas station groups (downstream activities)
- 3) employment of top Polish managers, especially Dariusz Jacek Krawiec
- 4) strong brand in the Polish market (gas stations, non-fuel products and services)

- 5) high marketing and PR capabilities (e.g. sponsoring of international sports events and shows)

3.2 Discussion

The empirical results show that key dynamic capabilities needed for international companies from Russia and CEE region have changed gradually during last two decades. Our findings shows that the changes actually can be seen in all four dimensions proposed by us in the framework in the context of internationalization of companies from Russia and CEE countries. The importance of dynamic capabilities development is very high in case of international companies of Russia and CEE region as their competitors from Western markets and other regions were more technologically advanced and far more experienced in terms of doing business globally.

The multiple cases show that alliancing activity was of highest importance for many companies in 1990s due to their lack of knowledge and technologies. The companies also struggled to survive and could not plan expansion overseas with the use of mergers and acquisitions. Nowadays many a lot of companies are able to develop R&D and foster innovation on their own, that is why this area is more driven from within the company. After having accumulated needed know-how and resources the companies started their internationalization through the use of acquisitions. However, in many cases the companies were not able to extract all the needed potential from such acquisition that is why the acquisition based dynamic capabilities became more and more important for companies oriented at non-organic growth overseas. Experience in certain market niches also played important role in companies' diversification at home and abroad. Vertically integrated groups started their acquisitions in various countries and various market niches in order to maximally diversify their activities. Other companies also contemplate about entering new industries abroad to expand their business activities and experience from previous markets increases significantly.

The opinions of experts also helped to understand that the changes do not limit to certain areas but to companies' development in general. The EU accession was a powerful driving force of changes for many companies in CEE region, as they had to modernize and adapt to merciless competition of the European common market. The questions addressed to the experts and answers given by them show that sometimes internationalization strategies are not always predetermined by available resources and opportunities but also by some "invisible" but vital factors that should be taken into account. These factors include close economic ties between

countries in the region, local consumers' preferences and brand image problems of certain countries in Western markets – so-called liability of foreignness.

The experts have supported the ideas that we have also suggested in our theoretical framework. The companies were actually focused on regional markets due to their historical ties and consumers' preferences but sought for ways of overcoming this dependence. It was easier for technologically intensive industries that could offer services and products that are needed globally. Other companies used different ways of solving the obstacle of regional specificity. Diversification was one of the most used tactics. Of course, it needed a lot of resources to succeed that is why the companies did it gradually, often starting in their home countries and then expanding gradually to other markets.

The companies did suffer from the lack of technologies after 1990s; however, the main purpose of acquisitions was quite different in many cases. Most of the companies just needed to get distribution network in other countries or reduce their costs. Several companies such as CEZ or Agrokor were groups of companies that had an aim to acquire as much companies as possible and maximally diversify their activity. Pharmaceutical companies such as Gedeon Richter and Krka were the companies that needed technologies most and planned their strategies according to this fact.

The empirical research also showed that half of the companies have somehow used alliances in their struggle to internationalize. It means that for companies presented here the alliances was a key tool to enter markets overseas. As all of the companies presented were able to grow and are quite successful in terms of sales, it also supports the theory of how important dynamic capabilities are for being competitive and survive in changing business environment.

The companies from mining industries are the most numerous in the list of companies chosen for the study. Moreover, it is not a coincidence as in many cases they have enough financial resources and can count on the state support. In case of companies coming from countries of former Yugoslavia, they had many branches in the region before 1990 and it was easier to return the control over them. Apart from them, there are no clear concentration of companies coming from the same industries. The companies are quite different and so are their motivations.

The internationalization paths of the companies from the countries of Central and East Europe and Russia turned out to be quite different, especially after the accession to the European Union of the countries presented in the study. The common market and new business conditions made the companies from these countries to adapt faster to the new realities to be competitive. In

Russia, the largest companies used to become more and more centralized, politically interconnected with the government and monopolistic. It also happened because of the amount of the amount of resources available to the companies in Russia and CEE countries. Moreover, Russian companies are often much more inclined to concentrate and strengthen their position on Russian market due to its large size and opportunities. The Russian companies, especially state-owned ones, also do not invest as much in new technologies and innovations as CEE companies do because they do not need to significantly change their competitiveness on domestic market.

