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Swedish Foreign Direct Investments in Countries Transitioning into Stabilisation

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ABSTRACT

Title: Swedish Foreign Direct Investments in Countries Transitioning into Stabilisation

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Key Words: FDI, OLI-framework, Horizontal FDI, Vertical FDI, SAA, Serbia, Market-Seeking, Resource-Seeking, and Efficiency-Seeking.

Purpose: The purpose of this thesis is to describe and analyse *how* and *why* Swedish companies choose to enter a country transitioning into stabilisation.

Methodology: With a qualitative, abductive approach the thesis aims at an analytical generalisation. The explorative nature of the paper is made with a multi-case study. The empirical data was generated by interviews. The theoretical framework is the foundation, which the authors aimed at extending.

Conclusion: From the analysis two modified models of the existing theories could be formed. The first links various entry strategies flexibly to each other, instead of the existing, rigid model. It was concluded that the most appropriate entry mode is through Greenfield investments. The second modified model is the prominent OLI-framework, which was extended with an additional aspect, Network of Contacts.

Dictionary:

Efficiency-seeking: Rationalising productions through low-cost inputs or through possibilities to higher returns.

Emerging markets: Countries with good prospects for growth. Emerging markets often occur in developing countries.

Foreign Direct Investment (FDI): An FDI is considered to arise when a company receives such a huge influence on a foreign company that it actually can affect the activities of the foreign company. In practice, it is defined as an ownership of at least 10 percent of the share capital.

Greenfield Investment: A company starting a new venture in a foreign country from the ground-up, for instance starting up a subsidiary.

Horizontal FDI: Foreign direct investments made by a firm to establish manufacturing facilities in multiple countries, all producing essentially the same thing but for their respective domestic or nearby markets.

Human Capital: The accumulated skill, knowledge and expertise of workers.

Market-seeking: Finding new markets to exploit.

Multinational Enterprises (MNE) Corporation or enterprise that manages production or deliver services in more than one country.

Resource-seeking: Finding certain resources, such as raw materials but also cheap/skilled labour.

Transitioning countries: Countries transitioning from planned to market economies.

Vertical FDI: Foreign direct investments made by a firm to establish manufacturing facilities in multiple countries, each producing a different input to, or stage of, the firm's production process.

1. INTRODUCTION	6
1.1 BACKGROUND	6
1.2 PROBLEM DISCUSSION	7
1.2.3 Purpose	10
1.2.4 Outline.....	10
2. METHODOLOGY	11
2.1 RESEARCH METHODOLOGY AND APPROACH.....	11
2.2.1 Qualitative Methodology.....	11
2.2.2 Abductive Approach	12
2.3 THEORETICAL FRAMEWORK	12
2.4 COLLECTION OF EMPIRICAL DATA	13
2.4.1 Choice of Country.....	13
2.4.2 Choice of Companies.....	14
2.4.3 Choice of Respondents	15
2.4.4 Interviewing Process.....	15
2.4.4 Other Sources of Information	16
2.5 ANALYTICAL FRAMEWORK	16
2.6 RESEARCH EVALUATION.....	16
2.6.1 Validity and Reliability.....	17
2.6.2 Criticism of Sources	18
3. THEORETICAL FRAMEWORK.....	19
3.1 INTRODUCTION	19
3.2 TYPES OF FDI AND MODES OF ENTRY	19
3.2.1 Vertical FDI.....	20
3.2.2 Horizontal FDI	20
3.2.3 Knowledge Capital Model	21
3.3 OLI-FRAMEWORK	21
3.3.1 Ownership Specific Advantages	22
3.3.2 Location Specific Advantages.....	24
3.3.3 Internalisation Specific Advantages.....	24
3.3.4 Other Implications.....	25
3.4 TRANSITIONING INTO STABILISATION	25
4. THE REPUBLIC OF SERBIA.....	28
4.1 THE REPUBLIC OF SERBIA	28
5. EMPIRICAL FINDINGS AND ANALYSIS.....	30
5.1 ENTRY STRATEGIES.....	30
5.2 ENTRY MOTIVES	32

5.2.1 Ownership.....	32
5.2.2 Location.....	33
5.2.3 Internalisation.....	37
5.3 DISCUSSION	38
5.3.1 Summarising the Entry Strategies	38
5.3.2 Summarising the Entry Motives.....	42
6. CONCLUSION AND FURTHER RESEARCH.....	46
6.1 LIMITATIONS OF THE CONCLUSIONS	46
6.2 NATURE OF INVESTMENT	46
6.3 ENTRY MODE	48
6.4 TRIGGERS.....	48
6.5 FURTHER RESEARCH.....	49
7. SOURCES.....	50
7.1 ELECTRONIC SOURCES:.....	50
7.2 PUBLISHED SOURCES	50
7.3 ORAL SOURCE	52
EXHIBIT 1	53
EXHIBIT 2	54

1. Introduction

In the following chapter the background of the thesis and an introduction to the topic are presented. Further, the purpose and the structure of the thesis, with a short description of all the chapters, are introduced.

1.1 Background

Globalisation is driven by technological progresses and new economic relationships, both national and international as well as public and private. Companies have the possibility to expand their businesses through different types of investments, both locally and globally. Along with globalisation comes the opportunity to locate both production and business in foreign countries, which is called Foreign Direct Investments (FDI). Foreign capital inflow is an important factor in the globalisation process and has improved the economic movements over country boundaries. As a result of the globalisation, Foreign Direct Investments have increased during the last decade. (European Commission 1)

There are many reasons for this growth. In order to obtain higher profits and lower costs, companies want to take advantages of the different factor endowments in different countries. The declining trade barriers, the shift towards democratic political institutions, free market economies, and the improved communication, information, and transportation technologies make it possible for companies to look at the whole world as its market place. (U.S. Department of State, 2008)

Since it has been proven that the European Union (EU) does contribute to growth in investments, an integrated strategy has been developed with a view to convene EUs internal and external policies such as development and enlargement (Kerscan-Skabic and Orlic, 2007). After the accession of Bulgaria and Romania 2007 the European Union is now preparing for the next phase of enlargement. (European Commission 2)

