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Master Thesis

Evolution of Export Barriers in Transition Economies

The Case of Ligatne Paper Mill

Master's thesis within Innovation and Business Creation
Author: Andris Spruds
Tutor: Lucia Naldi
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Author:	Andris Spruds
Tutor:	Lucia Naldi
Date:	2010-05-21

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Design/methodology/approach An in-depth case study was used in order to follow the development of export barriers at Ligatne Paper Mill over the last twenty years.

Findings Existing models of internationalization can only partially explain the development of export barriers in firms from transition economies. Based on the data obtained in the study, a new classification scheme for export barriers in transition economies was developed.

Research limitations/implications The article uses case study as the basis of analysis, a larger-scale study is needed to confirm the findings.

Practical implications Implications for small business managers, policy makers, and researchers are discussed within the paper.

Originality/value There are only a few studies on export barriers in transition economies. This study aims to fill this research gap. In addition, this study is longitudinal, which is rare for studies on export barriers.

Keywords Export barriers, internationalization, transition economy, medium and small enterprises, Latvia

Paper type Research paper

Because the author intends to submit this article to the Baltic Journal of Management (BJM), the work was formatted according to the standards of BJM. The author believes that the content of the article is directly related to the topic of BJM which aims to provide “more targeted and intensive management development focus” by encouraging the discussion between various Baltic management researchers.

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Andris Spruds

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Introduction

> *"The Soviet Union ceased to exist and suddenly we were unable to sell any paper in the domestic market. We were sure that we would not be able to export any paper either because our quality was so dramatically worse than that of the foreign paper."*

This quote from an employee at Ligatne Paper Mill illustrates the problems which the company was facing after the fall of the Soviet Union. For many small and medium firms (SMEs), the end of the former Soviet Union came as a sudden shock. Overnight, they stopped receiving orders, but instead had to search for market opportunities themselves. While these changes affected all parts of the firms, one particular function which was nearly non-existent in many firms during the time of Soviet Union was exports. As the firms struggled to find markets outside their own home country, they faced various export barriers which slowed down the internationalization of these firms.

Export barriers can be defined as all obstacles which hinder a firm from initiating, developing and sustaining exporting operations (Leonidou, 1995). While export barriers have been well studied in the USA and Western Europe, there is a research gap concerning Central and Eastern Europe (Bell, 1997, Nakos and Brouthers, 2002, Lenonidou, 2004). Many of the models used to explain internationalization in Western Europe cannot be applied to transition economies due to the different local context (Meyer and Gelbuda, 2005, Ratten et al., 2007). The specific conditions in these countries means that in order to research the export behavior of these firms, country-specific knowledge is needed in addition of general understanding of the process of firm internationalization (Mayer and Skak, 2002). Thus, there is need for more studies on the export barriers in transition economies.

This study attempts fill the research gap by exploring what export barriers small and medium enterprises (SMEs) in transition economies faced and how these barriers have changed over time. SMEs have been chosen as the focus of this study because of their importance in the economy. For example, in European Union, SMEs account for 99% of all businesses (Lucchetti and Sterlacchini, 2004). Those SMEs which are active in exporting can significantly improve the trade balance for the country. At the same time, smaller firms are at disadvantage when it comes to exporting (Mittelstaedt et. al, 2003) due to difficulties in attracting resources and processing information, so it is important to have a better understanding on the barriers which hinder SMEs in their process of internationalization.

In addition to the fact that few studies exist on export barriers in transition economies, to the author’s knowledge there are no studies which would attempt to explain the evolution of the export barriers. In this article, a longitudinal case study about a Latvian company, Ligatne Paper Mill, is used as a basis of analysis of export barriers in transition economies. The development of the export operations in the company are followed over the time of the last twenty years.

The article consists of literature review where the main theories regarding firm internationalization and export barriers are reviewed, followed by a brief analysis of context of transition economies, methodology of the case study, empirical findings, and finally, results and discussion.

Literature Review

Firms which are considering exporting or current exporters can experience various barriers which can make exporting much more difficult. In general, barriers to export are all the constraints that hinder firm’s ability to start, develop and sustain international operations (Leonidou, 1995). Understanding export barriers is an important part of understanding the general internationalization process of a firm. Bauerschmidt et al. (1985) even suggests that export barriers are essential to any model which explains exporting behavior. A good understanding of export barriers is also crucial for firms themselves – once a firm has understood the barriers which it and other similar firms are facing, it is easier to find countermeasures in order to mitigate the impact of these barriers to exporting process.

However, a major problem for analyzing the impact of export barriers is the fact that they alone cannot fully explain the exporting behavior of a firm (Leonidou, 2004). All firms, both exporters and non-exporters are limited by constraints, so this is not unique problem only to the exporting firms. Thus, a broader approach to this problem is necessary. There are several models (Johanson and Valhne, 1977, Andersson et al., 1994, Peng, 2001) which attempt to explain how export barriers fit into the internationalization strategies used by exporting firms. According to internationalization models, the process how firms internationalize is closely related to the types of export barriers firms are likely to face (Leonidou and Katsikeas, 1996). Three internationalization models were selected for the purpose of this study in order to help explaining how export barriers are changing: Uppsala Process Model, the networking model, and resource-based view. The Uppsala model was selected because it is one of the most frequently used models about the process of firm internationalization (Valhne and Nordstrom, 1993). The network-based view has been recommended by Johanson and Valhne (2003) as the supplement or replacement for the cases where Uppsala model is not appropriate. Finally, the resource-based view was selected to provide yet another perspective on the connection between firm's resources and its competitive position in export markets.

These internationalization models were also selected because they fulfill the criteria of being able to explain internationalization in small and medium-sized firms (SMEs). For the purpose of this study, the definition of SME is consistent with the definition used in European Union. According to it, small business (enterprise) must employ fewer than 50 persons, must have an annual turnover of lower than EUR 10 million or annual balance sheet total lower than EUR 10 million. For a firm to be considered medium-sized enterprise it must employ fewer than 250 persons, the annual turnover must not be higher than EUR 50 million or the annual balance sheet must be lower than EUR 43 million.

For each internationalization model, its relevance to export barriers is discussed. Due to space constraints, additional discussion on internationalization models is included in *Appendix 1*. The next part of the literature review contains a summary of the current research about entry barriers. A list of entry barriers was compiled in order to provide a starting point for later analysis of entry barriers in transition economy context. Finally, the author also felt that it is necessary to include a short review on the context in which firms in transition economies are operating.

Theories of Internationalization

Uppsala Model

Since first described by Johanson and Valhne in 1977, the Uppsala model has become one of the most widely used theories on firm internationalization (Valhne and Nordstrom, 1993). The Uppsala process model assumes that firms would start internationalization process gradually, starting from closer countries with low psychical distance and then expanding their operations to countries further away. Less distant countries are selected because the amount of the required country-specific knowledge, for example, knowledge on cultural norms, business environment, legal and administrative environment, is smaller as the exporters already know or can guess many of the characteristics of the foreign market (Johanson and Valhne, 1977). Countries with low psychical distance might be also preferred because of commitment required in order to start exporting activities is smaller (Klein and Roth, 1989). Markets which are similar to the one at home require fewer unrecoverable commitments, while foreign markets which are significantly different also require different approaches to marketing and distribution due to different consumer preferences and different market conditions. For example, foreign markets might require changes in packaging. The investments made to translate and design different packaging for a specific country or region may not be recoverable in case of failure, so SMEs with limited financial and managerial resources would be willing to first explore less distant markets where such changes are not required or required to a smaller extent.

In addition to psychical distance, shorter geographical distance is also an important export barrier for industries (especially manufacturers) where logistic is important. Small geographic distance is also important because it decreases travel costs which can be a significant burden on some of the SMEs budgets (Arenius et al., 2006). At the same time, it is necessary to note that the psychical distance is not always related only to geographical distance – it is possible for geographically distant countries, such as United Kingdom and Australia to have similar cultural norms and political and legal system (Edwards and Buckley, 1998).

The difference in languages between the country of origin and the destination country is usually the first export barrier which firms experience. In order to undertake market research, some kind of market knowledge is necessary, and it is difficult to gain that knowledge without understanding the language of the destination country. Since it may not be always possible to find employees within the firm who master a specific language, firms may need to revert to external translators. The export barrier in this case is either the language knowledge of employees within the firm or the cost of translation if employees with sufficient language knowledge cannot be found within the firm itself. However, differences in cultural norms can be even more important than a different language.

The differences in cultural norms can lead to another set of export barriers. Williams, Han and Qualls (1998) write that cultural differences such as uncertainty avoidance, power distance, masculinity or feminity, and individualism or collectivism can result in lower performance of business relationships between companies from different cultures. Since each country may be different in terms of cultural norms, it is difficult for exporting firms to immediately identify which actions are expected from them when they are entering the market. Thus, the main barrier to export in case of cultural norms is the lack of experience and knowledge about the way the export operations should be organized in order to respect the cultural norms of the destination country.

Pankaj (2001) writes that the export barriers which arise out of economic differences between two countries are mostly related to the differences of the wealth. He also asserts that for exporters of knowledge-based goods and services it is beneficial if the difference of the country economic development is minimal, while others, such as manufacturers of consumer products, may be able to profit on the cost differences between different markets. Furthermore, the differences in economic development also imply differences in the quality of general infrastructure, such as logistics services, suppliers and distributors. Thus, export barriers would be lower if firm would choose a country with similar networks of suppliers and distributors as in the country of origin.

The last set of export barriers arising out of Uppsala model concern the differences between administrative and legal frameworks in the country of origin and the destination country. As an example, the destination country might have tax regimes, accounting requirements, requirements regarding the warranty services, product recycling or packaging. Since exporting firms may need to invest resources in order to cope with administrative requirements of the destination country, thus, it makes sense for exporting firms to choose countries in which the administrative and tax regimes are similar to those of the source country.

When analyzing the Uppsala model in relation to export barriers, it is necessary to note that the export barriers are different for different stages of export development. In particular, the barriers at the initial international entry and subsequent export development tend to be different (Buckley, 1993). Initially, the main entry barrier is the lack of knowledge about foreign markets as the firm may not know which markets to enter. The available knowledge about markets may be limited, for example, because of language barriers. Cultural differences are another problem, because even if the firm can find translators, the same words in a different culture may not have the same meaning. In other words, the problem is how to properly translate not only the language but the cultural context. Once the firm has overcome the basic problems of identifying a market, more entry barriers will become evident.

As the firm attempts to reach the first stage in Uppsala model and actually start exporting, marketing-related export barriers are likely to become more important. First, the firm cannot be sure that the marketing strategy they are using at the home market can also be applied to foreign markets. In foreign countries, the market may be segmented differently. As an example, a product which is successfully positioned as a premium product at home country may not have the qualities which foreign consumers expect from a premium product. Differences in customer expectations may also include different expectations for product packaging. However, the main problem, according to the stage model, is that the firm may not be aware about these marketing barriers in advance, thus it can only gain this knowledge by experience and failure.

As a result, the firm is going to be extremely cautious about starting any exporting operations. First, it will try to minimize the impact of export barriers by first trying to export to familiar countries. Since geographically close countries are likely to have lower cultural barriers, they are an attractive option for the initiation of export operations. The selection of close countries is also important because the firms are trying to minimize their commitments when initially testing their export operations.

