

# “Impact of joining the European Union on competitive advantage according to the position of the company in the value chain”

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## SECTION 2. Management in firms and organizations

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### Impact of joining the European Union on competitive advantage according to the position of the company in the value chain

#### Abstract

The paper examines the impact of the EU enlargement in 2004 and ongoing integration inside the EU from the point of view of Estonian enterprises that had, before the EU enlargement, more focused on markets outside the EU compared to enterprises that at that time in their international business efforts had positioned themselves more actively in value chains inside the EU. The research question is: How Estonian companies see their competitive advantages in the EU and what impact of EU-related changes they consider important depending on their position in the value chain? In order to find the answer to the research questions, questionnaire survey and follow-up interviews were conducted in 87 Estonian companies representing 7 industries. Results of the survey highlight different perceptions of changes that are related to the European integration by enterprises involved in value chains inside EU and enterprises that have developed business operations in countries that do not belong to EU. The latter see a threat in external trade barriers with non-EU countries but at the same time consider the free movement of capital an important positive implication of EU membership. Enterprises that focus their international business outside EU stress in their competitive advantage vision value chains and networks with reliable partners even more than enterprises that are mainly operating at the EU markets.

**Keywords:** European integration, international competitiveness.

**JEL Classification:** L21, L26.

#### Introduction

International business operations are essential development opportunities for growing small enterprises in a small open economy. Starting from the collapse of the Soviet command economy and regaining Estonian independence in 1991 Estonian governments have followed the liberal economic policy by creating equal rights to foreign and local investors and by implementing the principles of free trade. An important milestone for Estonia and other Baltic countries was joining the European Union (EU) in May 2004. Already in 2001 the share of EU countries in Estonian exports was 69.5% (Statistical Office of Estonia, 2004). In 2004 it was 80.1% and in 2006 64.7% (Statistics Estonia, 2007). These numbers indicate that European integration does not mean increasing the role of other EU member states as a linear trend in the foreign trade. Other regions are also important export destinations. Exact estimation of export statistics is, however, to some extent distorted by practices of some Estonian enterprises that had exported their products to Russia via Finnish intermediaries in order to avoid discrimination by Russian authorities that before Estonian EU membership included higher tariffs than were applied to imports from the EU countries. In fact, EU membership removed some trade barriers between Estonia and its eastern neighbor.

European integration will however change the nature of co-operation in value creation inside and outside the EU. Estonian companies face the challenge of moving to more knowledge-based and

value-added products (Kattel and Kalvet, 2006) in order to remain internationally competitive despite diminishing cost advantage at the EU markets.

The present paper reflects future visions of managers from enterprises that have different role in value chains inside and outside the EU. The paper focuses on the role of competitive advantage visions in the internationalization process of enterprises and perceptions of changes connected with the EU membership of Estonia. The research question is: How Estonian companies see their competitive advantages in the EU and outside EU and what impact of EU-related changes they consider important depending on their position in the value chain?

In order to address the research question, the internationalization process and the role of value chains are at first discussed from the point of view of enterprises operating in new EU member states. The paper then provides an overview of research findings that are based on questionnaire survey and follow-up interviews. Finally, a model is presented that allows comparing implications of European integration on enterprises in new EU member states that are focused on business opportunities inside or outside EU.

#### 1. The internationalization stage and the value chain approaches and the context of the transition economies

**1.1. Cost advantage of the early transition.** After introducing fully convertible national currencies in the Baltic countries and relatively rapid macro-economic stabilization at the beginning of 90-ies many enterprises in Estonia, Latvia and Lithuania

were able to follow the cost leadership logic as subcontractors for business partners from Finland, Sweden, Germany and other “high-cost” countries. For Estonian entrepreneurs subcontracting for Finnish enterprises was a quite handy way to acquire international business experience due to closeness of Estonian and Finnish languages and cultures. Subcontracting relations that were based on cost advantage at the first decade of transition towards the market economy were not always guided by conscious strategic choice and systematic search and selection of suitable foreign partners. Many privatized enterprises and new entrepreneurial ventures that started exporting in 90ies were in fact simply found by entrepreneurial foreign business people who engaged them as subcontractors (Elenurm, 2000). That is different from the situation of enterprises initiated during this decade in advanced market economies. For instance, in USA the use of cost leadership was not found to assist a venture in internationalizing its operations (Bloodgood, 2006).