The potential candidate countries for the time being are the so-called West-Balkan countries: Albania, Bosnia-Herzegovina, Croatia, Kosovo, FYRO Macedonia, Serbia, and Montenegro. The West Balkan is part of a transitioning region and has since the mid -90s experienced a period of high growth and has undergone fundamental changes. (East Capital, 2009) These countries signed an agreement with the European Union in 2008, called the Stabilisation- and Association Agreement (SAA). This is part of a process with the aim of stabilising the countries, promoting regional cooperation, and with the vision of a membership of the EU. The process will help the countries enhance their capacity to adopt and implement EU law as well as European and international standards. (European Commission 2)

Swedish Foreign Direct Investments have increased during the last decade by more than 100 percent and have mainly consisted of equity capital and reinvested earnings. The majority of these investments have been made within the European Union and in OECD countries with a concentration in highly industrialised areas such as Belgium, Norway and the United States. However, there has been a notable increase in Foreign Direct Investments in developing countries such as India and China. (SCB, 2008)

1.2 Problem Discussion

There are two types of FDI, horizontal and vertical, for which there are different motives. Horizontal FDI is a market-seeking foreign investment, where a company operates within the same industry as in its domestic country, but opens a new facility to broaden its market. Vertical investments refer to efficiency-seeking investments. (Markusen and Maskus 2002) Emerging markets are attractive due to the variables that decrease production costs, such as lower wage levels, but there are also opportunities to reap benefits from first-mover advantages. Kersan-Skabic and Orlic (2007) found that FDI inflows in West Balkan countries are influenced by wage levels, privatisation (private sector share), level of corruption, and the signing of agreements with the EU. They also state that factors such low wages (efficiency-seeking investments) have been the dominate motives in comparison to the size of markets (market-seeking investments).

However, emerging markets are also connected with greater uncertainty and risk levels, which are factors affecting location decisions and forms of investments. Hakkala, Norbäck and

Svaleryd (2008) found in their study about Swedish Multinational Enterprises (MNE) evidence that corruption can affect horizontal and vertical FDI differently. Horizontal FDI tended to be more exposed to corruption and suffer from the costs of it. But, the study also found that firms with greater bargaining power, such as R&D intensive firms, have lesser costs from corruption. There is a tendency of corruption not affecting the size of the investment once a company has chosen to proceed with an FDI, but it does however negatively affect the decision to invest in a certain country. On the other hand, the research of Aizenmans and Marions (2004) showed that horizontal production has lower exposure to sovereign risk compared to a vertical production structure. When engaging in different types of FDI the investors have to consider various kinds of risk. Desbordes (2007) found that market-seeking FDI are not discouraged by political and macroeconomic uncertainty, which he explained through the risk reduction that comes from geographic diversification.

When investing in a foreign country, there are different entry modes to choose among: Greenfield investments, Mergers & Acquisitions (M&A) of local companies, Joint Venture with local actors and exports from the home country. Raff, Ryan and Stähler (2009) discovered that the profitability of potential Greenfield investments influences the choice of entry mode, as they found a pattern showing a pecking order. They saw that, if Greenfield investments are viable and the others involved sufficiently low fixed costs, then the MNE would prefer a Joint Venture before M&A and M&A before Greenfield investment. Hakkala et al (2008) found that companies investing in countries characterised with corruption prefer a Joint Venture with local actor, since this partner may help reduce problems related to corruption.

Kersan-Skabic and Orlic (2007) and Markusen et al (2001) note that the choice between vertical and horizontal production structures depends on country characteristics, such as the relative size and endowment differences, in addition to trade and investment costs. After the parent company has established what type of foreign investment is suitable, it needs to decide how to enter. Greenfield Investment involves a parent company building new operational facilities from the ground up. M&A on the other hand is taking over an existing foreign firm, but this type of investment often involves capacity building. (Lahiri, 2009)

There has been an extensive amount of research made about Foreign Direct Investments. The

research has been made with a quantitative focus, aimed at discovering patterns in investment behaviours on emerging markets in order to generalise certain investment motives. Further the research has mainly been focused on either emerging markets in developing countries or on developed markets in industrialised countries. There is a lack of studies regarding attraction to markets in countries transitioning into stabilisation. This is an unexplored area, which would be interesting to research further. The investment motives in these countries have earlier been dominated by the aspiration for cheap labour. Our impression after obtaining knowledge from previous research is that the Balkan countries have been reduced to provide cheap labour for capital-intensive companies. As the countries on Balkan now are in a phase of stabilisation and are being potential candidates for a membership of the European Union, the standards in these countries are also improving. The aim of this study is to research whether other motives than cheap labour have been viable.

The few studies of investments in countries transitioning into stabilisation have been made out of a U.S perspective. Swedish companies are now investing globally and are looking for emerging markets to rationalise productions. Hence, it is interesting analysing the reasons for Swedish firms entering a market in a stabilising country. With political and economic stabilisation an increase in production costs often occur, and the advantage of cheap labour is fading. What is the nature of the investments, are they efficiency-seeking or market-seeking? Has the potential accession to the European Union been a viable motive? We also look into what kind of company makes these investments and if the company has chosen to enter with Greenfield investments or through M&A and Joint Ventures, or through export. This is to see if there is a connection between entry strategies and entry motives with the investments.

This could be outlined into the following problem formulation:

- What motivates Swedish companies to engage in Foreign Direct Investments in a country transitioning into stabilisation?

- What is the nature of the investments?
- What entry mode do they choose?
- What was the trigger to invest?

1.2.3 Purpose

The purpose of this thesis is to describe and analyse *how* and *why* Swedish companies choose to enter a country transitioning into stabilisation.

1.2.4 Outline

Chapter 1

This chapter introduces the subject and the gap in earlier research. Further, the problem discussion and the purpose of the thesis as well as the research questions are explained. The expected contribution to the subject is described and the aim is to catch the readers' attention.

Chapter 2

In this section the working process is presented. The methodology is described and the choices made during the process are motivated.

Chapter 3

In this chapter models and theories in the field of Foreign Direct Investments are described, as well as a discussion of definitions. This framework will improve the understanding of the subject and help the authors proceeding with the study.

Chapter 4

Chapter 4 presents background information about the Republic of Serbia.

Chapter 5

This chapter the empirical findings are codified and analysed. The authors have tried to extend the theoretical framework and incorporated this with the findings of transitioning into stabilisation.

Chapter 6

In this chapter the thesis is concluded, by presenting the extended model formed in the analysis.