Finally, the firm which is in the process of internationalization may eventually reach the stage where it needs to assess its current export performance. There are several possible outcomes at this stage. First, the firm may realize that its exporting operations are not successful and exit the market. It may also continue exporting to the country in question but diversify by adding more export markets. Lastly, it can also decide to increase its commitment in a specific market. The export barriers at this stage are closely related to risk aversion and firms financial capabilities. The problem in the later case is that in order to move from direct exporting or exports through agents to a foreign subsidiary or even foreign production, a firm would need to commit a lot of resources to this particular decision. Administrative or legal burdens may also become important barriers at this time, as depending on the destination country, there may be need to prepare a significant amount of documentation before manufacturing can be started in that country. At the same time, resources such marketing or research costs cannot be recovered in case of failure. Thus, in order to reach this stage, the firm most fulfill at least two conditions: the managers of the firm must be ready to undertake significant risk and the firm must have access to financial resources which are needed for the later stages of export development.

Networking model

Another stream of literature concerns the network model, also known as relationship model. Network model is relatively young concept – in fact, Holm et al. (1996) noted that so far there has been no research concerning international business relationships. According to Andersson et al. (1994), a business network is a set of two or more connected business relationships. These business networks can be described using the notion of activities, actors and resources. Since the business networks are without any boundaries and a network can be connected indefinitely with other networks, it is not relevant in which country a particular network operates. However, a problem with business networks is that there is more than one possible way to enter them. Firms cannot know in advance which business connections exists between other business networks, so they also can not know how to utilize their existing connections to enter an particular network. Instead, each actor in a business network has their own 'network horizon' which defines how far within the network a particular actor can see (Andersson et al., 1994). Thus, in order to reach it's their target network the firm must gradually explore the networks in which it has access in order to discover any potential entry paths into additional networks.

The network model can also be used as a perspective to discuss export barriers. As Rauch, (2001) points out, export barriers arising out of network model can be of two main types. First, the networks can be used to create new international relationships. For example, Coviello and Munro (1997) concluded that the internationalization decisions by small software firms were based on the network of formal and informal relationships to which the firm or its founders had access. This is significant because it means that in the case the firm or its founders do not have an established network with international partners, this fact alone acts as an entry barrier. Furthermore, it stresses the significance of the personal network of the employees of the firm - on the contrary to the Uppsala Model, firms may reduce the impact of their export barriers by hiring employees who have international experience and a dense social network. The second type of barriers arising out of network-based view concern the networks in domestic market.

In domestic market, relationships within a network can be used by foreign firms to discourage others to enter that network. Thus, in relation with export barriers, the new entrant may be unable to identify market opportunities because of the close relationships of the existing firms in the network. Johansson and Elg (2002) have written about the approach which Swedish food manufacturers used to limit the number of foreign entrants into their market. They are building alliances with foreign food producers, in this way increasing their competitive position within Sweden. Since other food producers which considered entering Sweden were not part of these alliances, these established relationships became effective entry barriers. Another example of such barriers is various exclusive distribution agreements. If a local producer manages to convince local distributors to enter in an exclusive partnership with it, a foreign competitor may find that it is much more difficult to enter the market. The problem is also associated with switching costs which local distributors may be facing. It may expensive for a distributor to train its customers with a new type of product, thus a new product may not be considered as an option unless it brings substantial benefits to the distributor. The network can also include the final customer - the same problem of switching costs apply to them as well, especially in case of industrial customers where vertical integration between suppliers more likely.

While the fact that network relationships exist can alone work as an entry barrier, Holmlund and Törnroos (1997) also refer to continuation as an entry barrier. Continuation means that the network relationships grow stronger the longer the network exists. In other words, the length of network relationships between network partners may act an entry barrier for other entrants. As network players learn more about each other businesses and adjust the business processes according to the needs of network partners, it gets more difficult for competitors to enter that network. This entry barrier particularly concerns the firms in transition economies which did not have any relationships with outside firms in the beginning, and thus had to enter networks where other participants had already adjusted their business procedures according to the needs of each other.

As discussed above, entry barriers can arise both due to the fact that that network relationships do not exist (such as when the exporting firm attempts to find new partners abroad) and when network relationships do exist (as when several domestic partners collaborate in order to deter foreign competitors from entering). However, another form of entry barriers can also be formed due to the social features of a network. Informal networks between firms and individuals can be used to relay information about previous experience with network agents (Rauch, 2001). In practical terms this means that firms must be careful about their reputation. Negative information about a firm, such as previous negative experience with product quality, can reach prospective partners in the network, thus a firm may be unable to enter that network simply because it is ‘blacklisted’ in that particular network.

Like in case of Uppsala Model, another category of export barriers are related to the learning process. Johanson and Valhne (2003) list three types of learning within business networks: customer-supplier relationships, a partnership between two firms, and a partnership between two firms where they both learn how to coordinate their actions with another network player. According to Johanson and Valhne (2003), this type of learning is gradual, starting from customer-supplier relationships and eventually developing to the further stages. The entry barriers in this case are the skills and resources required in order to build this network of relationships.

Resource-based view

The resource based view is based on the work by Wenerfield (1984) and Barney (1991). According to the resource-based view, firms may achieve sustainable competitive advantage if they have access to resources which are valuable, rare, imperfectly imitable and difficult to substitute. Resource-based view model can be used to better understand a broad range of processes within a firm, including the internationalization process (Graves and Jill, 2006).

From the resource based view, the main export barriers are related to the availability of resources, including human capital, organizational, technological and financial resources (Hutchinson and Fleck, 2009). According to these authors, the most important resource for a small firm is its owner or manager. In connection with export barriers, the attitude which the manager holds towards exporting can be a major determinant which directly influences the dedication of the whole firm. The personal experience of a manager, his or her language knowledge and experience abroad can also act either as a barrier or catalyst for exporting. Westhead et al. (2001) described how firms with older owners who had more experience and better developed network of contacts managed to be more successful in exporting than firms with less experienced owners. Peng (2001) also underlines the connection between the knowledge within the company and company's ability to overcome export barriers. He writes that the resource-based view helps to explain why some firms are able to internationalize right from the beginning. 'Early starters' have a surplus of tacit knowledge about internationalization and they are therefore able to use it as a competitive advantage when starting their exporting operations.

However, problems arising out of the resource-based view do not concern only the owner or manager of the firm. Human resources in general are very important resources to the firm. This may refer mainly to firm's access to qualified and well–connected employees. Accordingly, human capital as a resource can be linked back to the lack of knowledge in Uppsala model and social network theory from the network-based view. Gomez-Mejia (1988) discovered that the human resource practices are directly related with export performance of the firms. As an alternative, if the firm does not have access to qualified employees, it can negatively impact all of its operations, including the exporting performance.

Another export barrier from the point of resource-based view is the first-movers advantage of the firms which are already operating in the market. In many cases switching barriers (Klempeter, 1995) make it more difficult for new firms to enter a market; this is why they must hold some kind of competitive advantage which for customers out weights the switching costs. In addition, indigenous firms have the advantage of knowing the local customer preferences, language and market. Thus, from the perspective of the resource-based view, a firm which wants to enter the market of another country must have a sustainable competitive advantage which must be able to counterweight local knowledge and first-mover advantages possessed by the indigenous firms. In terms of export barriers, the main difficulty of an exporting firm would therefore be to create some kind of sustainable competitive advantage which would help it in exporting.

The availability of technological resources may also play a major role in determining which firms will be successful exporters. According to Rodriguez and Rodriguez (2005), technological resources such as product and process innovations, R&D investments and patents can be used by firms as an advantage when entering international market. Since indigenous firms already have location-based advantages, new entrants must have some kind of competitive advantage in order to enter the market. From this it is possible to conclude that for firms which do not have any innovations and patents, this fact may act as an export barrier when entering other markets.

The financial capabilities of a firm may further act as a barrier for export; however, the amount of financial resources needed is directly related to the stage at which the export operations are. In order to initiate exporting, firms must do a significant market research about the possible export opportunities abroad. For firms which do not immediately identify exporting as a method of growth, the costs and time which is needed for this research may seem too high price to pay, since the same time and other resources can be invested in the local market. It can be risky to initiate export operations, so the time and resources which are invested into exploring export feasibility may simply not pay off.

The financial barriers to export are higher for more advanced exporting stage. As the firm moves from direct exports to export through distribution agents, it may have additional costs of finding and training such agents. The costs of opening a subsidiary may be higher yet. Finally, for manufacturing firms it is possible to move production abroad, either by building or purchasing another factory. In each of these cases, the availability of financial resources play a major role when it comes to the options a particular firm has. If the firm is struggling financially and therefore unable to attract financial resources needed for international expansion, then the only option for it would be to concentrate on export operations where the financial entry barriers are low.

Finally, it is interesting to note that resource constraints in resource-based view can act both as an export barrier and export incentive. Hessels (2008) write that firms which realize that they are missing strategic resources, such as human capital, financing or technologies, can use internationalization to get access to these resources. From this point of view, resource-based view can be viewed as a closed circle – for example, firms may use revenue from exporting operations in order to purchase new technologies, which give them additional advantages when exporting in the future.

Studies on Export Barriers

A literature review was done in order to provide an overview of the existing research concerning the export barriers affecting small firms. Google Scholar search engine was used to search for articles which contained 'entry barriers', 'export barriers' and 'obstacles for internationalization'. The queries provided a number of articles which were not related to business. These articles were removed from the results. Since the focus of this study is how individual forms cope with changing export barriers, the criteria for selection of articles was that they must study export barriers on a firm level. Articles which analyzed export barriers on an aggregate level, such as industry groups or on country level, were not included. The list of found articles was then further reduced by manually removing any articles which were not applicable to SMEs. For example, articles on export problems in multi-national enterprises and large firms were not included. After the removal of irrelevant articles, 17 articles were found to be useful for the purpose of the study. The main findings in the remaining articles were then summarized and included in *Table 1*. In order to focus on the most important barriers, in cases where the authors identified more than 3 export barriers, only the 3 main export barriers were included in *Table 1.*

Main findings	Industry or group	Source
Important barriers were high USD value in relation to foreign currencies High transportation costs to reach foreign markets	Paper industry in US	Bauerschmidt et al., 1985
External informal barriers are important, such as transportation costs, unofficial payments and corruption.	Moldavian firms	Porto, 2005
Main barriers were fierce competition in foreign markets, inability to offer competitive prices	Firms in Cyprus	Leonidou, 1994

abroad, limited availability of information to locate foreign markets		
Firms export activities or lack of such activities influence perceptions of export barriers	All	Morgan, 1997
Main barriers were lack of export incentives, strong international competition in the target market, inadequate exchange rate policies, high transportation and insurance costs. Lack of knowledge about foreign markets was only on the 10th place.	Brazilian firms	Silva and Rocha, 2001
Main barriers were intense competition in destination markets, getting paid, need to reach foreign markets	Australian firms with websites	Hornby et al, 2002
Main barriers were pricing, competition, and lack of distribution system	Firms in West Germany	Dichtl et al., 1990
Main barriers were trade barriers, lack of market information, foreign public attitudes	Danish firms	Shoham and Albaum (1995)
Main barriers were lack of awareness of assistance available, general lack of how-to knowledge, lack of awareness of potential value of exporting	Firms in Texas, United States	Yang et al., 1992
Small firms perceive greater problems with information gathering and communication, product adaption than large firms. Both small and large firms perceive logistics as a significant problem	Food manufacturers in Greece	Katsikeas and Morgan, 1994
Export performance varies between small and-medium sized exporters	Firms in United States	Culpan, 1989
Found that perceived risks was not a factor influencing export success in SMEs	Firms in Wisconsin, United States	Moini, 1995
Main barriers were lack of capacity, business too small to handle exporting, lack of time to research new markets	Small firms in UK and Ireland	Fillis, 2000
Difficult/slow collection of payments abroad, unfavorable exchange rate, inability to offer competitive prices abroad	UK agricultural exporters	Crick and Chaudhry (2000)
Main barriers were finance and cost-related, lack of market knowledge, lack of government support. For non-exporters is firm size (too small to export) was also important	Firms in New Zealand	Shaw and Darroch, 2004

Table 1. Summary of existing research on export barriers

When reviewing export barriers identified in *Table 1*, several observations can be made. First, existing studies about export barriers were mostly done in United States and Western Europe, with the exception of study on Moldavian firms. Several main groups of export barriers become apparent. Many of the export barriers refer to the unavailability of information, high competition abroad, and finance-related problems including difficulties with exchange rates and payments. Trade barriers, both formal and informal were also found to be important. Finally, nearly all export from the list can be considered subjective. As an example, the definition of fierce competition in target markets depends on who is evaluating it. For most of the articles in *Table 1,* the list of export barriers was compiled based on either personal interview with managers or data collected though surveys. However, these articles analyzed perceived export barriers, and did not attempt to verify if the claims made by managers were objectively justified. It is therefore likely that the export barriers are highly dependent on the personal characteristics of the managers. Characteristics like tendency to have risk avoidance behavior, pessimism, and lack of experience in interaction with foreigners can all play a significant role in how each individual will describe the barriers, even if the barriers are actually the same.

