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INTERNATIONAL TRANSPORT COMPANIES IN THE BALTIC COUNTRIES: INTERNATIONALIZATION MOTIVES AND BARRIERS

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Abstract. *Internationalization of companies is a necessity on purpose to play an active role in the international market and maintain a competitive advantage. The presented paper aims to reveal barriers and motives for a company's internationalization in the Baltic countries. The perceptions of internationalized and non-internationalized firms were assessed. The paper reveals the main motives and barriers of foreign transport and logistics companies for internationalization. All the Baltic countries compete for DFI and seek to demonstrate that they are ideal locations for foreign transport and logistics companies to establish an enterprise or choose another internationalization mode.*
The authors disclosed why service firms internationalize to the Baltic countries. The main attractiveness factors of the transport and logistics market in the Baltic countries, internationalization motives and barriers were compared. The framework has been approved by Scandinavian and Central European transport companies that have expanded their business in the Baltic countries. Theoretical and empirical results are beneficial for transport companies seeking to internationalize their activities in Lithuania, Latvia or Estonia.
Keywords: *internationalization motives, barriers for internationalization, Baltic countries, transport, logistics.*

Introduction

Internationalization of companies is a necessity on purpose to play an active role in the international market and maintain a competitive advantage. Intense competition, technological changes, globalization affecting demand of consumers, economic and political changes impact managers' decisions to take greater risks and to expand firms' activities abroad. Internationalization of firms is regarded as an important measure of competitive performance at both national and regional levels (Korsakiene, 2015). Compared with domestic business, transaction costs are higher in international business. All the Baltic States compete for DFI and seek to demonstrate that they are ideal locations for foreign transport

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and logistics companies to establish an enterprise or choose another internationalization mode.

Lithuania, Latvia, and Estonia are transit countries due to their geographical location. The logistics sector in Lithuania, Latvia, and Estonia is a strategically-important sector of the economy, the effectiveness of which has a major impact on economic vitality and competitiveness in all the three Baltic States. Main factors that influence the Baltic States' attractiveness are the size of the market and the number of customers. An analysis of theoretical and empirical studies allows to state that there is a variety of internationalization motives and barriers (Sekliuckiene, 2013). Researchers agreed that the motives and barriers to internationalization should be studied based on the situation in each country and there is a lack of such research in Lithuania.

The purpose of this paper was to disclose why service firms internationalize to the Baltic countries. The main motives and barriers of internationalized transport and logistics companies in the Baltic countries were compared.

The research is based on the systematic and comparative analysis of scientific literature and quantitative research – questionnaire survey method. The questionnaire was sent to 45 foreign transport companies in 2016. All of these transport companies had branches in at least one of the Baltic countries. It was the main criteria for transport company selection. The survey resulted in 37 completed questionnaires. The data were collected using a questionnaire contained several parts. The first two sections of the questionnaire contained the assessment of motives and barriers for internationalization of transport companies to the Baltic countries. The third part of the questionnaire contained the assessment of attractiveness factors of the Lithuanian transport market- in the form of questions using the 5- point Likert scale.

Internationalization motives

Existing theories on multinational corporations, which have been built on the analysis of firms from advanced economies, tend to assume that firms expand abroad in search of markets (Cuervo- Cazurra, 2012) and ignore other motives such as the search for assets, resources or efficiency (Dunning, 1993) in their theoretical apparatus. However, the expansion of emerging market multinationals has been proposed to differ from that of advanced economy firms in their more intensive use of other internationalization motives (Guillen and Garcia-Canal, 2009; Luo and Tung, 2007).

There are multiple classifications of motives, which include commercial, non-commercial and inadvertent, vertical and horizontal, pull and push, upstream and downstream, growth-oriented, limited domestic market opportunities and other (Cuervo-Cazurra et al., 2015), and the well-known seeking motives (resource seeking, market seeking, efficiency seeking and asset seeking) (Dunning, 1993). However, although in many cases reflecting reality, some of these classifications of motives seem to lack an underlying theoretical logic and appear to be ad hoc.

Rob van Tulder (2015) discerns three groups of international motives: **intrinsic motives** (market-seeking, efficiency-seeking, resource seeking and strategic, or asset- seeking), **extrinsic motives** (escape motives and/or strategic extension from the home country etc.) and mixed motives (follow the client or/and competitor, risk minimizing etc.). The authors' classification is presented in Table 1.