2. Methodology

This chapter will explain the methods used for gathering data. The various tools that have led to the analysis and result are presented. Interviews with companies were conducted in addition to collection of secondary data; hence, the purpose of the thesis could be fulfilled. The choice of empirical focus as well as the choice of theoretical framework is discussed. An evaluation of the data is also conducted.

2.1 Research Methodology and Approach

The goal with this study was not to find an absolute truth in our contribution to the theory of investment behaviour regarding FDI; we aimed at creating meaning and cohesion in our findings to develop the existing theoretical framework as guidance in how companies may reason when choosing investment location. We did not aim at finding empirical proof or statistically prove a hypothesis, but to extend the existing theoretical framework and to incorporate our findings. We rather aspire for an analytical generalisation. This is when the empirical results are compared to previous developed theories. (Yin, 2004)

Since our knowledge about motives for Foreign Direct Investments was very limited at the beginning of the working process, an explorative research of the study was conducted. The starting process consisted of obtaining as much knowledge as possible about the specific problem. Literature reviews as well as interviews became important elements of our explorative study. (Patel and Davidsson, 1994) The explorative design is often conducted with a multi-case study, since it is recommended when the boundaries and the phenomena are not completely clear. Hence, the design we have chosen is the multi-case study approach. (Yin, 2004)

2.2.1 Qualitative Methodology

At the starting point we distinguish two different methodological approaches, quantitative and qualitative. As mentioned earlier, there has been a quantitative focus on earlier research. The

aim has been to discover patterns in investments behaviours, in order to generalise certain investment motives. Since we wish to obtain a deeper understanding about firm specific motives for making investments in a country transitioning into stabilisation, we have chosen a qualitative approach. (Holme & Solvang, 2000)

2.2.2 Abductive Approach

In any scientific work the central desire is to develop a consistent improved understanding of the phenomena worked with. At the starting point of this thesis, the aim was to obtain an understanding about how companies reflect regarding investing in a country transitioning into stabilisation and from this make a contribution to the theoretical framework. This methodology is what the literature calls induction. However, as the process began a theoretical base was needed, in order to obtain an insight of the topic, which is more of a deductive nature. (Bryman & Bell, 2003) Along the process we alternated between the empirical data and the theoretical framework, which made our approach into a mixture of these two approaches. This is what Wallén (1996) calls an abductive approach. The upside with this approach is the flexibility.

2.3 Theoretical Framework

The purpose of this thesis is to extend the existing theoretical framework for Foreign Direct Investments in countries transitioning into stabilisation. In order to obtain a basic knowledge about the phenomenon, we began with studying existing theories and what other researchers already have discovered and. Efforts were also put gathering information of FDI both in corrupt countries as well as in developed countries to be able to find a suitable theoretical framework for countries in transitioning into stabilisation.

Frameworks identify relevant variables and basic questions that needed to be answered. Using theoretical framework instead of a theoretical model makes the study less vulnerable. The OLI-framework, which is presented in the next chapter, is by far the most used theory when it comes to Foreign Direct Investments. A majority of the existing research has used this framework, which indicates its functionality and validity. However, this could also be seen as something less innovative, using a well functioning existing theoretical framework. To be

able to add new aspects and also describe the ways companies may enter, we believed it was of importance to also combine the OLI-framework with theories about horizontal- and vertical FDI. Finally, we also saw the need to describe earlier research about what we define as “transitioning into stabilisation”.

2.4 Collection of Empirical Data

For this empirical study we have collected data that will help us illuminate our problem formulation. The first phase of our study was concentrated with getting to know the current market situations and trends regarding Swedish Foreign Direct Investments; we researched both interesting markets and current actors. Subsequently we decided upon focus area, companies, respondents, and data collection methodology. The empirical findings are derived both from primary and secondary data.

2.4.1 Choice of Country

The history of Balkan is known for wars since the ancient times with invasions, clashes between empires, and lately with the last war during Milosevic’s dictatorship. (U.S. Department of State, 2008) Economic growth in the region has previously been blocked by these conflicts, but has accelerated as a result of increased investment rate and the European integration. (East Capital, 2009) Balkan is located at the major crossroads between Europe and the Middle East, which is of importance for economic development. (U.S. Department of State, 2008)

To use the entire Balkan region as focus area seemed to be a rather difficult task and would be of a more extended nature than there was room for in this thesis. Hence, the decision to focus on only one country was made. Since, we already had a close contact in Serbia, this country was chosen. The trade barriers have lately declined and Serbia is opening up to trade and also to foreign investors. This is in line with southeastern Europe being the region with the highest growth rate in Europe. Serbia is the only country outside the former Soviet Republic that has a free trade agreement with Russia, providing access to another market of 150 million people. At the same time, the increased trade with EU and USA is an additional incentive for investors, as they can freely export to these markets. (SIEPA)

All of the above described shows a country transitioning into stabilisation. It is still not a stable and developed country, but has lately shown interest in joining in and trying to keep up with western countries. Serbia is currently under a magnifying glass from the European Union. If the country will follow the current president Tadic's EU-friendly approach and try to become a member of the European Union, the country has to open up for investors. On the other, this can change if the population will not vote for the Democratic Party with Tadic in the front. The openness to EU can have a drastic change. (U.S. Department of State, 2008)

Still, the signed agreement shows that the door currently is open for the European Union. The turbulent past politics in Serbia still affect the possibilities to invest in the country. This is the reason why Serbia is our tool for analysing the purpose.

2.4.2 Choice of Companies

One of the main issues of a case study is to choose the number of cases that should be included in the study. Our choice is in accordance to Yin's (2004) recommendation, which is a multi-case study. By studying more than one case the vulnerability of the study is diminishing. When using this approach it is important how the cases are chosen. All of the cases should contribute to the analysis. (Yin 2004)

To find potential objects to study, we contacted the Swedish trade council in Serbia. They provided us with a list of the 64 Swedish companies active in Serbia; not all currently having Swedish owners, but strong connections to Sweden. The establishment of contacts originated through email, sent out to all companies, describing the nature and the purpose of this thesis and why we would like to get in touch with the company in question. We came in contact with 6 companies and due to the time limitation, since the respondents of the company were busy; the interviews consisted of four companies. Those were also picked regardless type of organisation.

We define Swedish companies as firms having a strong connection to Sweden. The companies do not necessarily have Swedish owners, but should have been founded in Sweden.