External barriers can refer to anything from difficult market conditions in the home country to high wage level in the foreign market. However, for most small firms the problem is the lack of information which is required for exporting (Julien and Ramangalahy, 2003). Firms, for example, do not know about their domestic support organizations, such as export development agencies and business incubators, nor do they poses information about foreign markets, such as requirements which must be fulfilled in order to enter, customer preferences and local business customs. However, the main difference between domestic and foreign external barriers is that firms are by definition less prepared to tackle foreign barriers. It is much more difficult to obtain information about foreign conditions that it is to understand the local market. The language barrier which many exporters are facing together with limited information on the target market and lack of knowledge about local customs and preferences can lead to exporters incorrectly understanding signals from the market. For instance, foreign firms may start exporting even in situations which local firms consider as hopeless due to some constraints not initially seen by the foreign exporter. At the same time, foreign firms come into the market with knowledge about how it is done in their home countries, which is an advantage in case their local knowledge base can also be adapted to operations abroad.

Previous studies have identified several categories of export barriers. They can be real or perceived. Perceived export barriers refer to those barriers which are not actually experienced by the exporter. They can act as deterrent for non-exporters or firms in initial stage of exporting. Since often firms do not have precise information about the conditions in the foreign market, these perceived export barriers can sometimes be different than the reality which is experienced by the firm when it has actually started export operations. Leonidou (1995) suggests that small firms tend to overestimate export barriers due to their managerial and financial constraints. Bilkey (1978) suggests non-exporting firms actually consist of two distinct groups depending on how well informed they are. While some have not even considered exporting and thus have no understanding about possible barriers, other non-exporters have carefully examined the market in order to understand possible problems. It can be assumed that the answers from those which have not investigated the market conditions are somewhat random and depend directly on the personality of the person in the firm who is in charge of considering exporting. Of course, firms which have investigated exporting can also be prone to errors, but since their information is based on their own research, these errors are most likely smaller.

Export barriers can be further categorized based on whether they are internal/external and firm and domestic/foreign to the firm. Internal barriers can be categorized as informational, functional, and marketing barriers, while external are procedural, governmental, task and environmental (Leonidou, 2004). Internal export barriers refer to the internal problems which do not allow the firm to start exporting. However, in many cases firms take a passive role with exporting even if they have all the capacity, financial and managerial resources needed to actually start exporting. It could be possible that at least some of the reasons given by the firms on why are not they exporting could be attributed simply to managers not wanting to export at all. As Bilkey and Tesar, (1977) found out, the way how the management perceives firms competitive advantage plays a large role on the export strategy of the firm. In addition, since in many small firms the owner has huge influence over the operations of the firm, the decision to export can be based on 'go/no-go' decision by the owner (McNaughton, 2001).

In addition, export barriers can be further categorized based on the domain which they concern. For example, there might be export marketing barriers which refer to possible difficulties which exporters may experience when marketing their products or services. Marketing barriers, in turn, may be further classified in pre-shipment and post-shipment barriers (Lall, 1991). Pre-shipment barriers can include all difficulties experienced by a firm before the product leaves the warehouse, for example, difficulties with market information and analysis, product development and manufacturing for export markets. Post-shipment barriers include setting up a feedback link with the customer, problems in setting up and maintaining distribution channels and providing after-sales service.

Context for Exporters in Transition Economies

The transition economy can be defined as economy which changes from centrally planned economy towards the market economy (Svejnar, 2002). According to Havrylyshyn and Wolf (1999), this process involves five different components: liberalization of economy, the development of instruments for macroeconomic stabilization, achieving effective management of enterprises by means of privatization, introducing hard budget constraints, and finally, establishing the supporting institutional and legal framework. One example of the transition economies are the economies of the Baltic States, including Latvia.

In Latvia, the transition started in 1990 when the country declared independence from the Soviet Union (Supreme Soviet of the Latvian SSR, 1990). In the beginning of the transformation, macroeconomic situation was highly unstable. In 1992, the inflation rate reached 1058% (The Bank of Latvia, 1992). Eventually, the situation with inflation normalized, but in 1995 the economy of the country received another shock in form of the banking crisis (Fleming et al., 1997). The next historical period in the country after the banking crisis started in 1999 when the European Union (EU) officially opened negotiation process with Latvia about the conditions under which Latvia could join EU (Ehin, 2001). The start of the EU negotiation process marked the beginning of the orientation of Latvian firms toward the EU market. The country eventually joined EU in 2004. As a result, all trade barriers between Latvia and EU were removed. The fact that Latvia joined EU also helped to ensure the stability of currency exchange rates. Since the Bank of Latvia expected that Latvia would eventually join the euro currency, the exchange rate between Latvian lats and euro was kept within a narrow band (Angeloni et al., 2007).

To summarize, four different historical periods can be observed during the time Latvia transitioned from centrally planned economy to market economy. First, there was the period from 1991 to 1995 when the borders opened. From 1995 to 1999 the economy of the country was influenced by the banking crisis. From 1999 to 2004, the negotiations for joining the EU took place and the laws were harmonized with the EU laws. Finally, from 2004 Latvia was a full member of the EU. However, despite these changes, significant differences between the economy of Latvia and economies of the other countries remain.

As an example of these differences, firms in transition economies have to operate in a different environment because of different institutional pressures. Countries with transition economies may have lower political stability, different tax regimes, differences in the way business laws are enforced and finally, increased level of corruption (Schleifer and Vishny, 1993). One reason for the higher corruption is the limited supply side for goods and services in transition economies, which leads to limited competition, which in turn makes the live easier for corrupt government officials (Schleifer and Wishny, 1993). Corruption and competition can be viewed as a closed circle – if the corruption level is high and all government orders go to the firm which is paying bribes, other firms may leave the market because they will be unable to get any orders from the government. Thus the competition in the market will be limited because of fewer firms in the market, so enabling government officials to more easily negotiate bribes with a smaller number of firms. Corruption can be also linked to privatization process in which state companies or their resources and assets were sold under market prices to previous managers of the companies (Estrin, 1997) or those who had insider information, political influence or good relationship with those who were organizing the privatization. While the privatization process in Eastern Europe has been largely ended, several problems remain. Those firms which managed to acquire the state property for a bargain price are now in a better position than those which did not have this privilege. Consequently, even Eastern European countries are now operating in the free market, the remaining heritage from the privatization process still continues to have effect on the resources of firms in these countries.

Firms in transition economies may also be different in terms of available resources (Aulakh et al., 2000). This includes underdeveloped capital markets in the transition economies, making it more difficult for firms to obtain resources required in order to expand outside of the domestic market. In transition economies, the level of savings is lower (Roubini and Wachtel, 1998), which means that for small firms it is in many cases use the resources of the owner or his/her family to help to finance firms expansion. The availability of qualified human resources in transition economies may also be limited (Meyer and Hitt, 2003). In addition, the experience of many workers is different because many have spent a significant amount of their lives working under command economy during the time of Soviet Union.

The managerial processes are also different because of the environment in which firms must operate. For instance, there is a difference between the governance models in firms in transition economies (Young et al., 2008). According to Young, in other economies the governance model can be described as principal-agent, with conflicts between the two. In transition economies the ownership and control of a firm is often not separated, thus the principal-principal model is used where conflicts arise between majority and minority shareholders instead of principal-agent. Another problem with the governance is that the control structures themselves mean different things in transition and other economies. In transition economies, the concepts of control are copied from the other economies, but they rarely function in the same way. For example, Young et al. (2008) points out that in transition economies it is less likely for firms to transfer the governance from founder control to professional management. In many cases the founding family simply wants to give outsiders the impression that the firm is managed by a professional team while in reality all control remains to the founding family.

Another set of problems is how to adjust from the old, Soviet-style command economy to the market economy which exists in the West. Even though many SMEs are young and did not exist during the time of Soviet Union, there is still a legacy in form of managers who have spent most of their lives in non-functioning markets. The result is that many managers find themselves in a situation with rapidly increasing competition. SMEs from the developing economies in many cases are trying to compete by reducing prices to enter the markets of the other countries (Smallbone et al., 1998). In other countries, price competition is rare. Small firms in Canada (Julien and Ramangalahy, 2003), for example, were using quality, product range, service, technology and innovation as means to achieve competitive advantage when exporting. Price reduction was used less frequently. However, price reduction is not a sustainable strategy for growth. First, low prices mean that firms are unable to invest in R&D. R&D is crucial part of business strategy, and while small firms find it difficult to invest in any R&D even in the Western markets (Cohen and Klepper, 1996), SMEs in transition economies have even lower rates of R&D expenses because of price-based competition and overall lower level of R&D intensity (Radosevic, 2004).

Language barrier is another difference between SMEs in transition countries and other countries. A study on the exporting behavior on Spanish wine makers demonstrated that there is a clear link between the foreign language proficiency of a manager and export propensity (Suarez-Ortega and Alamo-Vera, 2005). For example, many managers in CEE speak only their native language or Russian due to the fact that Soviet Union was largely isolated from the West, thus not allowing for managers to practice other languages. Bilingualism where both native language and Russian was spoken was common during the time of Soviet Union (Ozolins, 2001). At the same time, managers from Europe usually speak English in addition to their native language (Hagen, 2001). Many small firms are operating in small, quickly changing niche markets where customer feedback is often crucial for firm’s survival. Thus, at least someone in the firm must be able to fluently communicate in the language in which the customer is comfortable at communicating. While basic language proficiency might be enough to send products and invoices, nuances such as customer feedback can be only received and correctly interpreted if the language proficiency is rather high. Finally, the inability to speak a common language with the customer also leads to unnecessary misunderstandings in communication. While some of this could be attributed to lack of language knowledge other communication problems could be caused by cultural differences.

One way on how to better understand cultural differences between countries is through traveling. Again, some managers from CEE might have disadvantages regarding their travel experience. It was not possible to freely travel outside the

Soviet Union until the fall of Soviet Union. After the fall of the Soviet Union the travel was unlimited, however, the availability of travel was low due to huge price differences between the Eastern and Western countries.

