The aim of this study is to examine the place of the Baltic States on the corporate world map, a contemporary, foreign-investment-driven alternative to the more familiar political map. To this end, the author studies the geographical place of the Baltics in the documentation of transnational corporations. The research database consists of financial reports and presentations of 60 leading European (including Russian) transnational corporations. Special attention is paid to companies from countries with significant FDI stock in the Baltic States. This study is a first step towards analyzing international investors’ interpretation of the new European borders. The connection between the neighborhood effect on FDI distribution and geographical segmentation in the corporate paperwork is established. Some companies use a multilevel division (e.g., Europe/Eastern Europe), where the Baltics is usually associated with “Europe” (with or without Russia and Turkey). However, in some cases the Baltic States are clustered under “home market” (as is the case with some Swedish companies), “former Soviet Union” (some Russian companies), “Northern Europe and Central Asia,” and even “Middle East and Eastern Europe.” Varying understanding of where exactly the borders of Europe lie could explain the plurality of attitudes of the European business establishment to the EU sanctions against Russia.

**Key words:** Baltic Sea States, transnational corporation, geographical segment, borders of Europe, foreign direct investment

The crisis in the EU-Russia relations that clearly manifested itself in 2014 in the aftermath of the Ukrainian events called for a more detailed examination of a stalling in the strategic partnership development, which had been observed over the recent years. It seems that one of the most important causes was the perception of Russia by a significant proportion of the EU political and business elites as a ‘non-European’ country. There are many parameters for identifying the
‘European character’ of a country and, thus, establishing the boundaries of Europe. These include physical geographical, ethnic and denominational, historical, administrative and governance-related, and other parameters (see, for instance, [6, 7]). However, researchers pay little attention to the perception of Europe by the business community despite the fact that trade and economic relations are a major factor behind the success of the European integration project. In this connection, we propose a new approach to studying the current picture of the world — an analysis of the so called corporate map, whose borders often do not coincide in the conditions of globalisation with those of a political map [8].

For a detailed examination of perception of the European borders by businesspeople, we have chosen the three Baltic States — Estonia, Latvia, and Lithuania. On the one hand, just a quarter century ago, they were part of the Soviet Union and became members of the EU as early as 2004. The most important factor in analysing the watershed between the western and eastern parts of Europe is not the mere fact of incorporation into the USSR in 1940 but rather the long-term status of parts of the Russian Empire and the construction of a socialist economy after World War II (which also holds true for the other Eastern European countries that acceded to the EU in 2004). On the other hand, the special nature of the Baltics’ economic and cultural ties with Sweden, Finland, and Germany determines the duality of their integration in Western Europe — within both the formal EU institutions and the Eurozone, and the informal subregional integration in Northern Europe and the Baltic region [9].

A new analysis method: studies of geographical segments in corporate reporting

The perception of space by businesspeople is reflected in the formal requirements for identifying geographical segments in financial statements, which has been a regular practice in the West since the 1960—70s. Since the late 1970s, research literature have studied geographical segments when analysing the operations of transnational corporations (TNCs), however, it is done mostly from the perspective of financial performance in different regions of the world and the effect of countries’ differences on the financial situation of the company in whole [1]. One of few exceptions is a 1980 work that analyses the geographical segments of 58 TNCs from the USA and 35 TNCs from the UK from the perspective of space division by the business community [2]. It shows that companies identify from three to nine geographical segments based on different parameters, and the borders of these segments can differ significantly. So, US transnational corporations segment Europe into 1) Europe [proper], 2) Europe and the Middle East, 3) Europe and Africa, 4) Eastern hemisphere, 5) Europe and Asia, 6) Europe, Africa, and Middle East. British corporations — since their headquarters are located in Europe — never couple this part of the world with other regions and even divide it in several segments, namely: 1) the UK — Western Europe — other regions (excluding North and South America), 2) the UK — the rest of Europe, 3) the UK — Europe, 4) the UK — Germany — Benelux — other EEC countries — the rest of Europe, 4) the UK — Western Europe — Eastern Europe.
The way businesspeople identify the world regions is important not only for assessing, for instance, the profitability of mature and growing markets. As early as the 1970s, representatives of the Uppsala School on the internationalization process of the firm stressed the importance of the awareness of businesspeople when determining the nature and geographical vectors of the TNC expansion [5]. They proved that the knowledge of international markets often depends on the cultural and linguistic proximity of the regions, commonalities in historical development, and many other non-economic factors. A more detailed study carried out by G. Hofstede revealed how the features of collective behaviour, which are determined by culture (unlike individual and universal characteristics), affect the organisation of firms and their propensity to act aggressively in certain regions [3; 4]. However, the general features of an TNC’s territorial expansion and the concrete geographical preferences of direct investors due to asymmetric awareness are accounted for by not only the differences between the capital receiving countries but also the TNCs’ home countries[10]. In particular, Swedish and German MNCs can identify different neighbouring countries as ‘home market.’