2.4.3 Choice of Respondents

The respondents were chosen due to their relations with the activities in Serbia. Ulf Bowallius, Christer Liljegren, and Pera Tudt are the founders of their companies, which made them suitable as respondents. Wilhelm Tham is the sales manager for Eastern Europe at Getinge AB, which indicates that he is the one working closest to the market and at the same time seeing the situation from a Swedish perspective.

When the respondents were chosen we considered the importance of interviewing people in the management, since they have better knowledge about the investment process in the company. It was also of importance to talk to persons that are involved in the activities in Serbia.

We experienced that we created a good relationship with a majority of the selected respondents, which is of importance when performing an interview study (Lundahl & Skärvad, 1999). The interview where we accomplish to create a good relationship with the respondent turned out to be more informative. The spontaneity varied depending on whom we got in contact with. We felt it was some difference to talk with a sales manager in contrast to interviewing the founder of a company. A bias could have been possible due to the relation one of the authors has to one of the respondents.

2.4.4 Interviewing Process

We realised interviews in order to understand and analyse the purpose from the respondents' point of view. The individual respondents were the most important source of data, since it angles their motives and behaviours, which in our study represents the companies. Jacobsen (2002) calls this individualism. We uncover the respondents' world with scientific explanations. We performed the interviews semi-structured and semi-standardised, which is the most common way when making a qualitative study (Kvale & Brinkmann, 2009). Semi-structured interviews suited our choice of using a dynamic approach. It is an advantage to perform spontaneous interviews, since it is more likely to get lively and unexpected answers. It gave us the opportunity to obtain personal insights of the respondents and also the possibility to adapt the questions after their background and preferences. (Kvale & Brinkmann, 2009)

To get the best interview structure we took advantage of the good contact with one of the respondents by having a spontaneous interview. From this first interview, we could see which questions were good and which ones could be improved.

We made telephone interviews over Skype with a few standard questions (Exhibit 1) we wanted to explore and took different directions depending on what answers we got from the respondent. The structure of the interview was designed based on the OLI-framework and the theories about horizontal and vertical FDI. Our goal was to generate an extension of the existing theories with an adoption to countries transitioning into stabilisation.

2.4.4 Other Sources of Information

Secondary data is the documented information about Foreign Direct Investments. This is a minor part of our research, as it only constituted the base for our problem discussion and methodology selection. Our secondary data consists of information about Balkan, EU enlargement, Serbia, and Swedish FDI.

2.5 Analytical Framework

The transcribed empirical data has been codified and structured according to the OLI-framework and the entry mode strategies, which will be the framework for the analysis. The analysis has been made out of the perspective of the respondents, representing the companies, with an interpretative approach. It has, however, been important to make an effort to understand the subjective reality of the respondents. How do they interpret the reality, what motives and intentions do they have? From this viewpoint their subjective logic could be studied, in order to create meaning and cohesion among the data. We aimed at analysing consistencies and discrepancies between empirical data and existing theories. (Lundahl & Skärvad, 1999)

2.6 Research Evaluation

After the study was performed it was vital to evaluate how the methodology functioned. Did it

work? Below we discuss the credibility of our study. Even though the reliability and the validity are not as vital as in quantitative studies, it has become more accepted in the qualitative branch. We will consider this matter because we see it as an important factor for the study's credibility. (Svenning, 1994)

2.6.1 Validity and Reliability

The choice of a qualitative thesis makes it easier to achieve higher validity, especially the logical validity. It is not as wide information to process, in that way the credibility is easier to handle and connect the empirical data with the theoretical framework. The contractual validity is not of that much of importance, as we did not aim at constructing a statistical generalisation. Reliability refers to what extent research findings can be replicated. The question if the instrument used in the study is reliable and does it generate reliable results. The reliability in a qualitative study is not reasoning to the same extent as in a quantitative study. A qualitative study is more illustrative than generating and the requirements are therefore not as hard. (Svenning, 1994)

The errors that may occur in our interviews and could jeopardise the reliability could be interviewer effects, such as standardisation of the interview situation and problems of interpretation. In order to reduce these problems, the interviews were performed using Skype. This enabled us to easily record all the interviews so we could listen them several times. This could improve the reliability of the interviews because it was possible to repeatedly hear how we asked the questions and how the respondents answered. (Kvale & Brinkmann, 2009)

Our own ability to communicate the valid information is of significant importance because of the qualitative method. The more detailed the information is the more credible the analysis get. It can be hard to overview the methodology if our approach is not completely clear. To overcome this matter, we have stated the introduction and the purpose in a way where a clear problem is set up and a gap in earlier research is shown. Our main goal with the thesis is to explore motives and strategies for investing in a country on its way to become politically stable.

After the problem was designed, the purpose stated and the theoretical framework was chosen we selected a proper way to select data; we performed interviews to collect the primary data, which we later on based our analysis on.

To be able to increase the credibility of the primary data, in this case the interviews, it is of importance to mention the companies and the respondents' names, then the credibility increases. After compiled the interviews we sent the transcripts for approval to the respondents'. In that way we made sure that we did not misunderstand the information we obtained. Individuals can and do perceive what happens around them differently. In this study this matter can create ambiguity.

2.6.2 Criticism of Sources

The criticism our interviews refer to is tendency criticism, which includes the supplier of the information. The respondent could consciously or unconsciously, just to keep the company in good light, angle the information about the company and leave out sensitive but maybe important information like failure and difficulties. (Eriksson & Wiedersheim, 2001)

In order to make an assessment of the secondary data we obtained, we distinguished the importance to be critical to the documents. The initial source criticism means finding out where and when the document was made. Further it is important to have in mind why the document was written and under which circumstances it was made. Finally we had to take a positioned opinion about the author and evaluate following questions:

- What was the purpose of the study/article
- What relation did the author have to the study?
- Was the document produced under any kind of impact?

How much secondary data we had to collect is part due to the problem formulation as well as the time limitation to analyse the material.

We have tried to ensure that we selected such that not only supports our own ideas. By selecting only certain facts, we might create a deformity in the material and create a false impression. In other words, we tried to diminish the risk of prove anything just by selecting the correct data that support our ideas. (Davidsson & Patel, 1994)

3. Theoretical Framework

This chapter will describe the theoretical framework of the thesis. Conventional theoretical foundations as well as recent implications will be presented. The core framework that will be described is the OLI-framework of John H. Dunning. This framework together with complementary theories will function as the foundation of the research.