In the later years the differences are less important. First of all, there have been a change of generations. The old generation of managers with experience from Soviet Union are replaced by managers who have received their education and training during the free market economy with price levels (and by extension, travel availability) approaching those of the Western Europe. One of them is the process during which English language is becoming the universal language of the world (Crystal, 1997). While in the past the managers in Europe were doing business in their native languages, in the last decade English has taken the role as the main language of business in European firms. Multinational firms are using English as their primary language (Charles and Marschan-Piekkari, 2002). While the largest countries in Europe, such as France, Germany and Spain are still doing business in their own language and it is important for foreigners to know their language to understand market conditions, but nearly all other countries have now switched to English. For example, English is commonly used in the Nordic countries to communicate with their business partners. The rise of English language and the diminishing role of others, such as French and German, mean that it is even easier for managers to communicate with their business partners. In cases where two different nationals are communicating, English can act as the common 'bridge' language which both individuals speak fluently.

The Method

The purpose of the research is to explain how export barriers are changing during the time when a closed economy is transitioning to an open one. Since there is little previous information on how export barriers affect firms in transition economies, the research is mainly exploratory in nature. This article is using in-depth case study method as the means of obtaining data for analysis.

Chetty (1996) writes that case study method is frequently used in exploratory studies. However, she also points out that the main downside of using a case method is that it may be difficult to generalize the findings to other firms. At the same time, case method has several advantages. According to her, it can provide much deeper insight into the problem by providing explanation why and how something works as opposite to raw statistical data. It also possible to use a variety of data sources in order to obtain data related to the case. Specifically, it is possible to use both quantitative and qualitative data as the sources in a case study. As a result, case method can be used for purposes of description, testing theories or generating theories (Eisenhardt, 1989).

The case which was selected for the purpose of this study concerns Ligatne Paper Mill, a medium-sized paper factory operating in the town of Ligatne, Latvia. The size category of the company was determined in accordance with the European Union SME definition, in which medium sized companies are companies with less than 250 employees, yearly turnover of less than 50 million EUR and total balance sheet value of less than 43 million EUR. The yearly turnover and annual balance sheet total of the company is less than EUR 10 million, thus if only turnover and balance sheet were to be considered, the company would be qualified as a small enterprise. The case follows the development of export barriers in the company from 1991 when the market in the

Latvia first opened to this date.

There were several reasons for the selection of this particular company besides the company matching the desired profile of a SME firm from transition economy. Mittelstaedt et al. (2003) writes that very small firms are unable to acquire the knowledge and experience which is necessary to start export development process. The size of Ligatne Paper Factory is larger than the size of the smallest firms which Mittelstaedt et al. believes as being capable of exporting. Yet the number of employees and the turnover of Ligatne Paper Mill are still small enough so that it can still experience various export barriers related to the small size of the company. Furthermore, the company is known to be an active exporter, which managed to increase the percentage of exports from 0% in 1991 to 80% in 2010. One precondition to study how export barriers change over time is that the company has some experience in exporting. Since Ligatne Paper Factory has managed to increase the percentage of exports over a longer period of time, it can be assumed that it has gradually acquired this export experience. Moreover, the author had the unique opportunity to have access to the information about the company's operations. According to Ferber (1977), a justifiable use of convenience sample is to "explore constructs for dealing with particular problems or issues". Finally, a precondition for the possibility of creating a case study is the subject's willingness to participate. Ligatne Paper Mill agreed to participate in this case study by providing access to its employees and data.

Data Sources

Askins and Sampson (2002) suggest using multiple data sources as one way of ensuring the quality of the data. In this study, the data sources include interviews with company representatives, newspaper clippings, publicly available annual reports and printed materials provided by the company. The data sources also included several internal documents provided by the company. For this study, the inclusion of multiple data sources proved valuable because of the considerable time span which the study covers.

Interviews

Semi-structured interviews were selected as the main tool of data collection. The semi-structured interview format is appropriate for an exploratory study because in this case the theory in the research field has not yet developed. By using semi-structured interviews more data can be collected as interviewees are allowed to deviate from the exact topic of the interview. In this case study, a total of three employees were interviewed in four separate interviews. Three of the interviews were conducted in the offices of Ligatne Paper Mill, while three additional interviews were carried out via phone. As the focus on the interviews was the development of export barriers over time, the interviewees were selected based on their involvement into the export process and their knowledge about the background of the company. All interviews were made in Latvian, which is the native language of the author and all of the interviewees. The interview questions were asked to several persons and the answers were then compared. The list of interviews is included in *Table 2*. The first interviewee was the director of commerce of the company. He leads the daily work in the company, and is directly responsible for all export activities. He has been working in that position for approximately eleven years. The second employee who was interviewed was chosen because of his specific knowledge about the company prior to arrival of the current director of commerce. His previous work experience included overseeing the production of the paper machines, while recently he has worked with the marketing. The third employee was also selected because of her knowledge about the company's operations over a wide time span. She has work experience in production and within marketing department, while currently her position is accountant. The current CEO of the company and the former CEO until 1994 were also interviewed because of their knowledge about the current and previous exporting operations. Because of significant work experience each of the interviewees had within the company and due to the small size of the company where knowledge is more easily transferred between employees, the interviewees had comprehensive insight into the export operations of the last 20 years.

Name	Position	Background	Number of interviews
Dzintars	director of commerce	in company since 1999	1
Maris	currently works with marketing	experience in production	1
Maija	accountant	experience in marketing and production, works in factory since 1981	2
Peteris	currently CEO	works in the factory since 2004	1
Ilmars	former CEO of the company till November, 1994	has been director of the factory since 1968	1

Table 2. List of employees interviewed.

Questions were created before the interviews (see *Appendix 2*) which served as a major guideline in the interview process. Data from the literature review on export barriers was used as a basis of preparing the list of questions. Notes on the answers were taken by the researcher during the interviews. After the interviews, the notes were immediately updated in order to include any information which might not have been included during the interview. All interviews were in-depth and the length of the interviews varied between one and two hours, while the phone interview with the current CEO was somewhat shorter and more concentrated. Before the interviews began, the participants were informed that any information which they provided may be used as part of study on export barriers. The interviewees were encouraged to speak more about the topics on which they were ready to share information, in addition to answers to the questions asked.

Each of the employees was interviewed with a specific focus in mind. The aim of the first interview with the director of commerce was to obtain general information about export strategy which was used in the company, as well as to understand how export markets are selected. He provided information about export barriers. The current CEO provided additional insights about the export barriers and the overall strategy of coping with them. Maris was asked to provide information about the initial phase of the exporting process. He also provided background information about the general operations in the factory. This information was later supplemented with the accounts from the CEO at the company during the time when markets opened. Maija was interviewed because of her knowledge about the current and previous export process, including the financial data about export. She also had direct experience in working with customers from abroad so she could explain, for example, how the customers were contacted and which languages were used in the process.

Secondary Sources and Other Data

In order to provide better understanding about the initial phase of the export process, the data obtained from the interviews was complemented with secondary data from newspaper articles. The articles were searched in the Lursoft database which contains texts of newspapers published in Latvian since 1994. Keyword “papīrfabrika” (paper factory) was used in the search. Articles which did not contain information about exports or those which were unrelated to Ligatne Paper Factory were ignored. From the remaining articles, 14 articles were identified as containing valuable historical information about the paper factory. 7 articles contained interviews with two previous CEOs of the factory. The rest of the articles provided valuable historical information, including information regarding export markets and export strategies of the factory.

Finally, the author also visited the company on a guided tour. This visit provided additional background information about the manufacturing process and problems which are faced during manufacturing, such as the need of large amount of energy resources and problems with obtaining and preparing the recycled paper pulp. During the tour, the company provided the author with various marketing materials, as well as data about the financial part of its export operations. This data proved to be valuable during the analysis part of the case study.

Analysis

Data was analyzed as follows. First, all data was compiled together in a logical story. Care was taken not to use any data when there was a disagreement among the interviewees or between the interviewees and the material compiled from the secondary data. The three theories of internationalization were then applied to the case in order to provide theoretical support for the identification of export barriers within the case. Next, a list of export barriers affecting the company was compiled using the data from the case.

A time line was created that included all events mentioned in the interviews and obtained from the secondary sources. The time line was analyzed and several historical periods in the time line identified. For each export barrier, the score of the importance of the barrier was assigned for each of the historical period. A scale of one to three was used for indexing the importance of the export barrier to the company. A value of one would mean that the barrier has a very low importance, while a value of three was used for barriers of extreme importance to the company. The scale of one to three was used because it allowed specifying the importance of each barrier, while at the same time the choices were limited to avoid introducing unnecessary subjectivity to the classification process. The resulting table of export barriers and their importance scores throughout history of the company was analyzed in order to find any patterns in the data. The patterns emerging out of this analysis were explained based on the data in the case. An attempt was made to provide support for generalization of these patterns to other firms which are experiencing export barriers when operating in a transition economy.

The Case

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Profile of Ligatne Paper Mill

Ligatne Paper Mill is the only paper factory in Latvia. It started the production in 1815. The main profile of the company has always been the production of specialty paper. Because the paper machines used by the factory are small if compared to the competitors, the factory has been able to produce paper for applications where small, customized paper batches are necessary.

The factory is producing two ranges of products: paper for consumers and paper for industrial users. Consumer paper includes office paper for printers, drawing and watercolor paper, as well as specialized premium-class drawing paper, such as the black drawing paper. Industrial paper selection includes waterproof paper for wallpapers, heavy-duty packaging paper, carton for different industrial applications, as well as core paper and core boards. Custom-designed paper is also an significant product for the factory. Customers can specify the desired color, appearance, weight and humidity level of the paper and the factory is able to produce the paper with the exact specifications on short notice in advance.

Nearly 100% of the paper is produced by using recycled waste paper. The factory has made significant investments in order to reduce the impact on environment. It is using a closed water-circulation system which means that the water which is used in the manufacturing process is not released in the environment but treated and then returned back to the manufacturing process.

The factory is incorporated in form of limited company (Ltd.) with a registered capital of 2, 119 million Ls. The owners are Baltic Investment Fund (owns 58% shares) and two private entrepreneurs, Guntis Pirags and Valts Klucis who each have 21% shares. The CEO of the company is Peteris Treimains. Day-to-day operations in the factory are managed by director of commerce Dzintars Utans, who is also responsible for marketing and exports. The factory currently employs 130 people; the majority of them are working with the paper manufacturing. The factory also plays a major role within the local community by providing support to the local school and sponsoring various cultural events.

Currently the factory is exporting around 80% of its production. The main export markets are Sweden, Finland, Denmark, Lithuania, Estonia and Ukraine. The company is exporting smaller amount of paper to more distant countries, including Slovakia, Belgium and Australia. The company is distributing the paper through both direct selling and distribution agents, although direct selling is used more often. Currently the factory does not have any shops neither in Latvia nor other countries. The distribution method is individually chosen for each export country, based on market specifics. As Ligatne is the only functioning paper factory in Latvia, the brand is also well known locally.