Alongside the geographical segment division presented in financial statements, one can use different reference and presentation materials from the companies’ official websites. TNCs often use a two- or three-tier division of the world — that into the official segments of financial statements and that into regions identified for clients using interactive resources in the Internet. Moreover, they sometimes publish information (for instance, in annual reports) on individual countries or subregional groups. This is especially evident in the case of the Baltics, since they are situated at the boundary of Western/Eastern and Northern/Central Europe, the European integration group and post-Soviet space, etc.

**The Baltics as a site of competitive struggle between TNCs from Russia, Northern, and Western Europe**

According to the statistics from the central banks of Lithuania, Latvia, and Estonia, investors from 16 states have made USD 0.5 billion worth of direct investment in the Baltics (table 1). 15 of these countries are European including non-EU Norway, Russia, and Switzerland. It is worth stressing that Lithuanian and Estonian direct investors are rather active in their regions. However, a certain proportion of foreign direct investment (FDI) uses European countries as a ‘reshipping base,’ this is especially true for Cyprus and Luxembourg. Nevertheless, such investments usually come from Europe, for instance, Russia. One of top-five largest Russian projects in Latvia — the fertiliser and chemical transhipment terminal in Riga constructed in 2013 with the participation of UralChem — received capital from Uralchem Freight Ltd from Cyprus.

Therefore, the Baltics have become a platform of expansion from TNCs from several neighbouring countries. Swedish TNCs are leaders in the volume of foreign investment stock in all three countries. Finnish investors act aggressively in Estonia, whereas Dutch TNCs rank second in Lithuania and Latvia. They are followed by Norwegian, German, and Russian TNCs. Moreover, due to the neighbourhood effect, Polish companies are also rather active in Lithuania.
### Table 1

FDI stock in Lithuania, Latvia, and Estonia as of the end of June 2014

| FDI source country | FDI in Lithuania | FDI in Latvia | FDI in Estonia | FDI in the three countries, million euros |
|--------------------|-----------------|---------------|----------------|------------------------------------------|
|                    | million euros   | %             | million euros  | %                                        |
| Total              | 12 148          | 100.0         | 11 690         | 100.0                                    | 39 558                                   |
| Europe             | 11 538          | 95.0          | 9 831          | 84.1                                     | 36 049                                   |
| Sweden             | 3 086           | 25.4          | 2 539          | 21.7                                     | 9 794                                    |
| Finland            | 606             | 5.0           | 271            | 2.3                                      | 4 282                                    |
| Netherlands        | 1 117           | 9.2           | 954            | 8.2                                      | 3 846                                    |
| Norway             | 778             | 6.4           | 612            | 5.2                                      | 2 107                                    |
| Germany            | 1 043           | 8.6           | 687            | 5.9                                      | 2 050                                    |
| Russia             | 356             | 2.9           | 721            | 6.2                                      | 1 868                                    |
| Cyprus             | 446             | 3.7           | 856            | 7.3                                      | 1 852                                    |
| Denmark            | 502             | 4.1           | 473            | 4.0                                      | 1 350                                    |
| Estonia            | 668             | 5.5           | 538            | 4.6                                      | 1 206                                    |
| Poland             | 1 188           | 9.8           | 4              | 0.0                                      | — 2 107                                  |
| Luxembourg         | 252             | 2.1           | 286            | 2.4                                      | 928                                      |
| UK                 | 221             | 1.8           | 322            | 2.8                                      | 902                                      |
| Lithuania          | —               | —             | 411            | 3.5                                      | 844                                      |
| Switzerland        | 250             | 2.1           | 170            | 1.5                                      | 635                                      |
| France             | 281             | 2.3           | 53             | 0.5                                      | 506                                      |
| Other regions      | 610             | 5.0           | 1 859          | 15.9                                     | 3 509                                    |
| USA                | 176             | 1.4           | 117            | 1.0                                      | 644                                      |