In many East and Central European countries joining the EU was accompanied by a substantial decrease of external tariffs as the common external tariff level of the EU used to be lower than previous national tariffs. Therefore, for most new members lower external tariffs did play an important role in influencing global and European competitiveness and shaping structural changes both on macro- and micro-level. Estonia had already before joining the EU however followed free trade policy and joining the EU resulted in exposed Estonian enterprises to higher tariffs, especially when importing raw materials for mechanical engineering, textiles and food processing industries.

**1.2. The stage approach.** Internationalization strategies of enterprises in advanced market economies have been, in recent decades, often discussed in the framework of the stage approach of Uppsala school (Johanson and Vahlne, 1977, 1990, 2006). Moving from one internationalization stage to the next one entails learning and knowledge acquisition (Forsgren, 2002; Kuemmerle, 2005). Stages of entrepreneurial internationalization have been related to product, operation mode and market dimensions (POM-approach) that growing enterprises in advanced market economies tend to take into consideration when choosing their internationalization path (Luostarinen and Welch, 1993). Incremental nature of the internationalization process assumes that firms start their internationalization from culturally and psychologically close markets in step-wise manner.

Common to stage models of internationalization is the concept that enterprises behave in consistent manner when following the internationalization

learning curve. Inward internationalization by imports and indirect export through domestic intermediaries as the first stage is followed by direct export through distributors or agents at the target market. Next internationalization stages may lead to a marketing subsidiary and ultimately to a production unit at the foreign market. This internationalization logic does not however often hold for enterprises that start their internationalization from their East European home markets. The advanced infrastructure of domestic intermediaries for export operation is missing and in the environment, where institutional export barriers were eliminated at the early stage of transition to the market economy, even small enterprises have been eager to gain personal experience of direct negotiations and business transactions with foreign partners.

So long as production costs have been much lower than at West European target markets, a production subsidiary at these markets has seldom been the final stage of the internationalization process. Production companies can use their cost advantage, differentiation skills or client focus for building up long-term partnerships with similar enterprises in the target market that possess more advanced knowledge of this market and are ready to combine outsourcing of their products to a Baltic partner with distributing some products of this partner. From the point of view of entrepreneurs in transition economies it diminishes international marketing costs but exposes them to the risk of too high dependency on one or a few foreign partners.

**1.3. Choice of the value chain and the destination markets.** The operation mode is only one of strategic choices that an enterprise can carry out in the foreign markets. Dimitratos (2001) makes difference between strategic choices at the overall international marketplace, i.e. the total number of countries in which the enterprise has business operations, and strategic choices in a specific foreign country. Kummerle (1999) points out that developed and less developed countries are two distinct categories from the internationalization strategy point of view. Entrepreneurs in Estonian and in Baltic countries have become used to co-operate in the role of subcontractors and importers with enterprises at the advanced Nordic and West-European market but their experience of own product branding and retail channel development is stronger in developing markets of other transition countries, including countries that did not belong to the EU until 2004. Kaplinsky (2004) has pointed out the problem of falling returns of firms from developing economies if their role in the global value chain is limited to assembly of imported materials and other simple subcontracting operations. He has stressed the importance of value chain analysis. The value chain is the full range of

activities that have to be linked in order to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), to delivery to final consumers, and the final disposal after use (Kaplinsky, 2004).

The nature of governance in global value chains, authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain (Gereffi, 1994) affect the generation, transfer and diffusion of knowledge (Humphrey and Schmitz, 2002) that may have critical impact on shaping future core competences and resource base in enterprises of transition economies that are involved in these value chains. Enterprises in transition economies can be involved in several value chains and may try to apply competencies learned in one value chain in another value chain in order to improve their position in the value chain governance.

In order to anticipate opportunities and challenges of future international competitiveness it is useful to compare competitive advantage visions of Estonian entrepreneurs and managers that so far have developed international business operations outside EU to visions of these managers and entrepreneurs that already before EU accession have directed their main business efforts to EU markets. We also try to

understand links between operation modes in international business and anticipated threats and opportunities of European integration.