Evolution of Export Barriers at Ligatne Paper Mill

The company first experienced market economy in 1990. During that time, the CEO was Ilmars Noritis. At the time, everyone in the factory was confused about what to do next. As one employee of that time explained in the interview:

“Right before the end of Soviet Union the payments from Moscow stopped. However, the factory was still sending the paper to Moscow simply because of inertia. (..) In Soviet Union everything was centralized, so it came as a shock that suddenly no one told us what to do.“

Noritis, who was the CEO since 1968, was preparing for retirement. His reluctance to initiate major changes could be probably explained by the fact the factory had been bankrupt several times in history. Noritis was the employer of 567 employees, and it is possible that he was afraid that they would lose the jobs in case of swiftly implemented changes. Some employees in the factory initially considered the option of exporting. However, they were convinced that the quality of the paper produced at the factory was not able to compete with factories in Finland and Sweden. Price of the paper was higher than foreign competitors because Latvia did not have any local producers of wood pulp. Energy prices increased significantly after the stop of cheap energy import from Russia. Currency was a major problem at the time. Instead of rubles, the factory now had to pay in dollars for gas and electricity. Another major problem was that the paper range was not suitable for export. As Noritis noted in the interview:

“The factory produced “table paper” which was used to cover a writing desk in order to protect it from splashes of ink when writing with ink-based pens. At the time of Soviet Union, the paper was used in offices. However, when the borders opened, we realized that it would be impossible to export “table paper” because countries outside Soviet Union did not have the need to cover their tables with paper.”

Another example of the outdated paper was paper for printing. It was specifically designed for use in letterpress typographies. Since no one outside Soviet Union used that technology, the paper was worthless as an export product. But if the paper technology was outdated, the marketing knowledge in the company was non-existent. The company did not have any knowledge about how to identify the markets and how to sell their papers. As a result, re-active approach was developed for selling in both internal and external markets. The company was not actively searching for customers, in many cases the customers found the company themselves. The passive approach to sales was probably due to the general shock which the company experienced after the orders from Moscow stopped.

There was some knowledge within the company which could have been used in order to start export operations. Several employees were aware about the technologies used outside Soviet Union. They were also aware that other paper factories had several competitive advantages. The main difference was the level of automation, which allowed them to produce larger amounts of paper. The information was mostly gained from foreign delegations visiting the factory. Occasionally there were communication problems, since many factory employees did not speak any English. However, they were able to deduce the properties of foreign paper based on their marketing materials which contained pictures, as well as technical parameters of the paper which local technicians could understand. The director of the factory could speak German, so he was informed about the developments in the paper factories in Germany. It can be assumed that the company was not exporting not because of lack of technical knowledge, but because it failed to convert that knowledge into an export strategy.

Eventually, the factory started to look for ways in which to sell products in domestic market. Sales in the domestic market were needed because there were plans to upgrade the factory machines in order to start exports. Immediately after the borders were opened, the domestic market was dominated by paper produced abroad. The consumers had the impression that the paper produced at foreign paper factories was of higher quality. In many cases this impression was correct. In the domestic market, the purchasing power reduced significantly after the change of currency in 1992 and because of the effects of the subsequent inflation. The factory had no distribution network, so initially sales were extremely low. Then an employee from the marketing department suggested distributing paper by selling directly to the customer. The distribution agents were factory employees. Both personal transport and factory transport was used to distribute products. Agents were paid a fixed commission based on the value of paper sold. This selling experience was later used to start export operations which were a direct replication of the initial system of local distribution agents.

In 1993 there was a major fire at the factory. This single event eventually led to change of the ownership of the factory. In fact, the exporting was started due to the fire. The fire destroyed a major part of the factory, including most equipment which was used for producing consumer-oriented paper, such as notebooks. As a result of the fire, the financial situation deteriorated quickly. Paper pulp could not be purchased. This led the factory to only switch the machines on only after they received orders from the customers. At the end of 1994 director Noritis retired and Seglins, former chief technological officer (CTO), took his place.

The arrival of the new director also resulted in export operations being started within the company. As Seglins took over as the new director, he realized that the main reason why the factory is struggling financially was that they were importing wood pulp for which they had to pay in dollars. He was also much more export-oriented and was not afraid to reduce the number of employees in order to improve efficiency. In 1995, the factory only had 315 employees left. Immediately upon becoming the director Selgins also changed the production so that it used paper pulp. Paper pulp could be obtained locally as everyone had some old newspapers or books. This enabled to restart paper production. One of the main export barriers – the high price of the paper produced at the factory – lost significance because it was much cheaper to produce paper from recycled pulp than from wood pulp.

External factors played a major role in the beginning of exporting. The price of the paper pulp suddenly doubled in 1995. Due to the price increase, customers started to search for cheaper paper. The export was started by unsolicited orders. A company from Turkey contacted the factory via their local agents and asked to deliver paper for printing. Meanwhile, a small amount of paper was also delivered to Estonia. While the customer from Turkey stopped ordering, the market in Estonia continued to grow for years. In addition to the fire, the availability of financial resources was a major problem.

Several orders were filled for countries from Middle East, such as Syria, while the local market in Estonia remained, while the factory had also started to export to Denmark. Because the price increase of the paper, the clients were contacting factory themselves. At the end of the 1995, 20% of the paper was exported to Syria, Denmark and Estonia. However, the factory was still losing money because of the payments which it owed to the state since 1992. The fact that the factory was not profitable at the time can be used to explain the sudden increase of the percentage of exports from 0 to 20%. As several of the factory employees pointed out in the interviews, the factory was producing very little paper in 1995. Hence, just a couple of orders from export clients made the percentage of export to significantly increase.

In the years from 1995 to 1998 the factory continued to produce recycled paper. However, the export strategy was still relatively passive. The factory was waiting for customers to contact it. At the same time, it learned the technologies on how to produce recycled paper. The quality of the paper increased, as did the number of foreign customers. The main customers remained in Estonia. In addition, significant percentage of production was exported to Lithuania, Italy and Finland. The factory experienced new obstacles to export. After 1995, the factory had difficulties in attracting qualified workforce. The factory was even considering sending employees for qualification to Scandinavia.

In 1996, the factory was privatized, and Seglins became the owner. However, the state demanded that the factory keeps 300 employees for at least 3 years after the privatization. The number was too large for the amount of paper produced, and in 1999 the factory started bankruptcy procedure. In 1999, Seglins lost control over the company and it was taken over by Guntis Pirags, an entrepreneur. Unlike Seglins, Pirags was a professional manager and had no previous experience in working in the paper industry. He hired Dzintars Ukans as the director of commerce. Ukans had work experience in a paper factory in Estonia; he had also study experience abroad and was fluent in English and Russian. The change of the owners immediately marked a sharp turning point towards the internationalization of the company. In just two years, from 1999 to 2001 the share of exports was increased from 30% to 68%. Ukans also continued to reduce the number of employees. In 2000, the number was reduced to 202, while in 2001 there were only 150 employees left.

Export strategy used by Ukans included an active search for clients outside Latvia. The company was proactive, and did not wait for customers to find it. Instead, a list of possible customers was compiled using trade directories and contact was using email or phone where appropriate. The search for exports also included a network-based approach. For example, Ukans had work and study experience in Estonia, so he was able to find major customers in Estonian market. Another change of strategy during the time of Ukans included participation in paper and packaging related trade shows. The participation ensured the visibility of the company among foreign paper distributors and industrial users. This way, distribution agents in Denmark and Spain were first approached and they are now cooperating regularly.

In 2004, the factory declared bankruptcy again. The ownership changed formally, while Pirags retained a significant percentage of shares. Ukans also remained the director of commerce even after the factory restarted work after the bankruptcy. Even after the bankruptcy the factory continued to post losses, while at the same time increasing the turnover. Since then the factory has received several capital injections from its owners.

It is interesting to note the strategy which the factory has been using in search for the distribution agents. Due to the small capacity which it can provide, the factory cannot work with large distribution agents. They are demanding large, regular shipments of just a few paper types, while the factory needs to diversify its paper portfolio in case of loss of that single agent. Due to these problems the factory is actively searching for smaller distribution agents.

Despite the increase in turnover, the factory again declared bankruptcy in 2004. The number of employees was further reduced to 130 in 2006. The number has remained stable since then. At the same time the productivity in the factory had increased significantly. In 1990, 567 employees produced 14'300 tones of paper per year using 4 paper machines. In 2010, 130 employees produced 13'000 tones of paper per year with just one paper machine, an increase in productivity of roughly 4 times. In 2005 the factory exporter around 80% of its production. The share of exports continued to increase slowly and reached the maximum at around 2007 when the factory exported 85% of its production. According to the current director of commerce, the export share has slightly decreased in the last couple of years, mainly because the company is doing better in the local market. Perhaps because of the significant percentage of exports, the company has not changed much in export strategy during the last 5 years. However, there have been changes in the external environment. The first major problem was that it was again difficult to find qualified employees. After the end of the crisis in Russia which slowed down the economic growth of the country, it was easier for the company to attract employees. Another problem which appeared during the 2008 crisis was that customers started to distrust the company because it was from Latvia which received negative publicity regarding the financial crisis.

An interesting observation can be made about the company's financial position during the whole period from 1990 to 2010. Even while in the later years the number of export customers increased, the factory did not seem to profit from this financially. In 2000 it had to apply for bankruptcy as it could not pay the social tax. In 2004, it filed for the bankruptcy the second time. The bankruptcy procedures did not necessarily mean the stop of the production. While the factory was stopped for a short time, each time it was restarted promptly. However, it leads to the question on how exactly the export operations were financed. According to the interview with the current director of commerce, the factory is mostly competing using price-based strategy. It seems that this strategy can give a significant increase of the intensity of exports, while at the same time low margins has not allowed the company to upgrade its equipment in order to compete by providing higher quality paper.

The author felt that it is necessary to also briefly explain the history of the Ligatne Paper Mill before 1990 in order to understand the context in which the paper factory is operating today. The history is provided in *Appendix 3*. There are two main reasons why the history of the factory is important. First, there have been periods throughout the history of the factory when the business was not profitable. In fact, throughout the history, it is possible to trace at least 4 times when the ownership of the factory has changed because of bankruptcy or near bankruptcy. As a result, the cautious approach to exporting in the first years after the fall of Soviet Union might have been caused by memories of previous bankruptcy more than a hundred years in the past. The second reason is that it is possible that some of the attitudes regarding exporting and business development in general can be linked to the significant influence the factory has had in the town and the local community.

Results and Discussion

The Time Line

Based on the analysis of the time line created from the case story, a decision was made to divide the time line into four separate historical periods. There are two main reasons why exactly these periods were selected. First, in these years the economy of Latvia experienced sudden, significant changes, such as the banking crisis in 1995 and start of negotiations for joining EU in 1999. It can be also seen that these external changes were highly related to the internal changes in the company. There were visible differences in management in each of the historical periods, particularly, when it comes to export performance.

As can be seen from the companies time line (*Figure 1*), the most dramatic change happened after director Noritis retired at the end of 1994. Almost at the same time, in 1995, the banking crisis in Latvia started. His successor, Seglins, immediately implemented a complete turnaround strategy regarding the manufacturing process. Production was re-oriented towards recycled paper, and production using wood pulp was stopped. The next significant change occurred at the end of the 1999 when Seglins was replaced by Pirags, a professional manager. This change marked the true beginning of the factories orientation towards the export. In 1999, Latvia also started negotiations with EU.