3.1 Introduction

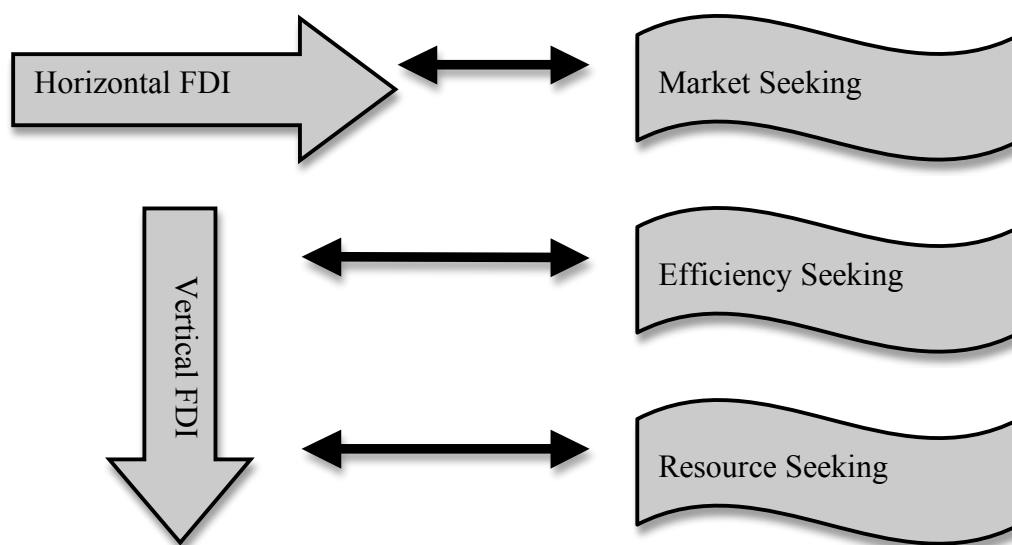
In today's business world it is all about growth and being efficient, which is not always possible with a status quo. Swedish companies, in general, have a great reputation of producing high quality products and services. Sweden is, however, a small country where labour is rather expensive. In order to grow and at the same time manage to cut costs, expanding into other countries is often a tempting option. A way of handling this is through Foreign Direct Investments, which is defined as:

“the acquisition of at least ten percent of the ordinary shares or voting power in a public or private enterprise by non-resident investors. Direct investment involves a lasting interest in the management of an enterprise and includes reinvestment of profits.” (IMF Glossary of Selected Financial Terms, 2006)

3.2 Types of FDI and Modes of Entry

When entering a country through Foreign Direct Investments there are different motives behind the decision. Some companies might want to expand into a new market (market-seeking investments), which includes both export and moving its business closer to the new market. Others might seek certain resources (resource-seeking investments), such as raw materials but also cheap/skilled labour. These two motives are often the base for making initial Foreign Direct Investments. When a company decides to make sequential investments another motive is usually present, efficiency-seeking. This refers to rationalisations, to be able to exploit economies of specialisation and scope, both across and along the value chain. (Dunning, 1997) The model below shows how the theory connects the different definitions.

FIGURE 3.1. ENTRY STRATEGIES



Adaption

3.2.1 Vertical FDI

Helpman (1984) states that in vertical FDI the parent company takes advantage of the price differences among diverse endowments between countries. He presents the idea that skilled labour used in headquarter activity can be geographically separated from production activity. The creation of vertical FDI is made by locating production in one site and headquarter in another. In this equilibrium, the skill-abundant country specialises in headquarter activities while the skill-deficient country specialises in the production of goods. This can be explained as efficiency seeking Foreign Direct Investments and is often a common motive for FDI in developing countries with cheap labour and low production costs.

3.2.2 Horizontal FDI

In the horizontal FDI model, originally formulated by Markusen (1984), a multinational enterprise (MNE) produces in multiple countries to minimize the costs associated with trade and the creation of firm-specific assets. In the horizontal model, an MNE arm has two advantages over a national arm. The first advantage arises because headquarter is a joint input, meaning it can be used in multiple production locations, without additional costs. Short, the knowledge is not connected to one country, but can be exercised in other places as well.

The second advantage of the MNE is that by service a market through local production it can avoid trade costs. With other words, this means that it is easier and often cheaper to produce in the country the good will be sold.

A developed theory by Markusen and Maskus (2002) points to the skill difference as the best method of differentiating between models. This is according to them an important variable choosing between horizontal and vertical FDI. Horizontal FDI can also according to Davies (2008) be seen as market-seeking FDI. This motive is common when investing in developed countries where the company sees a new market, but also where it can find skilled labour and get access to high technology.

3.2.3 Knowledge Capital Model

Recent research has made a suggestion how to combine these two motives for FDI. This is called Knowledge Capital model. (Markusen, 2002). The Knowledge Capital model predicts that vertical FDI occur from skill-abundant parents. Horizontal FDI, on the other hand, occur from both skill-abundant and skill-deficient parents. This indicates that when the skill difference is positive, there is a mix of vertical and horizontal FDI. It combines both the horizontal motive for investment such as minimizing trade cost and headquarters costs with the vertical motive such as exploiting factor price differences. Unfortunately, this comes at the cost of extreme complexity. It all depends on different variable as countries relative size and developing stage. The combined model is a way of neutralising the skill difference; it neutralises through the two different kinds of FDI. (Davies, 2008)

3.3 OLI-Framework

The OLI-framework or John H. Dunning's Eclectic Paradigm of International investment is a helpful framework when analysing Foreign Direct Investments. It is an integration of many theories that have been modified and reconstructed. John H. Dunning first created the framework 1976; he later improved the theory and made adjustments to it several times. It explains motives for firms to make FDI and other international activities. It implies that the location advantages can bring profit from production in the foreign country rather than simply producing at home and exporting to the foreign market. As long as firms contemporarily

possess all the three OLI advantages, they can engage in FDI¹ activities. The core of the framework consists of three parts:

- Ownership specific advantages
- Location specific advantages
- Internalisation specific advantages

These three conditions should be met to be able to have international value adding activities within a company. The framework also explains when a company should choose between different international activities. The table below gives an insight of what kind of activities firms should choose under which circumstances.

TABLE 3.1. THE OLI-FRAMEWORK

	Ownership advantage	Location advantage	Internalisation advantage
Greenfields, M&A Joint venture	Yes	Yes	Yes
Export	Yes	Yes	No
License	Yes	No	No

Source: Dunning 1988

This table gives a good overview over Dunning’s theory, which very simplified indicates that it is necessary to be able to exploit all three advantages in order to engage in a successful horizontal FDI.