Sources: Foreign Direct Investment in Lithuania by country. URL: http://www.lb.lt/stat_pub/statbrowser.aspx?group=8092&lang=en; FDI data by country tables (stocks). URL: http://statdb.bank.lv/lb/Data.aspx?id=128; Direct investment position in Estonia and abroad by country. URL: http://statistika.eestipank.ee/?lng=en#listMenu/2015/treeMenu/MAKSEBIL_JA_INVPOS/146

It is worth stressing that, for many TNCs from the neighbouring countries, the Baltics’ narrow external market coupled with low protectionist barriers to trade does not provide incentives to establish manufacturing subsidiaries or service branches. This can be seen clearly in the cases of the ten leading (in terms of foreign assets) non-financial TNCs from Russia — only four of them have a subsidiary structure in the Baltics. Only Gazprom and LUKoil have established sales companies in all three countries (table 2). However, for the purposes of our study, the absence of direct investment in the region is not critical in most cases — geographical segments are identified not only for classifying assets but also for analysing revenues. Service companies can even have no product sales in the Baltic, which, in the absence of a single ‘Europe’ segment, can raise questions about the business community’s ideas of the geographical affiliation of Estonia, Latvia, and Lithuania.
Table 2

| Company          | Specialisation         | Foreign assets, million dollars | Considerable assets in the Baltics                                                                                                                                                                                                 |
|------------------|------------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gazprom          | Oil and gas            | 40 128                          | 37% of Lietuvos dujos and 37% of Amber Grid in Lithuania, 34% Latvijas Gāze in Latvia, 37% of Eesti Gaas and 37% of Vorguteenus Valdus in Estonia                                                                                           |
| Vimpelcom        | Telecommunications     | 36 948                          | —                                                                                              |                                                                                                         |
| LUKoil           | Oil and gas            | 32 640                          | Subsidiaries controlling petrol station chains Lithuania, Latvia, and Estonia                                                                                                                                            |
| Evraz            | Ferrous metallurgy     | 8 715                           | —                                                                                              |                                                                                                         |
| Rosneft          | Oil and gas            | 8 399                           | Itera Latvija (Gazprom’s junior partner in Latvia and Estonia)                                                                                                                                                    |
| Sovcomflot       | Transport              | 5 293                           | —                                                                                              |                                                                                                         |
| Severstal        | Steel industry         | 4 784                           | 50.5% of Severstallat in Latvia                                                                                                                               |                                                                                                         |
| RUSAL            | Non-ferrous metal industry | 3 655                       | —                                                                                              |                                                                                                         |
| Russian Railways | Transport              | 3 222                           | —                                                                                              |                                                                                                         |
| Sistema          | Conglomerate           | 2 966                           | —                                                                                              |                                                                                                         |

Source: compiled by the author based on corporate reports

Therefore, we focus on studying the leading companies from five EU countries (three Nordic, one Dutch, and one German), as well as Norway and Russia, which — unlike TNCs from other European states — are not only very active in making foreign investment in the Baltics, but, in most cases, also sell their products and services in the region.

Geographical affiliation of the Baltics

The ranking of European companies is based on their market capitalisation (table 3). Firstly, this is a universal method for comparing non-financial and financial companies. Secondly, as elements of the stakeholder model of capitalism and exchange of shares for FDI become a common practice, the dependence between a company’s market capitalisation and its potential to become a leading TNC increases [11]. According to the Financial Times, the top ten European companies in terms of market capitalisation did not include any companies from our list (table 4). This comparison makes it important to analyse the geographical affiliation of the Baltics used by Swiss, British, French, and Belgian companies.
### Table 3