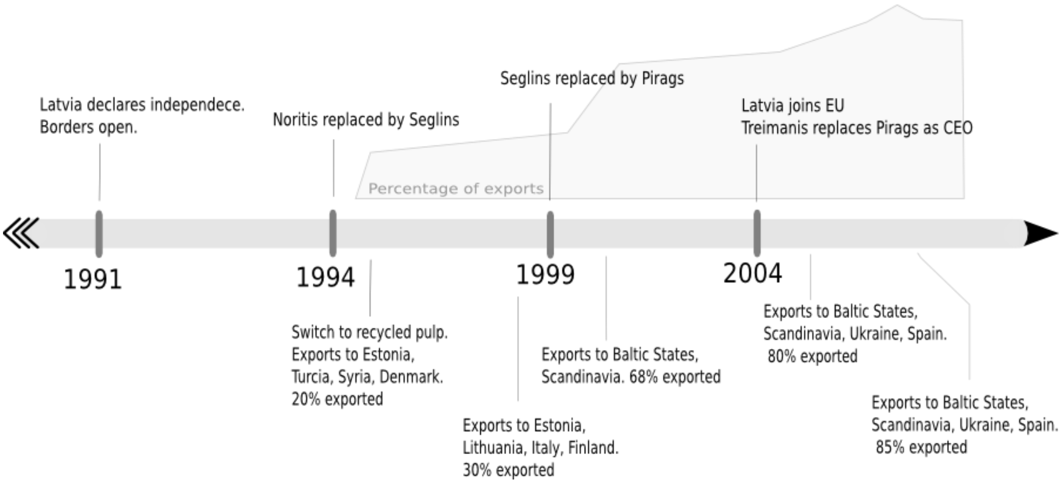


Figure 1: Ligatne Paper Factory time line

Afterwards, when Pirags was replaced by Treimanis in 2004, the change in management style was not as dramatic. There were several reasons for this lack of dramatic change. First, the owners in 2004 did not in fact change and Pirags retained a significant amount of shares. Second, after 2004 Treimanis basically retained the path towards export orientation which Pirags started in 1999. Third, the director of commerce, Utans, remained in the position even after 2004. Even while internally the factory did not change much since 2004, in that year Latvia joined European Union. The impact of several export barriers, such as trade barriers and problems with currency rates, were significantly reduced after joining EU.

Export Barriers and Models of Internationalization

While no single model of internationalization could fully explain how and why the export barriers changed, in combination the internationalization models provided a good insight into the evolution of the export barriers at the company.

Uppsala model was found only partially applicable in explaining the sequence of internationalization at Ligatne Paper Mill. According to the model, initially the major reason why the company was not able to export was lack of knowledge. This was indeed confirmed in interviews with employees and CEO who worked in the factory from 1991 to 1994. The most important export barriers at that time were general lack of marketing knowledge, and knowledge about the products which are in demand abroad. As the company gained experience from exporting, it became better at understanding the preferences and requirements of export customers, hence the steady increase in the amount of exports over time.

However, it does not explain the initial choice of export markets. The first export orders filled by the company were to Turkey, Estonia and Syria. While Estonia fits perfectly with the theory about firms first exporting to countries with low geographical and psych distance, both Turkey and Syria are actually very far from Latvia both in terms of psychic and geographical distance. This could probably be explained with the fact that the first export orders were unsolicited. However, even in the following years the company managed to export to unlikely markets, such as export to the United States in 1999.

Even after becoming and established exporter with long-term export partners in Estonia and other countries, the company did not open a single subsidiary. The case provides little support about Ligatne Paper Mill increasing its commitment to any of the export markets. Upon further discussion with the current director of commerce, it became clear that the factory is not planning to use any additional exporting methods. The subsidiary is considered expensive, and this method is "only used by large players to signify their presence in the market or conduct market research". In fact, the factory is also not considering opening joint venture or moving the production to another country. The last option would be also a prohibitively expensive option considering the financial background of the company.

Johansson and Valhne (1990) wrote that their Uppsala model might not be valid under specific conditions, for example, for service firms. The firm in this case was operating in transition economy, thus a question can be raised if firms in transition economies should not be added to the list of firms which the Uppsala model cannot fully explain. Flyvbjerg (2006) suggests that even a single case study can be used to generalize findings to other cases, provided that it is used as a 'black swan'. For example, if a researcher declares that 'all swans are white', only one case of a black swan is needed in order to cast doubts on the validity of the theory. The author believes that this case provides enough evidence to be used as black swan for the Uppsala process model, and that more research is necessary to understand if the Uppsala Model is applicable to transition economies.

The main problem when applying Uppsala Model or most other stage-based models to transition economies are that these models are static (Leonidou and Katsikeas, 1996). They do not take into account the highly dynamic nature of most transition economies. In transition economies, the market conditions and resource availability can change overnight, as demonstrated in the case of Ligatne Paper Mill. However, these models do not provide an explanation of what would happen in a highly dynamic environment. Changes are happening quickly not only in transition economies, but in all economies due to globalization. Another problem for Uppsala Model is that it views the internationalization of a firm from the viewpoint of the firm itself. According to the data obtained in the case study, Ligatne Paper Mill was instead highly influenced by external export barriers, many of which were outside the control of the management of the factory. The Uppsala Model fails to explain how external forces are influencing the export process in transition and other economies.

According to the network-based view, the main barriers would have been those created by competing firms when entering into network relationships with other firms up and down the market chain, such as suppliers and distributors. Indeed, there is evidence in the case which supports it. The former CEO Noritis suggested that the factory wanted to enter into alliance with other paper producers in the beginning of the nineties. He suggested that it would have been significantly cheaper to buy wood pulp if the purchase would be made by all Latvian paper factories together instead of separately. If Ligatne Paper Mill had access to cheaper resources, it could more easily compete with the paper producers abroad. However, the deal with all other paper factories never materialized and Ligatne was left struggling financially while the other paper factories ceased production altogether.

It can be argued that the main export barrier arising out of the network-based view was the lack of integration with pulp producers. Ligatne was just a standalone paper mill, while most of the large Swedish and Finnish paper producers produced wood pulp and paper at the same time. That increased the efficiency of those factories. For Ligatne, pulp had to be dried, transported to Ligatne and then re-hydrated, unlike Swedish and Finnish paper producers, which simply used wet pulp out of production lines and transformed it to paper immediately. As a result, Ligatne has price disadvantage because of need to pay for drying of the pulp, transportation costs and re-hydration. The current CEO of the factory suggested that in the paper industry, close vertical integration with paper distributors is rare, thus, Ligatne was not at major disadvantage because of favorable distribution agreements the foreign paper factories might have had. Hence, the network-based based view is useful for explaining why Ligatne Paper Factory had no exports in the years after the end of Soviet Union.

While resource-based view is a more general approach than the two other models of internationalization discussed above, it was found to be helpful to explain how the company managed to transition from one historical period to another. Westhead et al (2001) claimed that the characteristics of the company owner can significantly influence the likelihood that it will export. The personal characteristics of each director of the company were in fact closely related to export performance. The first director, Noritis, did not have any experience in free market conditions, nor did he have network connections with colleagues outside Soviet Union. It is also possible that this management style which he had developed while leading the company in the Soviet Union was too difficult to suddenly change after the fall of Soviet Union. The next director, Seglins, had no management experience at the time of Soviet Union, so he could start his learning process without the influence of previous decisions. The later directors were actually professional managers, as they had business background, had no experience in paper manufacturing and were attracted from outside of the company.

Another resource which eventually helped the company to gain competitive advantage in export markets (or at least, minimize the competitive disadvantage they had) was the technological switch to recycled paper-based production in 1994. The competitive advantage was based on two parts. The company developed knowledge about how to process the paper pulp so that paper of consistent quality could be produced. It also created a logistics network so that recycled paper could be collected. When the company had developed the knowledge about production technology and logistics, it was much easier for it to offer the paper in foreign countries for competitive prices.

To summarize, the main export barrier based on the resource-based view was that initially there was simply no basis for competitive advantage in the factory. The knowledge, especially, the marketing knowledge, was lower than that of competitors abroad. There were communication barriers, including the lack of language knowledge. The prices for electricity and gas were higher than for foreign competitors. Since the factory had no advantages foreign rivals, it made no sense to export anything.

Overall, it seems that internationalization models alone were not able to explain all the export barriers faced by Ligatne Paper Mill. In particular, the models provided no explanation about the external factors which influenced export barriers over time. It can be argued that for Ligatne Paper Factory, external factors were as important as internal factors during the internationalization process. In 1995, wood pulp and consequently, paper prices suddenly increased. After Latvia joined EU, trade barriers to EU countries became non-existent. Similarly, as the language proficiency of the population in Latvia increased due to better availability of information, open borders and possibility of studying abroad, the language became less of a problem for employees in the factory. All these factors played an important role for company’s exports, while there was no space for them in the models. All three models basically assume that the external environment around the company is static. This is rarely the case even in economies which are not transition economies. In transition economies, however, the external environment is changing constantly, thus having much larger impact on exporters.

Evolution of Export Barriers

A number of export barriers were identified in the company’s history, based either on interviews or on additional analysis using the internationalization models. The export barriers were insufficient capacity, lack of marketing knowledge, problems with currency exchange rates and bank fees, external trade barriers, insufficient language knowledge, problems with logistics, high prices for resources (electricity and gas), inability to offer competitive pricing, and finally, problems with attracting qualified personal (*Table 3*).

Export barrier	Impact				
Time	1991-1994	1994-1999	2000-2004	2004-2010	
Insufficient production capacity of the company	1	2	1	3	
Marketing knowledge of employees	3	2	1	1	

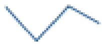
Currency exchange rates, bank fees, problems with collecting payments	3	2	2	1	
External trade barriers (such as customs, quotas)	3	3	3	2	
Language knowledge of employees	3	2	2	1	
Problems with logistics	3	2	2	1	
Electricity, gas prices	3	1	3	2	
Political relationships with Russia	2	2	2	2	
Product quality	3	2	2	2	
Inability to offer competitive pricing	3	2	1	1	
Problems with attracting qualified technical employees	2	3	2	3	

Table 3. Intensity of export barriers over time.

The capacity of the company was not a problem during 1991-1994 as the company could not sell its products locally or abroad. However, after the fire in 1993 the factory was not able to produce enough paper in response to the sudden hike in demand in 1995. The problem became less apparent latter, especially after 1999 when the impact of Russian economic crisis slowed demand for the paper locally and abroad, including in Estonia and Lithuania. Finally, in the latest period, the factory is again producing at full capacity, switching the paper machine off only when repairs are required.

The marketing knowledge of employees has steadily increased over the years. If in 1991 the company did not know how to sell any paper at all, then by the end of 1999 it had attracted the current director of commerce, an English-speaking well educated manager who had study and work experience abroad. The language knowledge of employees has similarly increased during the time the country was transforming from closed to open economy.

As can be seen from the history of the company, currency problems have decreased over the time. If in 1991 the company could not buy any wood pulp abroad because it had no access to US dollars, then by 1995 the problem was much less severe. It is not a problem during the later years, especially after Latvia joined EU in 2004.

External trade barriers also have played a major role throughout the history of the company. As noted in the interviews with the current director of commerce, the main reason why the factory is currently not exporting to Russia is the customs on paper imports which increases the price by 17%. Since Latvia has joined EU in 2004, there are no customs for trade within EU, hence the decreased of importance for this barrier.

Like several of the other export barriers, the problems with logistics have decreased over time. It was not only due to the company acquiring experience in organizing the paper shipments, but also because of development of external logistic suppliers over time.

The product quality was most important during the early period of the factory when nothing could be exported at all because of the quality. However, according to several of the employees in the interviews, currently the situation of quality has not dramatically improved. While the manufactured paper may not be much better than in the nineties, the quality control has improved: bad batches can be detected and returned in manufacturing process for recycling.