The theory has been modified over the years and more factors have been considered, but we start with explaining the three parts of the core of the framework below. The three parts can be seen as three steps and each step should be considered before moving further to the next.

3.3.1 Ownership Specific Advantages

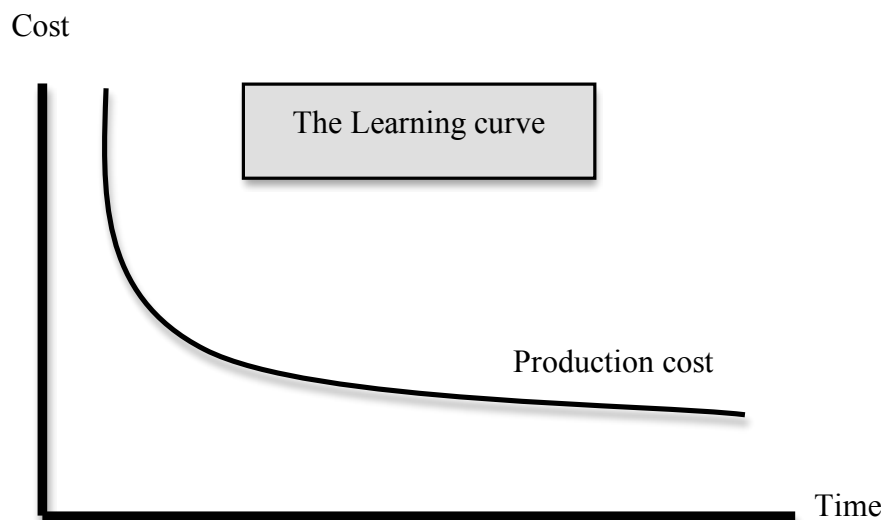
To be able to successfully engage in FDI the company needs to possess comparative

¹ Dunning’s definition of FDI is what this thesis treats as Greenfield Investments, M&A, and Joint Venture.

advantages in nature of ownership over local competitors. This is necessary to be able to make up for the costs of having an international business. In Dunning's earlier paper (1976) he enlightens three kinds of ownership advantages that are necessary for a successful FDI:

- Exclusive privileged possession of access to particular income generating assets such as patents, brand, and reputation.
- Advantages enjoyed by being an experienced company compared with start-up firms; having benefits of being ahead on the learning curve.
- Benefits of geographical diversification and multinational management

FIGUR 3.2 THE LEARNING CURVE



Later Dunning (1988) distinguishes the ownership advantages as ownership assets (OA) and ownership transaction (OT). OA is propriety ownership of specific assets such as intangibles, trademarks, patents, reputation management knowledge etc. OT is the ability of a firm to capture the transactional benefits or lower the transactional cost through international production. This is captured by size of firm resources or by synergies.

If the company sees that these comparative advantages actually exist within the organisation it can go on and analyse the next step.

3.3.2 Location Specific Advantages

When a firm possesses the ownership advantages above it has to consider whether the factor endowments (location factors) are attractive enough for investing in the foreign country. This is crucial for the decision to engage in that specific geographical area. The location advantages can be divided into four groups:

- **Natural resources:** The actual raw material in the foreign country that can be advantageous for the firm and does not exist in the domestic country.
- **Economic environment advantages:** Include input price, quality and productivity, transports, investments, and trade environment (including trade barrier, tariff, quotas). The firm cannot only look at the production cost, but should also look at the income level in the host country. A good way of measuring the attractiveness of a market is to study the GDP
- **Cultural and Social advantages:** This group concerns the physical distance between home and host country, the societal, and the human infrastructure (includes education level of the population, language and culture differences.) It is also shown that it is easier to make a successful FDI when the host country is close to the home both ideologically and culturally. Erramilli (1991) states that market and culture similarities reduce uncertainty and will be helpful when transferring technology and human resources.
- **Political power and legal environment:** Refers to the stability of the economy and the politics in the country. Driscoll (1997) states that an uncertain political situation creates unpredictable conditions for the investor.

3.3.3 Internalisation Specific Advantages

The main reason why internalisation is important when talking about FDI is because it is an advantage to get closer to the new market. Dunning (1988) talks about the necessity to obtain control over the business. To be able to do that it is not possible to have the production in the home country and export to another.

Internalisation is more important to high technology firms, whose comparative advantages are based on knowledge intensive assets. The nature of their products will bring opportunism and

uncertainty, which can cause price distortion and market failures. To avoid this, companies rather invest and share assets within the organisation over country boundaries rather than use external distributors and licensees. This is because the transaction cost (search and negotiation cost, cost of moral hazard and cost of protecting reputation) exists due to market failures.

Dunning and Ragman (1995) classified the market failures into two categories: structural market imperfection and transactional market imperfection. Structural market imperfection refers to monopolistic behaviour and government intervention in host country. Transactional market imperfection refers to lack of information or information asymmetry.

3.3.4 Other Implications

There are also other factors to consider when stating whether a country is worth investing in. Research conducted by Makino (2004) describes that an investor's choice of country is highly dependent on what business and industry the company operate in. Another factor that has to be considered is what motives the company has for wanting to go international. Production companies often choose to enter less developed countries due to cheap labour, access to raw material, and unsettled land. On the other hand, developed countries often attract investors who search for capabilities such as state-of-the-art technology, highly educated labour, and innovative solutions (Makino, 2004). To sum this up, it is more common for capital-intensive countries to invest in developing countries and companies wanting a specific kind of knowledge that is lacking invest in developed countries.

3.4 Transitioning into Stabilisation

Countries in transition are defined as countries going from planned to market economies. These countries have traditionally been characterised with having relatively high rates of inflation, corruption, and unemployment. Countries transitioning into stabilisation are those countries, which are far ahead in the process. Kersan-Skabic and Orlic (2007) measured this phenomenon in their study through the levels of privatisation, but also through government stability, and signing of SAA. In the study three sets of determinants for choosing a specific country to invest in are distinguished: the traditional set, the transition-specific set, and the EU accession set.