We have discussed the findings that validate the framework that illustrates the main groups of factors that somehow influenced the shift in the development of dynamic capabilities among Russian and CEE companies since 1990. The findings also reveal the factors that were crucial for these companies in their international expansion and take into account the importance of external and internal changes in CEE countries and Russia.

The study examines in detail various reasons of specific order of dynamic capabilities development used by the companies and shows how it has been gradually changing due to factors suggested in the conceptual framework.

Our findings reveal that successful international companies from Russia and CEE countries grasped the importance of investing in R&D and technologies and development of their own R&D centers in order to be self-sufficient in their technological development. It also shows that companies from Russia and CEE suffered from the lack of experience in many areas important for successful internationalization and were forced to catch up much quite fast in order to compete against their Western counterparts abroad as well as on domestic markets.

The findings also reveal that the change of priorities and increased power of state-owned enterprises made them much more active players on international arena. They are actively trying to expand their reach in other countries nowadays. However, their expansion often is determined by national interests which makes them less flexible in terms of doing business abroad. At the same time, they also had to face the difficulties similar to those face by private companies which forced them to pay more attention to their dynamic capabilities development policies.

Since 1990s, the enterprises in Russia and CEE region were able to gather and accumulate resources needed for active expansion. However, lack of experience and knowledge was a serious obstacle for them to maximize the benefits gained in the acquisition processes. Which is why acquisition-based dynamic capabilities became more and more important for such companies with pace of time.

Overall, the findings show that companies have significantly improved their

competitiveness during last 25 years which was caused by various factors that also led to the shift in dynamic capabilities development of these companies.

Summary

In the third chapter, the main findings of the study were presented and analyzed. First, data description was illustrated in the form of tables. It allows to identify the main goals and instruments of companies' internationalization and summarize them for further discussion.

After that, we compared the answers and opinions of seven experts that took part in our survey. Their answers contribute to the research and help us discover the overall situation as well as specific factors that defined companies' internationalization strategies in CEE countries and Russia.

In discussion, we provide an analysis of our finding and experts' answer and apply our conceptual framework to understand how the importance of certain dynamic capabilities changed during last two decades and which factors influenced this shift.

Conclusions, limitations and further research

This study about dynamic capabilities of international companies from CEE region and Russia examines how the importance of certain dynamic capabilities changed during last 25 years. It also reveals the gaps existing in the literature and suggests a special framework that combines four determinants such as experience, technology, ownership and knowledge that defined the choice of foreign markets and scale of internationalization. The study also analyses main factors and stages of the internationalization of companies from Russia and CEE region. It validates the framework with the use of empirical evidence from 42 companies from countries of CEE region and Russia from various industries.

The study contributes to existing theory in several aspects as it offers a multidimensional approach to dynamic capabilities development and internationalization that allows to understand the underlying purposes and reasons of companies' decisions of expansion abroad. It tries to emphasize on the motives and methods the companies used for their internationalization and shows how effectively they could employ the resources and experience available to them. It shows that the priorities and type of dynamic capabilities changed with the time and their development changed as the companies adapted to changing economic and political conditions.

The study also provides the better understanding of some factors that determined internationalization of some companies but could not be connected with the direct influence of dynamic capabilities development. This valuable contribution was partly based on the opinions of various experts specializing on CEE companies and companies from Russia. We would like to stress that scholars should also pay attention to factors of different nature when arguing about capabilities that give companies competitive advantage in changing business environment.