The ability of the company to provide attractive pricing for the foreign customers has improved over the years. As discussed above, the main reasons for that was the switch to the recycled paper manufacturing, the sudden increase of prices of paper in 1995, and also Latvia joining EU in 2004 when all the import duties to EU countries were removed.

Finally, the ability of the factory to attract qualified workers has fluctuated over the years. It was mainly dependent on the economic situation in the country. While immediately after the end of Soviet Union people were eager to keep their jobs, the wages which the factory could afford to pay were extremely low. Many employees left the factory, and as the production increased in 1995, the factory found itself unable to find anyone with the higher education in paper technologies. After the economic crisis in Russia in 1998, the situation with employees became temporarily better, while in the latest years the problem is actual again. Since it is currently impossible to study paper technology in Latvia, it can be expected that problems with attracting qualified employees will only increase during the future.

In relation to time, several types of export barriers can be recognized in the company. First, there are barriers which have remained relatively stable, such as barriers due to political relationships, product quality, and external trade barriers, such as customs and taxes. Another category of barriers have decreased in importance as the economy of the country opened and subsequently transitioned from a closed to open market economy. Examples of these barriers are, for example, marketing and language knowledge of the employees, problems in processing payments, complexity of logistics operations. The company also managed to learn how to use new materials in production and how to improve efficiency, so it has been able to offer competitive prices in foreign market to a much larger extent than in the beginning of the nineties. Finally, there were also export barriers in the company which were fluctuating over time. For example, export barriers like insufficient capacity and electricity and gas prices were changing depending on the current situation in the global economy.

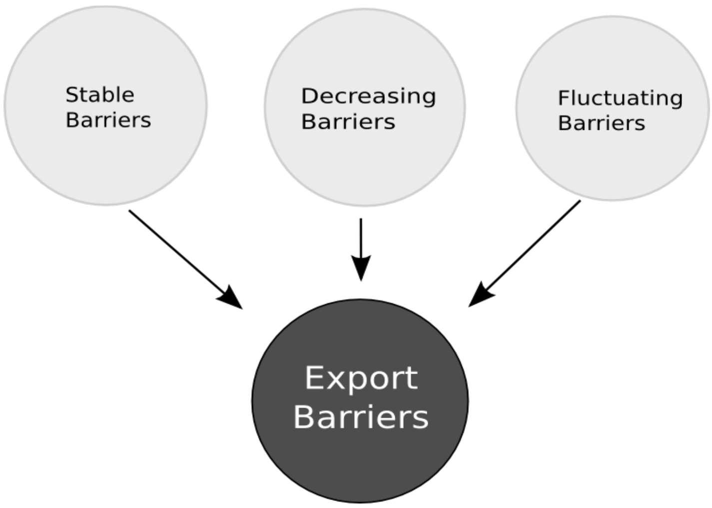


Figure 2. Classification of export barriers

Ligatne Paper Mill was not the only company affected by these export barriers. It can be argued that in many other companies in transition economies the same barriers, such as problems with language proficiency, affected the company similarly. Electricity prices and gas prices influenced nearly all companies. The same was true for difficulties in finding qualified workforce during the phase when countries economy expanded rapidly. Thus, the model in *Figure 2* can probably be used to describe export barriers in other firms from transition economy.

Stable export barriers are the barriers which are not directly influenced by the level of development of the economy or by fluctuations due to economic cycles. As suggested in the above analysis, one of the best examples of stable export barriers is the political relationships between the countries. In comparison with fluctuating export barriers, such as gas prices, political relationships tend to change more slowly and gradually. Another example, although not identified as a major problem in this particular case, is geographical location of a country. If a country is located far away from the main markets then the transportation costs can be a stable export barrier for the firms in the country. As stable export barriers change slowly (or do not change at all), it is much easier for managers to predict such export barriers. As a result, stable export barriers have a limited impact on the performance of export operations, mainly because it is possible for managers to design the export operations 'around' these barriers.

Decreasing export barriers are specific to transition economies. A significant share of these export barriers are external, which means that it is difficult for individual firms in the country to cope with them. If the language knowledge within the population is low, then this problem is going to affect all exporting firms in all industries. Similarly, if there are no suppliers of logistic services or the infrastructure for logistic services is not there, the problem is going to affect all firms which are trying to export. Since these are mostly external barriers, it is possible for the government to intervene and minimize the impact of some of these barriers, for example, by providing subsidized language or marketing courses.

Finally, fluctuating export barriers seem to be related to the current market conditions. One of the main problems with this type of export barrier is that it is not predictable. Since the demand in the markets, prices of the resources, or availability of employees is difficult to forecast in advance, their impact on the firm export operations may be sudden and significant. However, it may be possible for small firms to use specific methods in order to minimize the impact of fluctuating barriers. In case of paper industry, several paper mills may collaborate in order to reduce the impact on one paper mill having a sudden capacity problem because of a large order. In order to reduce impact on changing electricity and gas prices, firms may invest into alternative energy sources, or try to obtain long-term contracts with energy suppliers. Thus, even in case of fluctuating export barriers, the firms can probably design countermeasures provided that they have identified these export barriers in advance.

Conclusions

This study on evolution on export barriers in transition economies showed that the most popular internationalization models can only partially explain how the export barriers in transition economies evolve. In particular, the existing models did not provide adequate explanation about the external export barriers. While no single model could provide an adequate explanation about the export barriers, a combination of these models proved more useful than just single models alone. The most important learning from this research is that the export barriers in transition economies are rapidly changing depending on the level of the development the country has. At the same time, none of the existing models take into account the dynamic nature of the environment of transition economies.

This study also proposes a new classification scheme for export barriers in transition economies. According to the classification scheme, export barriers in transition economies can be divided into stable, diminishing and fluctuating barriers. Diminishing export barriers are export barriers which are specific to transition economies. The intensity of diminishing export barriers are decreasing as the economy of the country changes over time.

Implications for small business managers

The proposed classification scheme may be of interest to the managers at SMEs. Managers can use this model to better understand the export barriers which their companies are facing. Furthermore, if they are able to understand the nature of export barriers and classify them, they can be better prepared for the change. If an export barrier is stable over time, it would be beneficial for the company to make changes so that the model of export operations used by the company is not influenced by that barrier. If the barrier is fluctuating, then some kind of insurance scheme can be used in order to minimize the impact. For example, long-term contracts with customers can be used in order to minimize the impact of fluctuating demand/capacity. Finally, knowledge about the diminishing export barriers can also be useful for the company. If it knows that several of the export barriers are going to be much less severe, then it could get an edge among competitors by starting to increase manufacturing capacity. To summarize, if companies can identify export barrier as either stable, fluctuating or diminishing, this knowledge may help them to minimize their impact on the company.

Implications for policy makers

This study also has important implications for the policy makers. Leonidou (2004) writes that environmental factors can be a major source for export barriers in small firms. He suggests that these factors usually are beyond the control of a single firm. From the export barrier classification scheme proposed in this study, it can be concluded that a significant share of export barriers faced by firms in transition economies are diminishing and environmental. Since small and medium firms alone cannot influence such export barriers as for example, the language knowledge of the population, the policy makers in transition economies can design external tools which help the firms at the country level. As an example, the impact of several of the export barriers, especially, when it comes to education of the employees can also be minimized by state-owned education system. These export barriers are going to decrease in importance over time, but the country could gain a temporary competitive advantage if it manages to increase the speed of the change. For instance, since the language knowledge and marketing knowledge seem to be so important for the success of exports, the state could get a large return on export performance of its firms by investing in additional language training for the population.

Limitations of the study

There were several limitations of the study. The case method was used for the purpose of data collection. Although the case itself was carefully selected, it may be difficult to generalize given just one case. In addition, just one country was included in the case study. It is possible that the results were influenced by the specific situation which Latvia had during the period of transition of the economy, and that other countries which were in transition, had a different path of development. Finally, the study was also limited by the chosen method of qualitative analysis because of the possible introduction of bias by either the author or interviewees.

Recommendations for further studies

Further research may be directed towards replicating this study at a larger scale and in different environments to confirm that the study is also valid for other firms in transition economies. For a larger scale study, a quantitative approach could be more appropriate. It would be also necessary to verify that the results are applicable to other countries with transition economy. One of the research questions which could be asked is if all firms are equally affected by these three categories of export barriers. It may be possible that the export operations of some firms are influenced to a larger extent by just one type of export barriers. If this is the case, then the question would be if it affects the profitability of the firms. Another possible direction of research could be about the strategies which firms are using in order to avoid or neutralize different types of export barriers. It is possible that the firms are using different strategies, thus knowledge about them could be beneficial to both small business managers and the researchers.

Further research needs to be also directed in understanding more about how and if the current internationalization models, especially the Uppsala Model, work in transition economies. It could prove fruitful to analyze the current internationalization models in relation to the rapid changes which are happening in transition economies as they mature. The dynamic nature of the transition economies must somehow be integrated in internationalization models if they are to be used in explaining exporting behavior in firms from transition economies. However, there is a limited time window available for undertaking research in several of the transition economies. As the economies in countries continue to develop and advance toward the 'old' market economies, it is possible that research done on specific transition economies could be soon outdated.

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Appendix 1: Additional Background Information on the Theories of Internationalization

On the validity of the Uppsala Model

The validity of the Uppsala model has been questioned in the long run by several authors (see *Table 4*), including the original creators of the Uppsala model Johanson and Valhne. It is not clear if the changing nature of internationalization processes, especially during the time of increased globalization, has not made this model outdated. Furthermore, the model may not be universally applicable to all firms and all industry sectors. As Johanson and Valhne (1990) noted on subsequent review on their own model, firms in service factor do not follow the stage model when starting internationalization. It is also possible that it cannot be applied to even more industries and sectors because the increasing pace of innovations in some sectors is forcing the companies to start internationalization immediately. In particular, firms in industries with high R&D intensity, such as software and other high technology industries, increasingly often start their internationalization by forming joint ventures or acquiring licensing deals, as opposed to export activities as prescribed by Uppsala Model (Bell, 1995).

Problem	Author
Not clear why and when firms move between stages	Andersson (1993)
Significant concerns regarding the validity of the Stage model during globalization	Johnson and Valhne (2003)
Stage model does explain why some firms are exporting from the beginning	Westhead et al. (2001), Bell et al. (2003).
Stage model is not valid for all industries, for example, for service industry and IT	Johanson and Valhne (1990)
In many cases the choice of entry market and mode	Bell (1995)

depends on the first unsolicited order	
If individual managers play an important role in internationalization, it means that firms can simply hire experienced managers instead of slowly developing experience themselves	Meyer and Skak, 2002

Table 4. Problems with the Uppsala Stage Model

Moreover, the model also fails to explain the involvement of individuals in the process of knowledge and experience acquirement within a firm. Individual employees who are well connected and well adapted to working in international environment can help a firm to internationalize much quicker by using their own personal networks (Meyer and Skak, 2002). If knowledge between firms can be transferred quickly by hiring experienced marketing managers, then there is no reason why firms must follow a stepwise approach to internationalization. Instead, they could simply hire individuals with valuable personal networks who could help a firm to launch international operations by skipping over some of the stages described in Uppsala Model.