Table 1 **Motivations for internationalization (Tulder, 2015)**

Type of motive	**Internationalization motive**	**Dominant approach**
Intrinsic motives Efficiency approaches; resource based-view; and learning	Market seeking Efficiency-seeking Resources-seeking (strategic) asset-seeking	Micro: International management
Mixed motives Competitiveness and positioning in sector; co-evolution	Sector: bandwagon effects, e.g. in country selection; follow the client; risk minimizing Monopoly/oligopoly effects; follow the competitor	Meso: IB, international strategy
Extrinsic motives Bargaining/negotiation and game theoretical approaches; stakeholder approach, institutions-based view; bundled resources	Home: escape motives from home country; strategic extension of home country Host: high/low barriers to entry	Macro: International (political) economics

Two main motives for enterprises was identified that "internationalize their activity by going abroad: location and internalization (internal manufacturing), as opposed to buying from other manufacturers. The motive of location is related to resources (mineral resources, cheap workforce), transportation costs, and commerce barriers" (Krugman and Obstfeld, 2012).

Capital is mostly invested in other countries when trying to expand to markets that have a favourable business environment, a solvent market, reasonable access to financial resources, or lower rates of interest. By establishing branches, international companies can utilise their competitive advantages: reputation, credibility, a wide market, complex and differentiated services, etc.

Usually, investments are made in countries that are on par in terms of the development level of the economy or where a relatable tendency of a strategy for growth can be observed. Attention is also paid to business tradition, culture, as well as consumer behaviour (Zukauskas, 2006; Hubert and Pain, 2002). If competition takes action in foreign markets, that can also encourage subsequent foreign investments from a company.

The political-legal environment is also important to the process of internationalization, because declining bilateral relations often have an impact on economic relations as well. Investors avoid venturing into countries that do not have stable and clear policies (Vengrauskas and Langviniene, 2005).

In conclusion, it can be said that motives for internationalisation are different, but if we were to look from the perspective of logistics companies, the main motives for this branch of economy are:

1. The opportunity to be closer to the client, i.e. the exporter or the client that purchases logistics services;
2. The opportunity to be closer to the carrier, in the case where the company that supplies logistics services uses services of other carriers for transfer of cargo (subcontracting, expediting);
3. A strategically favourable location, a transit corridor;
4. A cheaper workforce on the condition that the supply of qualified workers is adequate.

Barriers for internationalization

A number of studies have investigated the factors and barriers for internationalization (Korsakiene, 2014). The barriers for internationalization are differently classified by various authors (Sekliuckiene, 2014). When international companies start operations in East European transition economies – or in developing countries – the environment is very dissimilar to that in their home country. Dissimilarities in the economic environment, including infrastructure and the level of technology, and in the political, legal and cultural environments, pose inducements for and obstacles to successful expansion. Therefore, it is important to analyse what kinds of problems companies have met in establishing joint-venture or subsidiary operations in these countries (Ghauri and Holstius, 1996). Sekliuckiene (2013) has differentiated between internal and external barriers for internationalisation.