## 2. Empirical research in Estonian enterprises

**2.1. Survey design and sample.** The study combined questionnaire survey and follow-up interviews of entrepreneurs and managers from 87 enterprises in food processing, transportation and logistics, wood and furniture, information technology, mechanical engineering, textiles and professional services. The empirical research focused on industries directly influenced by EU accession and further European integration. The questionnaire and interviews reflected cross-border mobility of labor, nature of international business operations, anticipated threats and opportunities of European integrations, competitive advantage vision and involvement in EU-sponsored development projects.

In this paper we focus on differences between two internationalization trends of enterprises: inside and outside the European Union. Enterprises involved in the sample have been acting as subcontractors or exporting their own products, developing products and technologies with foreign partners, importing products and services from other countries and in some cases have subsidiaries in other countries or are engaged in inward or outward licensing (Table 1).

Table 1. Present fields and future trends in international business operations

Type of international business operations	Involved enterprises (%)	Growth or decrease anticipated (% of enterprises)				
		Substantial decrease	Some decrease	No change	Some increase	Substantial increase
Subcontracting to other EU countries	54.0	11.9	6.8	18.6	42.4	20.3
Subcontracting outside EU	17.2	6.3	9.4	34.4	31.3	18.8
Selling own products to other EU countries	60.9			10.0	41.7	48.3
Selling own products outside EU	33.3			25.6	46.5	27.9
Product and technology development with EU partners	41.4			17.0	44.7	38.3
Product and technology development with partners outside EU	14.9			36.4	39.4	24.2
Importing from other EU countries	41.4		5.9	29.4	41.2	23.5
Importing from countries outside EU	21.8	2.7	18.9	29.7	29.7	18.9
Subsidiary in another EU country	21.8	6.5		32.3	45.2	16.1
Subsidiary outside EU	8.0	4.2	4.2	37.5	37.5	16.7
Inward or outward licensing for implementing new products and technologies	18.4	4.0		60.0	24.0	12.0

As much as 60.9% of respondents stated that they were selling their own products in other EU member states and 33.3% were exporting their products outside EU. There are also enterprises that have developed their international business operations in both directions. Follow-up interviews however revealed that "own products" were, in other EU countries, often not marketed under own brands of Estonian enterprises

or served as a component to some technological system. Establishing and promoting own brand in ex-Soviet markets are perceived as a more easy solution when compared to developing own brand for more advanced EU markets.

Correlation analysis has been conducted separately for both geographic orientations in two steps. First, with

the anticipated impact of changes connected with joining the EU, and second, with predicted competitive advantage factors in 2010.

**2.2. Focus on EU markets and business partners.**

Connections between developing international business activities at the European Union markets and predicted impact of changes associated with joining the EU are presented in Table 2.

Table 2. Connections between international business operations inside EU and predicted impact of Estonian EU membership

		4.1	4.2	4.3	4.4	4.5	4.6	4.7
3.1	PC	,058	-,073	-,042	-,012	,017	,058	,091
	N	53	52	51	55	54	54	51
3.3	PC	,136	,034	,258	,217	,394**	,395**	-,008
	N	56	56	54	55	56	58	55
3.5	PC	-,039	-,081	,206	-,227	,130	,375*	-,160
	N	46	43	43	44	45	46	45
3.7	PC	-,006	,124	,022	-,040	,109	,110	,154
	N	50	46	45	47	47	49	48
3.9	PC	,051	,080	-,129	-,150	,147	,159	,023
	N	31	29	26	29	29	30	29

Notes: \* – correlation is significant at the 0.05 level (2-tailed). \*\* – correlation is significant at the 0.01 level (2-tailed). PC – Pearson correlation, N – number of enterprises involved in the specific international operations.

Types of business operations in EU:

- 3.1 – Subcontracting to partners in other EU countries
- 3.3 – Selling own products in other EU countries
- 3.5 – Co-operative product and service development with EU partners
- 3.7 – Importing products and services from other EU countries
- 3.9 – Subsidiary in other EU country

Impact of joining the EU:

- 4.1 – Less trade barriers in EU internal market
- 4.2 – More trade barriers with non-EU countries
- 4.3 – More free movement of the capital
- 4.4 – More free movement of labor

4.5 – EU support for technology development and innovation

4.6 – Co-operation networks between EU enterprises

4.7 – Uniform terms for sanitary, labor and occupational safety and environment protection regulations

According to the results of the correlation analysis companies that are developing export of their own products to other EU countries see an important business opportunity in support of EU to development of their technology and innovation, in co-operation networks with enterprises in other EU countries. Enterprises involved in co-operative product and service development with EU partners also consider increasing networking opportunities an important implication of the EU membership.