Network-based View as an Addition to Uppsala Model

The network theory helps to explain why some firms ('Born globals') can be active internationally right from the moment the firm is created (Moen, 2002), which would be impossible according to the Uppsala Model. Network connections can be viewed both from the perspective of a firm and the perspective from individual employees (or founder/manager for small firms). In the later case, the knowledge and connections associated with an individual can be easily transferred between firms. A newly founded firm can internationalize rapidly if the original founders have international experience, such as previous experience from working for other forms, foreign language skills or living experience abroad, which helps them to get access to networks required to enter another country. As an alternative, a newly founded firm can attempt to hire individuals with international experience if the required knowledge is not available within the firm. The personal characteristics and experience of the founder is linked to the later export performance of the firm. Older founders are more likely to have developed a useful network of contacts, and might have accumulated wealth which can be used by the firm when starting export operations. Professional experience of the founder also plays an important role, with founders who start a firm in the same industry where they have employment history being more successful exporters (Westhead et al., 2001).

In case a firm does not have any network connections, it must somehow build them. Unlike the stage model where firm was supposed to build knowledge gradually by starting exporting, knowledge about the network does not necessarily mean that the firm must be an exporter from beginning. Instead, the firm can try to access other networks by other forms of partnership. They can cooperate in research and development (R&D), outsource some of their activities, or start importing operations (Coviello and Munro, 1997). To start export operations, firms may need a significant amount of trust from their importing partners. The trust refers not only to their partner's previous experience with them but also reputation in the market as a whole. By building network relationships by importing first and then exporting, firms can try to build this trust. Thus, unlike in stage model, exporting can be viewed as a final activity rather than initial way of internationalization. In other words, the stage model does not take into account that exporting can be only one part of the international operations of a firm. A study on small software firms in Ireland, Finland and Norway helps to explain how firms may create their international business network. According to the study (Bell, 1995), many software firms initially start international activities by importing software licenses and after they have established themselves and created their network they gradually switch to exporting operations. Bell (1995) also found out that 30-50% of small firms are initiating sales to countries which large 'physic' distance. He explains this with firms following their customers. Many software developers expand to those countries which have demand for the products they manufacture. For example, a Norwegian software company supplying software for oil industry first entered Venezuela because of Venezuela's booming oil industry, although Venezuela is neither physically nor culturally close to Norway. In another case, an Irish software firm started to export to Mexico because their software was endorsed by Irish national air carrier Aer Lingus when a Mexican airline happened to ask Aer Lingus which software had they been using. These examples illustrate that sometimes export market is selected because of existing customer relationships. Bell (1995) calls it following the customer. Although it must be acknowledged that firms which provide services can more easily export to geographically remote countries – as in case with software firms where there are no shipping costs at all, more and more manufacturing firms (especially, high-tech) are beginning their exports by exporting to geographically distant countries (Crick and Spence, 2005) as well.

Another comparison can be made about the time in Uppsala Model and the network-based view. Uppsala Model implies that firms are slowly learning about exporting over a period of several years. On the contrary, network-based model does not have this time limitation. While usually firms are trying to form long lasting relationships with their partners, Andersson et al. (1994) notes that sometimes the life cycle of a network can be very short. Just like long-term networks, these special networks are formed around a particular business opportunity and they cease to exist when that business opportunity has been used. Different skill sets are needed for long-term and short-term networks. It is possible that firms targeting short-term networks are simply better at identifying business opportunities. This can be linked to entrepreneurship behavior theories – since networks are formed from individuals, each individual can have their own preferences about utilizing short or long term business opportunities. Individual behavior is more important for small firms where the owner or manager of the business often has significant power to influence decisions. Thus, it can be assumed that the type of networks which each firm prefers also depends on the personal characteristics of the owner or manager.

Resource-based View and Internationalization

Barney (1991) writes about resource mobility as a base of possible competitive advantage. If all resources were perfectly mobile, no single firm could have a competitive advantage based on resource availability alone. However, in reality, few resources are truly mobile. As a result, firms in one country may have competitive advantage over firms operating from other countries where no such resources are available or are available at a higher cost. Once a firm has a competitive advantage over other firms in other countries, it makes sense to start exporting operations.

One of the resources which can be used to build competitive advantage is information. However, it seems that it is quite difficult to research the exact impact information has on SMEs exporting performance. First, only some of the information is which is available is actually relevant to the exporting firm. Second, it is difficult to measure the level of information awareness. One can easily measure the perceived availability of information, however, it is more difficult to measure the actual level of information available – the information required for each specific firm is most likely unique, thus no one but the owner can know which information is needed. Despite these problems, there have been some studies on relation between the information availability and export performance. Julien and Ramangalahy (2003), attempted to evaluate the relationship between the impacts of information search on export performance. Their findings were surprising in the sense that they concluded that it does not matter if SMEs are giving importance to export-related information. In fact, export performance of Canadian SMEs was not related to the importance these SMEs were giving to export-related information. This probably reveals another problem with analyzing information as a potential resource in competitive advantage. Even while a firm may have information available, it does not always mean that it will be able to properly use it to improve its export performance. In other words, the firm must identify, acquire and use the information, and only then the information becomes useful.

Appendix 2: Interview Questions

General questions

1. Please give a general description about Ligatne Paper Mill and the paper the company is producing.
2. Why are you producing exactly these types of paper and not something different? How is it connected with the demand in domestic countries and abroad?
3. What is your main competitive advantage?
4. Could you explain what do you understand with the quality of the paper?

Questions about the current export operations

1. Describe the role of internationalization in the overall strategy of the company?
2. To which countries are you exporting? Why exactly these countries?
3. How are you searching for new export markets?
4. Could you describe the difficulties which the company is facing when exporting abroad? Have you experienced any problems from the following list?
5. insufficient production capacity
6. difficulties in obtaining payments, such as problems with currency rates and bank transfers
7. competition on the foreign markets
8. problems in information gathering and communication, such as identifying

the markets and contacting the customers
9. quality of the products
10. How are you positioning your products when selling them abroad?
11. What distribution channels are you using?
12. How is the pricing determined for export products? Are there any differences between the countries regarding pricing?
13. How are you exporting the consumer products and industrial products? What are the main differences in terms of exports?
14. You are mostly exporting to Estonia, Scandinavia. Why exactly these countries?
15. Do you believe that Scandinavian producers are in a better position than you because of their location?
16. Have you considered setting up a subsidiary in one of the countries you are exporting to? Or using any other form of operation than just exports and distribution agents?
17. Do you have any problems with receiving payments from overseas customers?
18. Do you have any problems with currency exchange rates and payments to companies abroad?
19. Are you experiencing any language barrier when communicating with clients? Can you tell me more about the way the communication happens?
20. Is paper quality a problem when exporting?
21. Do you receive any assistance from outside (governmental agencies) for exporting operations?

Questions about the previous export operations

1. Could you tell me more about when and how the factory started to export?
2. Why was export essential for the company?
3. Did you have any foreign contacts in the time before the factory started to export?
4. How has the knowledge about exporting developed over time?
5. Would you agree that the amount of exports were related to the manager at the time?
6. Has anything changed in the way you are contacting clients?
7. Did anything change because of the recent financial crisis?
8. Have you ever attempted to export to Russia or Germany? What are the main reasons why you have not been able to export there?
9. Are you using any exporting knowledge gained from your previous exporting experience between the World Wars, or from exporting during time of Soviet Union?

Appendix 3: The History and Context of Ligatne Paper Mill

Ligatne is a small town 70 km outside of the capital of Latvia, Riga. From the day it was founded, the Ligatne has always been dependent on the largest employer in the town – Ligatne Paper Mill. The production of paper in Ligatne started in year 1814, and since then the paper factory has gradually expanded its operations to become the largest and eventually the only remaining paper factory in Latvia.

The factory was founded when Konrads Justus Strohs and Karlis Kibers, two wealthy tradesmen from Riga bought the land near Ligatne River and start experimenting with production of paper. Initially the factory had only 15 employees, but soon afterward the number of employees increased significantly. In 1827 the factory started to use special chemicals to bleach the paper. In 1831 a major construction work was done, rebuilding existing buildings and adding new building for the paper machine. In 1856 the factory changed owners. Judge Karlis Grotguss purchased the land, buildings and paper machine. He immediately started another major construction work. A dam was built on the nearby river, and another steam-powered paper machine is purchased. Despite the fact that the paper factory was producing state-of-the art paper if compared with other paper producers at the time, the venture was unsuccessful financially. Grotguss sold the factory just two years after purchasing it. The new owner, a company closely related to Grotguss, declared bankruptcy soon afterwards. Another company purchased the remaining assets of the factory and restarted paper production. By 1870, the factory was working with full capacity. It is also interesting to note the fact that Latvia was part of the Russian empire during that time. As a result, the factory had its first export experience to Russia The quality of the paper was so high that in 1870 the factory received a silver medal for the paper in an exhibition at St. Petersburg, Russia, and several additional awards within Latvia. In 5 January, 1884, the factory was completely destroyed by a sudden fire. Within a couple weeks, a fire also destroyed another paper factory near Riga. Since both paper factories had the same owner, there are rumors that both fires were not an accident. However, the factory owners had fully insured the factory so within a year the factory was rebuilt and restarted work.

During the end of the 19th century, the factory had a major problem with logistics. All goods were moved using horse carriages which proved to be a slow method prone to delays because of weather and other unpredictable events. One of the problems was that the factory was located 70km from the capital city where the majority of the customers were located and where supplies could be purchased. As a result, the factory had to use up to 30 horse carriages delivering paper to Riga and supplies for production back from Riga. However, the problem with logistics was solved when a railway line was built 8km the factory. The factory immediately built a railway extension running from the factory to the main railway line. Afterwards, all goods were transported via railway until the end of the 20th century when the factory found it too expensive to maintain the railway extension and switched to cargo trucks instead.

By this time the factory was manufacturing extremely high quality paper – 1894 the factory now received gold medal in the Russian paper exhibition in St. Petersburg. In 1897, the factory sponsors the construction of the local hospital and local cultural club. This development marks factory involvement in the local society. Since then the factory was always deeply involved in social activities within the region. It can be assumed that because many stakeholders in the factory were living locally, the business decisions within the factory were also made with the local community in mind from this point on.

In the beginning of the 20th century the factory continued to expand its capabilities and production quality. Two additional high-speed paper machines were built. Several important infrastructure objects were also added, including a local power plant and warehouse. The production had to be stopped after the outbreak of the 2nd World War in 1914. All paper machines were dismantled and relocated to Russia. The work was resumed again in 1920 when the Latvian government allocated 20milj. rubles to restore the factory. The work was gradually restored from 1921 onwards, with the 3rd paper machine going into production in 1936. At this time the paper factory was competitive with other paper factories within the region.

Between the wars, the factory was known as producer of fine and specialty papers, including special paper with highly complicated watermarks and paper for banknotes. Nearly one hundred different paper varieties were manufactured during that time. Before the 2nd World War the factory was again evacuated, but production was restored soon after the war ended. After Latvia joined Soviet Union, all export operations in the factory were stopped by order of the government. During the time of Soviet Union, the factory was only allowed to export to countries within Soviet Union. As a result, the business contacts with Western Europe which were developed between the two world wars were lost. Around 60% of the production was exported to other countries within Soviet Union, mainly Russia. During the time in Soviet Union, the production focus of the factory was also changed. The initial specialization of fine and specialty papers was changed to also include regular paper, such as paper for newspapers, notepads and copybooks. Unfortunately, some of the technologies and knowledge about specialty papers were lost in the process. At the same time, the fact that the paper factory was now a high-volume producer helped it to upgrade some of its oldest paper machines to newer, faster models. All four paper machines were updated between years 1974 and 1976. The factory continued to work under the command economy until 1991 when Latvia declared independence.