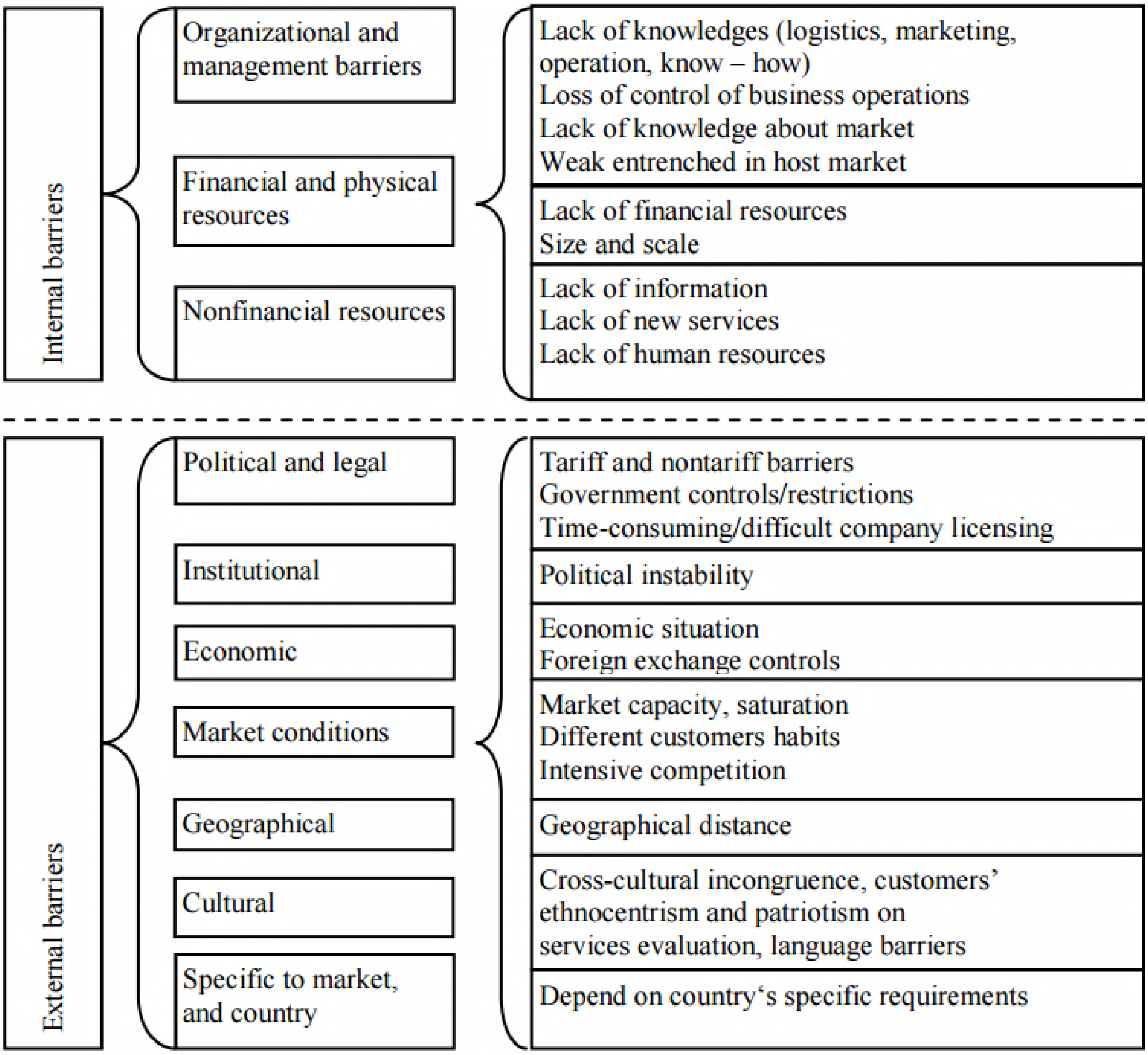

Figure 1 **Internal and external barriers for internationalization (Sekliuckienė, 2013)**

In Figure 1 the classification of said barriers is given. Some barriers related to the external environment for example, political stability, geographical and cultural aspects, are in effect only in the long-term perspective, however, rules of licensing in the country, and language barriers have a bigger impact in the short term. However, the taking of higher-risk often brings the greatest profit to the investors and the market pioneers (Sekliuckiene, 2013).

In conclusion, it can be said that barriers for internationalization are different, but if we were to look from the perspective of transport and logistics companies, the main motives for this branch of economy are:

1. Intense competition abroad;
2. Economic situation;
3. Loss of control of business operations etc.

Attractiveness factors of transport and logistics market in the Baltic countries

Lithuania, Latvia, and Estonia are transit countries due to their geographical location. These countries are crossed by more than one transportation axis that connects the North, the South, the East, and the West. Lithuania is an extremely important hub that connects the markets of Russia and other countries in the Commonwealth of Independent States to Western Europe. In Latvia, a large part of the overall transportation flow is made up of the flows of transit transport that works as part of a combined logistics model. There are transport corridors in Latvia that connect the activity of highways, railroads, pipelines, and seaports. Estonia is the smallest of the Baltic countries. By way of transit, cargo travels through it from Central Europe into Finland, Sweden, and Germany. In Estonia, a larger role in the logistics system is played by a well-developed infrastructure of railroads that ensures quick transfer of cargo between Estonia and Russia. Since the Baltic markets are shown as examples of rapidly growing innovators (Staehr, 2015) – the attractiveness of these markets continues to increase. The logistics sector in Lithuania, Latvia, and Estonia is a strategically-important sector of the economy, the effectiveness of which has a major impact on economic vitality and competitiveness in all the three Baltic States. The most important questions for the Baltic countries are the modernisation of the logistics sector, sustainable development, and the opportunity for employees to have a modern workspace (Saboniene, 2015). Data for the main macroeconomic indicators in the Baltic States is provided in Table 2.