Connections between growth trends of international business operations inside the European Union markets and predicted competitive advantages connected with Estonian membership in the EU are presented in Table 3. Correlation analysis indicates that after joining the EU, companies exporting their products to EU see their main competitive advantage in providing products and service of better quality than competitors. According to respondents, understanding client needs in a specific international market segment and competent and motivated staff will also support their competitive advantage.

Another international business operation increase trend, even more significantly connected with the future competitive advantage vision, is importing products from other EU countries. The statistically significant correlations were found with such competitive advantages as intellectual property and unique know-how as well as with products and services of better quality than competitors, value chains and networks with reliable partners and better technology than competitors have. Follow-up interviews confirmed that in such importing enterprises the main sources of know-how and superior products are EU partners and Estonian importing enterprises seldom position themselves as competence centres in value chains.

Table 3. Connections between international business operations inside EU and predicted international competitive advantages in 2010

		5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.9	5.10	5.11	5.12	5.13
3.1	PC	,185	-,111	,124	-,136	-,010	,188	-,050	,055	-,008	-,109	-,107	,002	-,141
	N	54	54	52	54	55	54	52	54	53	44	51	48	49
3.3	PC	,093	,314*	,231	,388**	,295*	,156	-,058	,076	-,138	,032	,137	,215	,193
	N	57	57	56	57	58	58	58	58	56	48	56	56	53
3.5	PC	,041	,119	,236	,175	,214	,048	-,025	-,083	-,044	-,043	-,062	,268	,008
	N	46	46	47	46	47	47	46	46	45	39	45	44	43
3.7	PC	-,033	,233	,282*	,323*	,182	,114	,055	,092	-,183	-,092	,075	,318*	,459**
	N	49	49	50	49	50	50	49	50	48	40	49	47	47

Table 3 (cont.). Connections between international business operations inside EU and predicted international competitive advantages in 2010

3.9	PC	,159	-,179	,255	-,005	-,291	,235	-,130	,165	,030	,154	-,133	-,021	,268
	N	29	29	30	29	30	30	30	30	29	25	28	28	28

Notes: \* – correlation is significant at the 0.05 level (2-tailed). \*\* – correlation is significant at the 0.01 level (2-tailed). PC – Pearson correlation.

Types of business operations in EU:

- 3.1 – Subcontracting to partners in other EU countries
- 3.3 – Selling own products in other EU countries
- 3.5 – Co-operative product and service development with EU partners
- 3.7 – Importing products and services from other EU countries
- 3.9 – Subsidiary in other EU country

Potential competitive advantages:

- 5.1 – International image of enterprise
- 5.2 – Understanding client needs in specific international market segment
- 5.3 – Better technology than competitors have
- 5.4 – Better quality of products or services than competitors have
- 5.5 – Competent and motivated staff
- 5.6 – Flexible adaptation to new business opportunities
- 5.7 – Creativity and innovativeness in new product development
- 5.8 – Location of enterprise, logistics and transportation infrastructure
- 5.9 – Lower labor costs than competitors have
- 5.10 – Cost effectiveness in other costs than labor costs
- 5.11 – Higher productivity (added value per hour)
- 5.12 – Value chain and networks with reliable partners
- 5.13 – Intellectual property (patents, trademarks) and unique know-how
- 5.14 – Other

**2.3. Focus on markets and business partners outside EU.** Results in Table 4 confirm the logical assumptions that companies more focused on subcontracting outside the EU as the main forms of their international business operations tend to anticipate higher trade barriers with existing business partners outside the European Union as an important threat of Estonian EU membership.

Follow-up interviews revealed that respondents had most often in mind raw material supplies from Ukraine, Russia and Asian countries even if their subcontracting clients were in the USA or in other advanced non-EU countries. The need to abandon the free trade agreement with Ukraine in line with harmonized customs arrangements of the EU was mentioned by respondents as one example.

At the same time enterprises exporting their own products to non-EU countries, including Ukraine and other East European countries outside the EU, saw free movement of international capital as a positive implication of EU membership for developing their international business operations.