TABLE 3.2. CLASSIFICATION OF DETERMINANTS FOR LOCATION DECISION

Determinants	Characteristics
Traditional	Market size; trade costs; macroeconomic stability; cost of production
Transition-Specific	Share of private sector in GDP; profit tax rate; infrastructure; level of corruption
EU Accession	Signing of SAA; start of negotiation; influence of membership

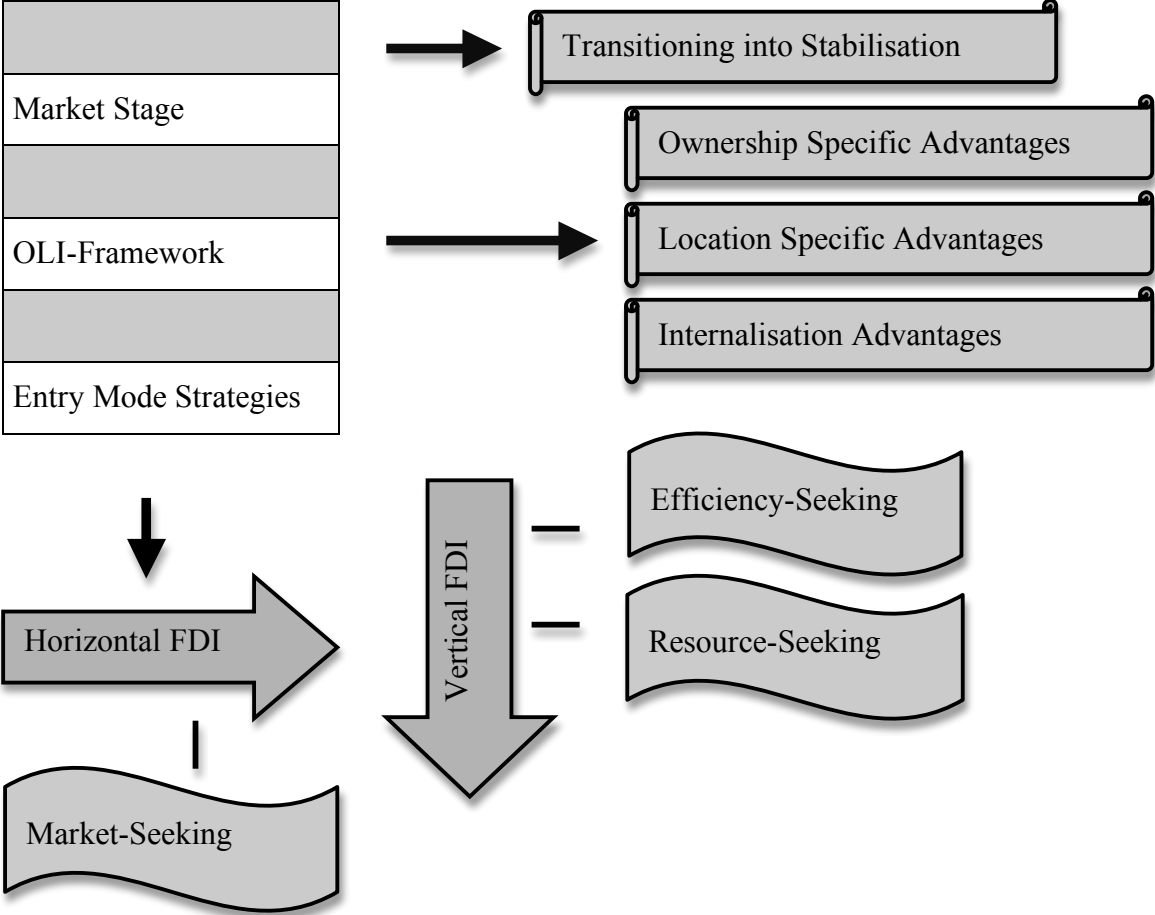
Source: Kersan-Skabic et al (2007)

The focus of the study was on Central and Eastern Europe (CEE) and on the Western Balkan (WB). WB countries were in a worse situation than the Central and Eastern Europe (CEE) because of the war and ethnic conflicts and did not receive much FDI during the 1990’s. It was not until the end of this decade this area became an attractive location for FDI. The authors had the hypothesis that the late signing of the SAA might have been a significant reason for the low FDI inflows in these countries. The countries are not particularly large and a high living standard is absent. Hence, foreign investors cannot expect a large market but do have to opportunity to lower their production costs due to low wages.

The centre of Kersan-Skabic et al’s (2007) research was to discover if the prospective accession to the European Union has had a significant effect in FDI inflows in the CEE and WB countries. Support for the hypothesis was found, but also that these two areas had different determinants for attracting investors. For CEE, which is an area further in the process of becoming stabilised, the most important determinants found were: degree of GDP, openness, development of infrastructure, level of corruption, tax rate, and negotiation level with the EU. For WB, an area currently in transition or transitioning into stabilisation: wage level, privatisation, level of corruption and signing of agreements with the EU. Kersan-Skabic et al’s (2007) saw a cohesion, which showed that foreign investors prefer to purchase shares of existing firms rather than undertaking larger investments in the WB countries. Hence, the conclusion was drawn, that foreign investors are not confident with the stability of institutions in the WB area and neither in the functioning of the law.

Below we combine the different theoretical models in a combined framework.

FIG 3.3 THE INTEGRATED FRAMEWORK



4. The Republic of Serbia

In the following chapter an overview of Serbia and the current state of the country is presented, which is needed in order to get a deeper understanding of the analysis.

4.1 The Republic of Serbia

Serbia is a country on Balkan in the South-Eastern Europe with a population of around 7,5 million people. The country is a republic with Boris Tadić (Tadić) as its president and leader of the center-left Democratic Party. The road to modern Serbia has been turbulent and the "Milosovic-era"² has left deep footprints in the country. (U.S. Department of State, 2008) Today Serbia still is rebuilding after years of wars and does not yet prioritize some of the things that are vital for western European countries, such as environment or social responsibility, which could be obstructive for western countries investing in this region. (Aleksandar Marjanovic, 2009)

Corruption is still a problem in Serbia and makes it harder for investors to enter the market. This is one of the reasons why Serbia is considered being a high-risk investment area. The definition of corruption is in a study made by Slobodan Vuković (2008): *forced market transactions, people with a high social position using their position in business*. Bribery is one part of corruption and it is not uncommon for private entrepreneurs to bribe their way in to the market in Serbia. Vuković shows that 52% of the entrepreneurs trying to enter the Serbian market are forced to pay their way in.