The position of the Baltics in the geographical segments of 50 leading companies from Sweden, Finland, the Netherlands, Norway, Germany, Russia, and Denmark according to market capitalisation (as of March 31, 2014)

| Company          | Capitalisation, billion dollars | Country  | Industry                  | The geographical segment or informal region including the Baltics* |
|------------------|--------------------------------|----------|----------------------------|---------------------------------------------------------------|
| Volkswagen       | 119.2                          | Germany  | Automobile manufacturing  | Europe without Germany                                         |
| Unilever         | 118.8                          | Netherlands | Food industry   | Europe (without CIS)                                           |
| Siemens          | 118.6                          | Germany  | Engineering              | Europe, CIS, Africa and the Middle East (sometimes without Germany) / Finland and the Baltics |
| Bayer            | 112.1                          | Germany  | Chemical industry        | Other countries (without Germany, USA and China) / Europe       |
| BASF             | 102.1                          | Germany  | Chemical industry        | Europe without Germany                                          |
| Daimler          | 101.6                          | Germany  | Automobile manufacturing | Other countries (without Western Europe, Asia and America) / Eastern Europe (including Turkey) |
| Novo Nordisk     | 100.8                          | Denmark  | Pharmaceuticals          | Europe (EU, EFTA, and Western Balkans)                          |
| SAP              | 99.6                           | Germany  | IT                        | Europe, the Middle East, and Africa (sometimes without Germany and France) |
| Gazprom          | 91.3                           | Russia   | Oil and gas               | Foreign countries / former USSR without Russia                  |
| Statoil          | 90.0                           | Norway   | Oil and gas               | Eurasia without Norway / Europe without Norway / world without Norway, Sweden, Denmark, and the USA |
| BMW              | 81.2                           | Germany  | Automobile manufacturing | Europe without Germany / CEE                                    |
| Allianz          | 77.5                           | Germany  | Insurance                 | Other European countries without the five leading Western European countries and Switzerland / CEE / growing markets (including identification of linguistic areas in Western Europe) |
| Deutsche Telekom | 72.2                           | Germany  | Mobile telephony          | Europe without Germany / EU without Germany                      |
| Rosneft          | 70.7                           | Russia   | Oil and gas               | Non-CIS countries — Europe                                     |
| Hennes & Mauritz | 62.2                           | Sweden   | Trade                     | Europe / individual information on Estonia, Latvia, and Lithuania |
| Company            | Market Cap | Country     | Sector                        | Region                          |
|--------------------|------------|-------------|-------------------------------|--------------------------------|
| Nordea Bank        | 57.3       | Sweden      | Banking                       | The Baltics                     |
| ING                | 54.4       | Netherlands | Insurance                     | Europe without the Netherlands, and Belgium (sometimes including Germany) |
| Sberbank           | 53.4       | Russia      | Banking                       | CEE                            |
| AP Moller-Maersk   | 51.7       | Denmark     | Transport and communications  | Europe                          |
| Continental        | 48.2       | Germany     | Tyre manufacturing            | Europe (sometimes without Germany, including Turkey) |
| LUKoil             | 47.4       | Russia      | Oil and gas                   | Foreign countries / the Baltics (as opposed to Europe and the CIS countries) |
| Deutsche Bank      | 45.8       | Germany     | Banking                       | Europe / Eastern Europe         |
| Henkel             | 45.5       | Germany     | Chemical industry             | Europe (including Turkey) or growing markets / Eastern Europe |
| Deutsche Post      | 45.2       | Germany     | Transport and communications  | Europe without Germany         |
| Ericsson           | 43.8       | Sweden      | Engineering                   | Other countries (without Sweden and USA) / Northern Europe and Central Asia (including Russia, but Poland and Belarus are classified as Western and Central European countries) |
| Asml Holding       | 41.4       | Netherlands | Electronics                   | Europe without the Netherlands  |
| Heineken           | 40.1       | Netherlands | Brewing                       | CEE                            |
| Munich Re          | 39.3       | Germany     | Insurance                     | Europe                          |
| E. On              | 39.0       | Germany     | Electricity generation and distribution | EU without Germany (sometimes without some other countries) |
| Linde              | 37.2       | Germany     | Chemical industry             | Europe, the Middle East and Africa / Europe (including Turkey) or, for the gas segment, Continental and Northern Europe (without the UK but with Algeria) — for Estonia a and Latvia, the Middle East and Eastern Europe — for Lithuania |
| Atlas Copco        | 34.8       | Sweden      | Engineering                   | Europe                          |
| Volvo              | 33.9       | Sweden      | Automobile manufacturing      | Europe / Europe without Sweden and France |
| Telenor            | 33.6       | Norway      | Mobile telephony              | A region at the border of the Northern and Central Europe, no subsidiaries |
| Reed Elsevier      | 33.5       | Netherlands | Publishing                    | Europe / Europe without the UK and the Netherlands |
| Philips Electronics| 33.0       | Netherlands | Electronics                   | Growing markets                 |
| Company            | Capitalisation, billion dollars | Country | Industry               | The geographical segment or informal region including the Baltics* |
|-------------------|--------------------------------|---------|------------------------|------------------------------------------------------------------|
| TeliaSonera       | 32.6                           | Sweden  | Mobile telephony       | The Baltics                                                      |
| Surgutneftegaz    | 31.9                           | Russia  | Oil and gas            | Export markets                                                   |
| Svenska Handelsbanken | 31.3           | Sweden  | Banking                | Other European countries (without Sweden, Norway, Finland, Denmark, the UK and the Netherlands) |
| NOVATEK           | 30.3                           | Russia  | Oil and gas            | Europe without Russia                                            |
| Swedbank          | 30.3                           | Sweden  | Banking                | Home markets (Sweden, Estonia, Latvia and Lithuania)             |
| SEB                | 29.7                           | Sweden  | Banking                | The Baltics (and individually for each countries)                |
| Sampo             | 29.0                           | Finland | Insurance              | The Baltics (sometimes individually for each countries)         |
| DNB                | 28.3                           | Norway  | Banking                | Europe without Norway / Eastern Europe / the Baltics and Poland (sometimes individually for each countries) |
| Danske Bank       | 28.2                           | Denmark | Banking                | Countries are considered individually, sometimes the Baltics are classified as ‘others’ |
| Nokia             | 27.8                           | Finland | Electronics            | Europe                                                           |
| Investor          | 27.5                           | Sweden  | Financial services     | Only two countries are considered (Sweden and Denmark)           |
| ArcelorMittal     | 26.8                           | Netherlands | Ferrous metallurgy     | Europe                                                           |
| Norilsk Nickel    | 26.4                           | Russia  | Non-ferrous metal industry | Europe without CIS                                            |
| Beiersdorf        | 24.6                           | Germany | Chemical industry      | Europe (including Turkey)                                       |
| RWE               | 24.5                           | Germany | Electricity generation and distribution | CEE                                                          |