Table 2 **Key microeconomic indicators for the Baltic States (Baltic Business Outlook, 2016)**

Indicator	**Estonia**	**Latvia**	**Lithuania**
Population (eop. 2015)	1.3 m	2.0 m	2.9 m
Currency (as of 1 January 2016)	Euro	Euro	Euro
GDP per capita (EU=100)	76	64	75
Real GDP growth (Q1-Q3 2015)	1.3%	2.6%	1.5%
Inflation (HICP) (2015)	0.1%	0.2%	-0.7%
Unemployment rate (Q1-Q3 2015)	6.1%	9.9%	9.2%

The data provided in the table shows that Lithuania is first in terms of population, yet the rate of unemployment in I-III quarter of 2015 was as high as

2,9 %. That was 1,3 % points higher than in Estonia. However, GDP per capita is higher in Lithuania and Estonia, when comparing them to Latvia.

The logistics sector in Lithuania is strategically important to the economy of the country. As a result, its effectiveness is important to the prospects of growth for the Lithuanian economy and the country's competitiveness. Exports of logistics service comprise about 60 % of the service export from Lithuania. In 2015 the logistics sector showed its durability – during the first three quarters, it dropped by only 2 %, despite the major losses in the Russian market, due to their own economy plummeting and the trade embargo that was applied.

Table 3 shows country comparison in terms of Logistics Performance Indicators (2016). When comparing 160 countries, Lithuania comes in at 29 and is at the top among the Baltic States. Estonia and Latvia are both included in the top 50, being 38th and 43rd, respectively. The top 3 countries of the world according to Logistics Performance Indicators are: Germany, Luxembourg, and Sweden.

Table 3 **Country comparison of Logistics Performance Indicators (The World Bank, 2016)**

LPI (Scores)	Country	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
1 (4.23)	**Germany**	2	1	8	1	3	2
2 (4.24)	**Luxembourg**	9	4	1	10	8	1
3 (4.20)	**Sweden**	8	3	4	2	1	3
4 (4.19)	**Netherlands**	3	2	6	3	6	5
5 (4.14)	**Singapore**	1	6	5	5	10	6
29 (3.63)	**Lithuania**	28	27	31	30	27	17
38 (3.36)	**Estonia**	29	44	56	46	48	20
43 (3.33)	**Latvia**	45	41	44	37	39	49
160 (1.60)	**Syrian Arab Republic**	160	160	160	160	138	147

When evaluating 190 countries, according to the Ease of Doing Business Indicators, Estonia is first among the Baltic States, coming in at 12. It beats both Latvia (14) and Lithuania (21) (Table 4). Despite the fact that these countries are behind the top European countries (Denmark – 3rd , Norway – 6th, Sweden – 9th), being in the top-25 shows the potential and attractiveness of these markets.

Table 4 **Country comparison according to Ease of Doing Business Indicators (The World Bank, 2016)**

Rank ' 2016	***Country***	***Starting a Business***	***Registering Property***	***Getting Credit***	***Protecting Minority Investors***	***Paying Taxes***	***Trading across Borders***
1	New Zealand	1	1	1	1	11	55
3	Denmark	24	12	32	19	7	1
6	Norway	21	14	75	9	26	22
9	Sweden	15	10	75	19	28	18
12	Estonia	14	6	32	53	21	17
14	Latvia	22	23	7	42	15	25
21	Lithuania	29	2	32	51	27	19
190	Somalia	188	148	185	190	190	156

Lithuania, Latvia, and Estonia are transit countries due to their geographical location. The logistics sector in Lithuania is strategically important to the economy of the country. As a result, its effectiveness is important to the prospects of economic growth for all the Baltic States and the countries' competitiveness.

Findings of the survey

The empirical research aim was to explore the internationalization motives, perceived and actual barriers for internationalization to the Baltic countries encountered by European international transport companies. The data were collected using a questionnaire contained several parts. The first two sections of the questionnaire contained the assessment of motives and barriers for internationalization of transport companies to the Baltic countries. The third part of the questionnaire contained the assessment of attractiveness factors of the Lithuanian transport market- in the form of questions using the 5- point Likert scale. The last section included information on a company's profile (e.g. internationalization mode, geographical markets etc.). The questionnaire was sent to 45 foreign transport companies in 2016. All of these transport companies had branches in at least one of the Baltic countries. It was the main criteria for transport company selection. The survey resulted in 37 completed questionnaires.