Table 4. Connections between international business activities outside EU and predicted impact of Estonian EU membership

		4.1	4.2	4.3	4.4	4.5	4.6	4.7
3.2	PC	-,154	-,436*	-,347	-,146	-,071	,206	-,233
	N	28	29	29	30	30	29	29
3.4	PC	,087	-,087	,341*	,034	,000	-,053	-,219
	N	41	43	40	40	42	43	40
3.6	PC	-,051	,114	-,106	,170	-,129	,142	,076
	N	32	33	31	32	32	33	33
3.8	PC	,069	,012	-,050	,067	,208	,296	,082
	N	35	36	35	36	37	37	37
3.10	PC	-,229	-,326	-,269	-,303	-,039	-,093	-,248
	N	23	24	22	22	24	24	23

Notes: \*\* – correlation is significant at the 0.01 level (2-tailed). \* – correlation is significant at the 0.05 level (2-tailed). PC – Pearson correlation.

Types of business operations outside EU:

- 3.2 – Subcontracting to partners outside EU
- 3.4 – Exporting own products outside EU
- 3.6 – Co-operative product and service development with partners outside EU
- 3.8 – Importing product and services outside EU
- 3.10 – Subsidiary outside EU

Impact of joining EU:

- 4.1 – Less trade barriers in EU internal market
- 4.2 – More trade barriers with non-EU countries
- 4.3 – More free movement of the capital
- 4.4 – More free movement of labor
- 4.5 – EU support for technology development and innovation
- 4.6 – Co-operation networks between EU enterprises
- 4.7 – Uniform terms for sanitary, labor and occupational safety and environment protection regulations

Table 5 presents connections between developing international business operations outside the EU and predicted international competitive advantages in 2010. Correlation analysis shows statistically significant connections of predicted competitive advan-

tages with all types of international business activities that are focused on non-EU countries.

Enterprises importing products from non-EU countries stressed better quality of their imported products, value chain and networks with reliable partners, intellectual property and better technology as their competitive advantages. Enterprises involved in subcontracting to companies in non-EU countries saw competitive advantage in flexible adjustment to new business opportunities.

Enterprises exporting their own products outside EU saw their advantage in cost effectiveness concerning other costs than labor costs. Co-operative product and service development with partners outside EU

was connected to the value chain and networking with reliable partners. Enterprises that are developing subsidiary companies outside the European Union pointed out cost effectiveness of other cost than labor costs, location of their enterprise, logistics and transportation infrastructure as the most significant advantages, and intellectual property as sources of their competitive advantage.

More statistically significant correlations can be found between developing various types of international business operations outside EU and the competitive advantages visions of managers than between developing international business operations inside the European Union and related competitive advantage visions.

Table 5. Connections between international business operations outside EU and predicted international competitive advantages in 2010

		5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.9	5.10	5.11	5.12	5.13
3.2	PC	-,076	-,115	,041	,197	,174	,432*	-,225	,302	,070	,330	,072	,137	,119
	N	29	29	28	29	30	29	28	29	28	24	27	26	26
3.4	PC	-,045	,236	,065	,200	,237	-,123	-,104	-,083	,060	,371*	,024	-,102	-,102
	N	40	40	40	40	41	41	41	41	39	34	40	40	39
3.6	PC	,015	,279	,201	,253	,263	-,145	,076	,217	,015	-,149	,142	,504**	,088
	N	32	32	33	32	33	33	33	32	31	26	31	32	31
3.8	PC	-,142	,208	,398*	,485**	,262	,216	,238	,145	-,057	,110	,042	,456**	,444**
	N	34	34	35	34	36	36	34	35	34	28	34	34	34
3.10	PC	-,198	,292	,370	,361	,026	,250	,088	,601**	,274	,642**	,352	,204	,510*
	N	21	21	22	21	22	22	22	22	21	18	21	21	21

Notes: \*\* – correlation is significant at the 0.01 level (2-tailed). \* – correlation is significant at the 0.05 level (2-tailed). PC – Pearson correlation.