The study also has practical value for managers as it shows the complexity of factors that influence dynamic capabilities development and their evolution since 1990s. The evidence shows that often some factors related to the specifics of product or industry may have the paramount importance in the context of markets and consumers. It is possible for company to start its expansion abroad without gradual internationalization if the goals are justified and there is a clear strategy of further development. Managers should also assess all the possible challenges that may arise in the process of internationalization and try to foster company's dynamic capabilities through alliances, innovations and constant learning. The more challenging conditions a company faces, the faster it will develop its dynamic capabilities and become more competitive than it is.

We argue that our findings also would be especially interesting for managers who are in charge of Russian companies or companies from CEE region as they may use the experience of companies from very various industries that managed to become international. It is very important for those companies that have already accumulated experience and resources operating on domestic market but can not decide whether they should internationalize or not.

The study contains certain limitations. The largest companies in terms of sales were chosen for this study. The patterns of small firms from Russia and CEE countries may be quite different. It is strongly recommended for scholars to continue the research in this direction.

Another interesting issue to be analyzed is the institutions in Russia and CEE region influence the development of dynamic capabilities and affect the internationalization of companies from these countries.

It is also a good question whether these findings could be applied to the companies from other transition economies in the future. Do the companies from Russia and CEE region have something different that could not be simply copied by the other companies from transition economies? It is recommended for scholars to pay attention also to this fact in further research.

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- **Sberbank**
- **VTB**
- **Group**
- **Megafon**
- **Inter RAO**
- **VimpelCom**
- **Orlen**
- **CIECH S.A**
- **Boryszew**
- **CAN-PACK**
- **LPP**
- **ABC Data**
- **Asseco Group**
- **Grupa Maspex**
- **MOL**
- **Richter Gedeon Co.**
- **Hungarian Gas Trade Ltd.**
- **BorsodChem**
- **Škoda Auto**
- **Škoda Transportation**
- **ČEZ Group**
- **Agrofert**
- **EPH**
- **Metrostav**
- **LAMA ENERGY GROUP**
- **Automobile Dacia S.A.**
- **OMV Petrom**
- **Romgaz**

- **Gorenje Group**
- **GEN-I Group**
- **Petrol Group**
- **Krka**
- **Kolektor**
- **Atlantic Grupa**
- **Agrokor**
- **INA Group**
- **Metinvest**
- **NIS**
- **EFT**

Web-sites of international organizations:

- <https://www.wto.org/>
- <http://unctadstat.unctad.org/EN/>
- <http://worldbank.org>
- <http://www.oecd.org/>

Media sources:

- <http://www.akm.ru>
- <http://www.kommersant.ru>
- <https://ria.ru>
- <http://www.reuters.com>
- <https://www.bloomberg.com>
- <http://www.evaluategroup.com>
- <http://www.financialobserver.eu>

Appendixes

Appendix A

Number	Name	Title	Institution	Fields of research
1	Kalman Kalotay	Economist Honorary Professor,	United Nations Conference on Trade and Development Corvinus University, Budapest, Hungary	Transition economies Multinational enterprises Foreign Direct Investment Strategies for Central and Eastern Europe
2	Andreja Jaklič	Professor	University of Ljubljana	Internationalization of firms FDI Exports Promotion of internationalization
3	Arnold Shuh	Director Assistant Professor	Competence Center for Central and Eastern Europe (CEE) Vienna University of Economics and Business (WU)	Strategies of local firms in CEE Strategies for Central and Eastern Europe Management in Central and Eastern Europe Marketing in CEE Internationalization strategies
4	Łukasz Puślecki	Assistant Professor	Poznan University of Economics (PUE)	Strategic alliances Strategic technology alliances Leadership in international business International trade and services

5	Matevž Rašković	Assistant Professor	University of Ljubljana	Multinational companies Buyer-supplier relationships Economic sociology of MNEs
6	Sheila M. Puffer	University Distinguished Professor	Northeastern University	International business Management Entrepreneurship Doing business in Russia and other emerging markets
7	Áron Perényi	Lecturer Expert	Swinburne Business School UNIDO-OBOR Inclusive and Sustainable City Exhibition and Dialogue	Entrepreneurship International Business Economic Development Central and Eastern Europe Business-Government Engagement