* Some TNCs do not have subsidiaries in the Baltics. If they do not supply the products to the region, the geographical segment is identified based on the neighbouring countries. If not specified otherwise, the ‘Europe’ and ‘Eastern Europe’ segments include Russia.

Sources: corporate reports; FT Europe 500 2014. URL: http://im.ft-static.com/content/images/6fb64d7a-fded-11e3-bd0e-00144feab7de.xls
Table 4

The position of the Baltics in the geographical segments of top ten companies from other European countries in terms of market capitalisation (as of March 31, 2014.)

| Company            | Capitalisation, billion dollars | Country | Industry       | The geographical segment or informal region including the Baltics* |
|--------------------|--------------------------------|---------|----------------|---------------------------------------------------------------------|
| Roche              | 258.5                          | Switzerland | Pharmaceuticals | Europe / EU                                                         |
| Nestle             | 243.0                          | Switzerland | Food industry  | Europe / other countries                                             |
| Shell              | 239.0                          | UK       | Oil and gas    | Europe                                                              |
| Novartis           | 230.0                          | Switzerland | Pharmaceuticals | Europe / other countries                                             |
| HSBC               | 191.3                          | UK       | Banking        | Other countries                                                     |
| Anheuser-Busch InBev | 168.6                        | Belgium | Brewing        | CEE (since 2014, Europe, including Russia and Ukraine)             |
| Total              | 156.0                          | France   | Oil and gas    | Europe and CIS                                                      |
| BP                 | 147.8                          | UK       | Oil and gas    | Europe without the UK                                               |
| Sanofi             | 138.1                          | France   | Pharmaceuticals | Europe / developing countries (i.e. those outside Western Europe) |
| GlaxoSmithKline    | 128.9                          | UK       | Pharmaceuticals | Europe / other countries                                             |

Sources: corporate reports; FT Europe 500 2014. URL: http://im.ft-static.com/content/images/6fb64d7a-fded-11e3-bd0e-00144feab7de.xls

In most cases, Estonia, Latvia, and Lithuania comprise the region of ‘Europe,’ which often (but not always, see Unilever) includes the CIS countries and even Turkey. However, some companies interpret Europe as the EU and EFTA countries and the Western Balkans. The German companies Deutsche Telekom and E. On consider only EU countries as the European geographical segment.