Types of business operations outside EU:

- 3.2 – Subcontracting to partners outside EU
- 3.4 – Exporting own products outside EU
- 3.6 – Co-operative product and service development with partners outside EU
- 3.8 – Importing product and services outside EU
- 3.10 – Subsidiary outside EU

Potential competitive advantages:

- 5.1 – International image of enterprise
- 5.2 – Understanding client needs in specific international market segment
- 5.3 – Better technology than competitors have
- 5.4 – Better quality of products or services than competitors have
- 5.5 – Competent and motivated staff
- 5.6 – Flexible adaptation to new business opportunities
- 5.7 – Creativity and innovativeness in new product development
- 5.8 – Location of enterprise, logistics and transportation infrastructure
- 5.9 – Lower labor costs than competitors have

- 5.10 – Cost effectiveness in other costs than labor costs
- 5.11 – Higher productivity (added value per hour)
- 5.12 – Value chain and networks with reliable partners
- 5.13 – Intellectual property (patents, trademarks) and unique know-how
- 5.14 – Other

Conclusions

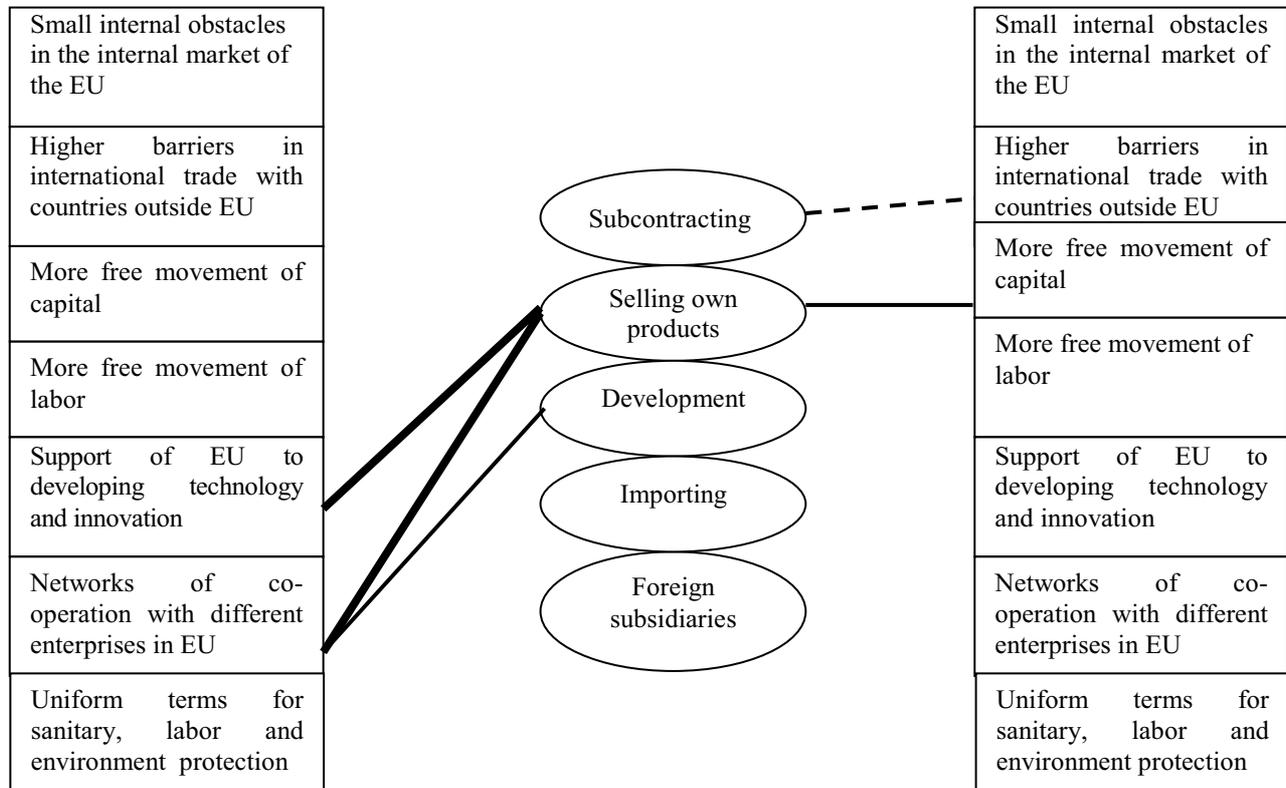
Based on the results of the correlation analysis authors developed two empirical models that reflect different patterns of developing international business operations.

Figure 1 describes the model about impact of changes connected with joining the EU on companies that focus on different international business operations inside and/or outside the EU. Figure 2 is the model reflecting predicted international competitive advantage of companies with different positions in value chains inside and outside the European Union.