Some transport companies, such as DHL, Hellmann Worldwide Logistics, Raben Group establish branches or use other internationalization strategies by evaluation of cargos volume to and/or from this country. Table 5 contains the largest foreign-owned companies that have set up branches in all the three Baltic countries.

Table 5 **Transport companies internationalized to all the Baltic countries (contributed by authors)**

Head company	Lithuania	Latvia	Estonia
DSV A/S (Denmark) offices in more than 80 countries	DSV Transport UAB	DSV Transport SIA	DSV Transport AS
Deutsche Bahn AG (Germany) about 130 countries	Schenker UAB	Schenker SIA	Schenker AS
Rhenus SE & Co. KG (Germany) 43 countries	Rhenus Svoris UAB	Rhenus Svoris SAS	Rhenus Logistics OÜ
Raben Group (Netherland)- 10 countries	Raben Lietuva UAB	Raben Latvia SIA	Raben Eesti OÜ
Deutsche Post DHL Group (Germany)- 220 countries	DHL Lietuva UAB	DHL Latvia SIA	DHL Estonia AS
Kuehne + Nagel Group (Germany) - 104 countries	Kuehne + Nagel UAB	Kuehne + Nagel Latvia SIA	Kühne + Nagel AS
Hellmann Worldwide Logistics (Germany)- 157 countries	Hellmann Worldwide Logistics UAB	Hellmann Worldwide Logistics SIA	Hellmann Worldwide Logistics OÜ

Two sections of the questionnaire covered the assessment of motives and barriers for internationalization in the form of questions using the 5-point Likert scale. The third section included information on company's profile: internationalization mode, information about the mother company and the spread of internationalization abroad.

The data presented in Table 6 allow concluding that the top motives of internationalization in the Baltic States for transport and logistics companies are (1) the ability to attract new carriers (3.78 Lithuania, 3.57 in Latvia, 3.50 in Estonia); (2) low labour costs and high employee qualification (3.55 in Lithuania, 3.59 in Latvia & 2.94 in Estonia); (3) proximity to customers and suppliers (3.48 in Lithuania, 3.04 in Latvia & 3.71 in Estonia). The responses of internationalized transport and logistics firms showed that the establishment of terminals and distribution centres, competitive pressure on the domestic market, the opportunity to increase market share, a competitor‘s success in a foreign market, a significant position in the domestic market and tax benefits have influence on internationalization.

Table 6 **External and internal motives of internationalization for transport and logistics companies in the Baltic States (contributed by authors)**

Motives of internationalization	**Average rating* in Lithuania**	**Average rating* in Latvia**	**Average rating* in Estonia**
The ability to attract new carriers	3.78	3.57	3.50
Low labour costs and high employee qualification	3.55	3.59	2.94
Proximity to customers and suppliers	3.48	3.04	3.71
The establishment of the terminals and distribution centres	3.02	3.27	3.64
Competitive pressure on the domestic market	2.64	2.95	3.27
The opportunity to increase market share	2.44	3.04	3.09
Competitor‘s success in foreign market	2.21	2.74	2.40
Tax benefits (VAT etc.)	2.01	2.55	3.07
Significant position in the domestic market	2.01	2.54	2.94

*motives evaluated according to scoring scale from 5 (very significant motive) to 1 (not significant motive)

Table 7 **Internationalized transport companies in one or two Baltic countries (contributed by authors)**

Head office / Origin	**Lithuanian market**	**Latvian market**	**Estonian market**
Nunner Logistics B.V. (Netherland)	Nunner Logistics UAB	--	--
Uno Transport A/S (Denmark)	Uno Transport UAB	Uno Transport SIA	--
Blue Cargo AS (Norway)	--	--	Blue Cargo Eesti OÜ
OST-WEST CARGO EUROPE GMBH (Germany)	OST-WEST CARGO BALTIC UAB	--	--
HCS A/S (Denmark)	HCS Transport UAB	--	--
CAT Group (France)	CAT Cargo Logistics Lietuva UAB	--	--
Sparta Logistics Aarhus (Denmark)	Sparta logistics UAB	Sparta logistics SIA	--
SCANFOR BvbA (Belgium)	--	--	Scanfor Eesti OÜ
Tschudi Shipping Company AS (Norway)	--	--	Tschudi Logistics OÜ

In order to properly evaluate the internal and external barriers, related to the internationalisation of transport and logistics enterprises, it is essential to understand the reasons behind said enterprises choosing one of the Baltic States over another and deciding to start their business there, as opposed to another country. Table 7 shows logistics companies that have internationalised their activities by expanding into one or two of the Baltic countries, but have chosen not to operate in all three of them.