In the case of Rosneft, the segmentation of Europe and the CIS is based on the traditional division in the CIS and non-CIS. Sometimes, the headquarters country (for instance, Germany or the Netherlands) constitutes an individual (‘home’) market. In some cases, other significant countries are also considered separately.

Some TNCs focus on regions larger than Europe. Siemens couple Europe with the CIS, Africa and the Middle East. Other German TNCs (SAP and Linde) call a similar region ‘Europe, the Middle East, and Africa’. Norway’s Statoil considers Eurasia as a geographical segment.

If a company focuses on large geographical segments, some information can be given on a subregional area including Estonia, Latvia, and Lithuania (this holds true for German firms). For Siemens, it is Finland and the Baltics, for Daimler, Deutsche Bank, and Henkel, East Europe, for BMW and Allianz, Central and Eastern Europe (CEE). Alongside ‘Europe without Nor-
way,’ the Norwegian bank DNB identifies the region of ‘East Europe’ and — as part of this region — the Baltics and Poland. The Swedish company Hennes & Mauritz presents individual information on the three Baltic countries.

In some cases, the Eastern European subregions incorporating Latvia, Lithuania, and Estonia can constitute independent geographical segments. For instance, the ‘Baltics’ segment is identified by the Swedish companies Nordea Bank, TeliaSonera, and SEB, the Russian oil giant LUKoil, and the Finnish company Sampo. Central and Eastern Europe constitute an independent geographical segment for Russia’s Sberbank, the Netherlands’ Heineken, and Germany’s RWE.

However, several companies demonstrate atypical segmentation. For instance, Gazprom classifies the Baltics not as Europe, but as former USSR, which is accounted for by the particularities of the gas transportation system inherited from the Soviet Union (despite the EU reforms suggested by the Third Energy Package, which have already affected Gazprom’s business in Lithuania and Estonia). Sweden’s Ericsson classifies the Baltics under Northern Europe and Central Asia rather than Central or Western Europe. This relates to the broader perception of ‘home market’ by a number of Swedish companies. Swedbank includes Estonia, Latvia, and Lithuania, as well as Sweden, in the segment entitled ‘home market.’ On the contrary, Svenska Handelsbanken classifies the Baltics under ‘other European countries,’ since the bank expanded from the Nordic countries into the UK.

The Dutch company Philips Electronics classifies the Baltics under growing markets. This pattern is also used by Germany’s Henkel. The inclusion of Estonia, Latvia, and Lithuania in the group of ‘other’ or developing countries is more characteristic of the states situated at more significant distances from the Baltic region (table 4), however, most TNCs admit the European nature of the three Baltic states. The most ‘exotic’ segments are identified by Germany’s oil and gas company Linde, which does not consider Europe as a whole region for a number of its operations: Estonia and Latvia with, for example, Algeria can be classified under Continental and Northern Europe, whereas Lithuania is included in the group of the Middle East and Eastern European countries.

Therefore, this study stresses differences in the perception of the borders of Europe and its subregions by European investors. They are only partially accounted for by the company’s ‘nationality’: Swedish firms often consider the Baltics an extension of Northern Europe, whereas Russian TNCs tend to distinguish between the CIS and EU include Estonia, Latvia, and Lithuania in the either segment quite arbitrarily. The identified differences in the perception of Europe by TNCs, including those operating in different industries, seem to affect the position of European businesspeople on solving the problems in the EU-Russia relations, which requires further research as the war of sanctions rages on.

This article, prepared at the Institute of World Economy and International Relations of the Russian Academy of Sciences, was supported by a grant from the Russian Science Foundation (project No. 14-28-00097 “The optimisation of Russian external investment ties in the conditions of deteriorating relations with the EU”).
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