Figure 1 visualizes the conclusion that enterprises focusing on their international business in the EU markets and on introducing their own products have anticipated business development opportunities that

are linked with EU support to developing technology and innovations. They also understand the importance of networking with enterprises in different EU countries. Earlier action research in EU-sponsored EW ISME project (Elenurm, 2005) has however demonstrated that for East European small and medium-sized enterprises practical networking

priorities are often unclear, and even innovative enterprises from new EU states are too dependent on limited number of EU co-operation partners. Focus on development activities in the field of new product and technologies will gradually broaden the positive impact of EU membership on international networking opportunities.



Business focus inside EU

Business focus outside EU

Notes: — positive correlation is significant at the 0.05 level (2-tailed). — positive correlation is significant at the 0.01 level (2-tailed). - - - negative correlation is significant at the 0.05 level (2-tailed).

**Fig. 1. The model of predicted impact of changes connected with joining the EU on enterprises focused on the international business operations inside or outside EU**

Enterprises that focus on exporting their own products outside the European Union are in positive way influenced by Estonian EU membership but direct positive impact is mainly limited to free movement of capital. Better access to capital inside EU can improve positions of such enterprises at emerging markets outside the European Union. Subcontractors at the same time experience the threat of higher international trade barriers, especially if they are dependent on raw materials or semi-fabricated products imported from non-EU countries that are targeted by the EU common tariff policy.

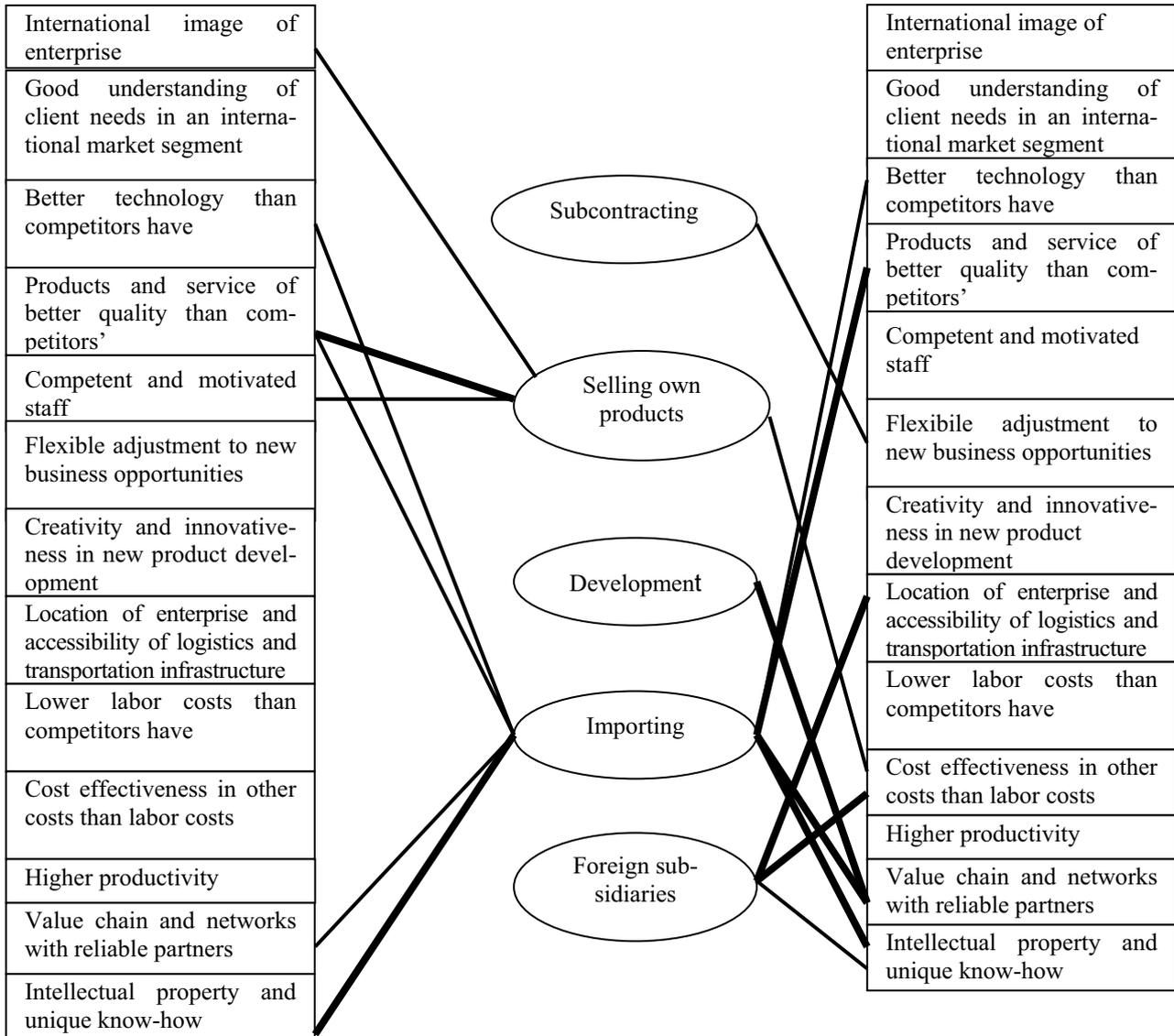
Figure 2 visualizes links between the international business focus and possible components of the international competitiveness vision. We see some international business operations that have similar significant links with the same competitive advantages both for enterprises focused on EU markets and on markets outside EU. Importing from other EU countries as well as from non-EU countries has