The external barriers were perceived as stemming from foreign environment. Hence, these barriers as inaccessible market information, bureaucracy, intense competition abroad and consumer habits were evaluated like internal barriers included in the survey were as follows: start- up costs, limited management skills, communication issues, bureaucracy etc. The obtained results of the survey are presented in Table 8.

Table 8 **External and internal barriers of internationalization in the Baltic States for transport and logistics companies (contributed by authors)**

Barriers of internationalization	Average rating* in Lithuania	Average rating* in Latvia	Average rating* in Estonia
Intense competition abroad	3.45	3.57	3.50
Economic situation	3.38	3.49	2.99
Loss of control of business operations	3.24	3.34	3.41
Bureaucracy (long administrative procedures, law and regulations)	3.12	3.37	3.14
Start- up costs	3.06	2.95	3.37
Geographical distance	2.98	3.14	3.29
Lack of knowledge about market	2.13	2.04	2.40
Language barriers	2.60	2.15	3.07
Limited financial resources	2.14	2.54	2.44
Lack of human resources	2.10	2.09	2.34

*barriers evaluate according to the scoring from 5 (very significant barrier) to 1 (not significant barrier)

The data presented in Table 8 allow us to conclude that the top barriers of internationalization in the Baltic States for transport and logistics companies are (1) intense competition abroad (3.45 in Lithuania, 3.57 in Latvia, 3.5 in Estonia); (2) the economic situation (3.38 in Lithuania, 3.49 in Latvia and 2.99 in Estonia); (3) loss of control of business operations (3.28 in Lithuania, 3.34 in Latvia & 3.41 in Estonia). The responses of internationalized transport and logistics firms showed that the lack of knowledge about the market, bureaucracy (long administrative procedures, law and regulations), start- up costs, limited financial resources and language barriers were indicated as significant barriers for internationalization.

The findings allow concluding that market attractiveness factors directly influence both intrinsic and extrinsic motives of a company's internationalization and induce a more careful assessment of the barriers for internationalization. The obtained results show that foreign transport companies are interested in internationalizing their business to the Baltic States. The ability to attract new carriers, low labour costs and high employee qualification and proximity to customers and suppliers are seen as main drivers for internationalization. However, intense competition abroad, the economic situation, loss of control of business operations, lack of knowledge about the market, bureaucracy (long administrative procedures, law and regulations), start- up costs etc. are seen as the most significant factor hindering the expansion of firms.

Conclusions

The study aimed to gain deeper understanding why service firms internationalize to the Baltic countries. When comparing 160 countries according to the Logistics Performance Indicators, Lithuania comes in at 29 and is at the top among the Baltic States. Estonia and Latvia are both included in the top 50, being 38th and 43rd, respectively.

The obtained results shed some light on internationalization motives and barriers. The top motives of internationalization in the Baltic States for transport and logistics companies are the ability to attract new carriers, low labour costs and high employee qualification, proximity to customers and suppliers. The top barriers of internationalization in the Baltic States for transport and logistics companies are intense competition abroad, the economic situation and loss of control of business operations.

Taking into consideration findings of this study different proposals can be elaborated. First of all, some barriers of internationalization such as intense competition abroad can be overcome by ability to attract new carriers or proximity to customers and suppliers. Secondly, the foreign transport and logistics companies can reduce the costs through subcontractors in the Baltic countries because of low labour costs but high employee qualification. The proximity to customers and suppliers leads lower operating costs. Moreover, Lithuania, Latvia, and Estonia are transit countries due to their geographical location. When evaluating 190 countries, according to the Ease of Doing Business Indicators, Estonia is first among the Baltic States, coming in at 12. It beats both Latvia (14) and Lithuania (21). Despite the fact that these countries are behind the top European countries (Denmark – 3rd , Norway – 6th, Sweden – 9th), being in the top-25 shows the potential and attractiveness of these markets.

The limitations of the presented study are associated with the small sample size. Hence, further research should focus on a deeper analysis in each Baltic country.

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