significant positive links with intellectual property of the enterprise and with products and technology that are superior to competitors. Positive correlations of importing outside EU have however higher significance level (0.01) with product and service quality, location and logistics of the enterprise and with value chain and networks with reliable partners than correlations of the same competitive advantages for importers in EU (significance level 0.05). It leads to the conclusion that quality, logistics and networks with reliable partners have become even higher priorities for many users of business opportunities outside EU than for enterprises focusing mainly on the EU markets. Kautonen and Welter (2005) have pointed out the importance of trust in small-firm business networks in Germany. Our research indicates that in networks with partners outside the European Union personal trust may be more important for business success than in the EU internal market, where harmonized laws and regulations

may help to manage risk in business operations even if the personal trust between the value chain partners is not very strong.

Enterprises that are increasing sales of their own products at internal markets of the EU stress quality,

competent and motivated staff and international image of the enterprise in their competitive advantage vision, whereas export development efforts outside the EU have the only significant link with cost effectiveness in other costs than labor costs.



Business focus inside EU

Business focus outside EU

Note: — positive correlation is significant at the 0.05 level (2-tailed). — positive correlation is significant at the 0.01 level (2-tailed).

**Fig. 2. The model of predicted competitive advantage connected with joining EU on companies with different positions in value chain**

Managers of enterprises that have created or are creating subsidiary companies outside the EU see strong links between this international business operation and competitive advantages resulting from cost effectiveness in other costs than labor costs, location and logistic and also with intellectual property of their enterprise. At the same time no significant correlation links were established between creating foreign subsidiaries in EU countries and competitive advantage visions of enterprises. Evidently few Estonian enterprises have

clear vision for developing their marketing subsidiaries in geographically distant EU countries, although such business operations are accomplished in the neighboring Baltic countries.

We conclude that different competitive advantages are needed for developing value chains inside and outside the European Union. Interviews indicated that Estonian enterprises have better resource base for positioning themselves as competence centres in value chains that include subsidiaries from other

transition economies, both neighboring countries in EU and geographically more distant countries outside EU than to gain the leading role in value chain governance that is dominated by enterprises from the established market economies in the European Union. Opening up of Ukraine and other transition economies to new trade options with all EU countries may however diminish competitive advantage of these Estonian enterprises that rely on business connections and competences that to some extent are based on earlier transition economy experience.

In order to overcome the problem of falling returns in global value chains pointed out by Kaplinsky (2004), Estonian enterprises have to develop their resource base and value chain governance competence by linking networking opportunities inside and outside EU and by using more actively EU support programs for developing new products, technologies and international business co-operation networks. These conclusions comply in the broad sense with

the resource-based view (Barney, 1991; Peng, 2001) to international business.

Using expert assessments of managers during the period of joining the European Union and follow-up interviews 1-2 years later was a step towards the longitudinal approach, but future research should help to overcome time period limitations of the study and to compare change trends that were anticipated by strategic managers with financial data about the real changes in the scope of international business operations. Eastern and Central European countries that have joined the European Union depend on their geographical location. Further research is needed to understand, to which extent enterprises in countries that are surrounded by other EU member states have different geographic orientation when developing their role in international value chains compared to EU member states that have neighboring states that do not belong to the European Union.

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