The signing of the Stabilisation- and Association Agreement in April 2008 was the first step to a change. This agreement means liberation in trade between Serbia and Sweden along with

² Slobodan Milosovic was Serbians president between 1989-1997 and the Federal Republic of Yugoslavia's president between 1997-2000 and the leader of the Socialist Party in Serbia. He was later convicted by the Haag Court on charges on suspicion of corruption, abuse of power, embezzlement, genocide, crimes against humanity, and violations of the customs of war.

other European countries. At the same time the requirements for Serbia being a candidate to a membership in the European Union are set. One of the requirements the EU demands of Serbia is to cooperate with the Haag court and hand over war criminals from the Balkan war. Tadić has a positive attitude towards the EU and will try to obey its requests in order to become a member. (Riksdag & Departement, 2008)

5. Empirical Findings and Analysis

In this chapter the empirical data has been codified and analysed in accordance to the theoretical framework. The chapter begins with how the case companies have entered Serbia and is followed by why. Finally, a summarising discussion is covered.

5.1 Entry Strategies

TABLE 5.1 OVERVIEW OF SELECTED COMPANIES³

Company	Number of employees	Turnover (TKr)2007	Founded	Active in Serbia since:	Industry
Mantacore AB	50	41 353	1993	2005	IT/Insurance
Getinge AB	10 358	16 445 000	1904	1997	Healthcare & Lifescience
CLEPS AB	2	2 168	2000	2004	Renewable energy
Winstart AB	1	500	1998	2006	IT

The choice the four companies had to face when entering the Serbian market through FDI was among Greenfield investments, M&A of local company, Joint Venture with local actors, and export from the home country. None of the firms chose to make investments through M&A or Joint Venture. Since Getinge does not have an office in Serbia it exports goods to this region through a local distributor. Mantacore invested in a Swedish subsidiary, and has an office in this region. Cleps also followed this path with a subsidiary in Serbia. To establish a subsidiary is in line with what we define Greenfield investment. Winstart does not yet have an office abroad but has registered a company in Serbia. According to Tudt the goal for this company is to become a Swedish subsidiary, which is why we also characterise this investment as Greenfield.

³ For more detailed information of the companies see Exhibit 2

The main reason for Mantacore to enter Serbia was to find cheap, skilled labour. However, the initial plan was also to enter the Serbian market, which means that the company aimed at making combined market- and resource-seeking investments. What Mantacore later discovered was that, despite Serbia being a country with skilled workers, the market was not as developed as the company would have hoped. Hence, the company, with the headquarter still located in Sweden, decided to only reap the benefit from the cheap labour this investment offered. This is what characterises a vertical investment. What contradicts this is the fact that Mantacore was searching for skilled labour, which is not typical for vertical investments. The company is aware of the rapid economic development in Serbia, but according to Bowallius this market is not ready to be penetrated.

In contrary to Mantacore, Winstart's initial quest was to get access to the Serbian market, as this is the place to be, according to Tudt. Winstart is already active on this market but does not yet have any employees. Hence, the company does not reap the benefits of cheap labour although he agreed to this factor being a reason for choosing Serbia. This indicates that the investment primarily is of market-seeking nature and also horizontal. The headquarter is currently located in Sweden, which Tudt considers being a disadvantage due the distance to the market.

Tham also emphasised that Serbia is not ready for its own sales office, which is the reason for the cooperation with its distributor. Getinge has a great interest in the Serbian market and this is the nature of a market-seeking investment. Yet, this is not a horizontal investment, since Getinge's production and headquarter activities remain elsewhere.

Liljegren, on the other hand, considers the Serbian market to be ready for Cleps' business. This could be explained by the fact that Cleps has a different type of customers, which mainly consist of large industries and communities. This is a pure market-seeking investing if considering Liljegren's statement about the attraction of finding new investment location. He mentioned how heavy the investment load in wind power is on the Swedish market and that the Serbian market is rather unexploited. However, since Cleps realised the possibility of receiving higher returns when operating in Serbia compared to Sweden, it also indicates that the investment is efficiency-seeking. Despite this, the investment is not vertical as the main

priority was not to find unskilled, cheap labour. It has more characteristics of a horizontal investment, but with the headquarter located in Sweden.

5.2 Entry Motives

The previous section described *how* the companies enter a transitioning market was performed. In this section the focus is on *why* and is structured in accordance to the OLI-framework.

5.2.1 Ownership

The first step when deciding whether to enter another country through Foreign Direct Investments is to look into the company itself. Are there enough assets that count as comparative advantages? All four companies we interviewed have several factors in common, despite operating in different industries. They are all knowledge-intensive firms, whose main asset is the human capital.

An important factor in a country like Serbia is the reputation. All respondents mentioned how popular international companies are in Serbia, through the work opportunities they create but also through the relatively high standards their work places offer. Liljegren meant that the job creation is an important aspect when establishing a good relationship with the government, which can lead to easier ways of getting permits and such. What Cleps can contribute to this new market is knowledge about renewable energy and brings trustworthy suppliers to the area. Bowallius said that Mantacore creates a good reputation through paying out salaries regularly and on time, paying taxes and offering the latest technology. All respondents emphasise how appreciated Swedish companies are in the region, as they stand for quality and reliability. The OLI-framework focuses on investments of horizontal nature. However, in vertical investment as well, such as Mantacore's, the company in question needs to offer something above local equivalencies to attract the best employees.

Since Cleps's knowledge is new to the country, its main competitors would be other international companies. Liljegren explained that Cleps has experiences working with

different legislations, which is considered to be a great comparative advantage as this gives the company an opportunity to lead the way. A common motive for entering an emerging market is to reap the benefits of first-mover advantages, especially for high-tech companies who can set the standard for its industry. Another aspect to this is the learning curve, being first means being far ahead of its competitors. Being first, however, is something that Liljegren mentioned as a disadvantage sometimes. For Cleps this has led to time-consuming negotiation with the government, which has delayed the project over and over again. He said in the interview that it is better to be second on the market, when someone else already has led the way.

5.2.2 Location

Natural resources

The first aspect of the location specific advantages is natural resources. In our study only one company actually needs raw material from Serbia. Wind power is an unexploited market in Serbia, which Cleps wants to utilise. Liljegren also mentioned the possibilities to transport the heavy equipment, needed for setting up a wind power plant, on the River Danube. This is more efficient than transportation on land.

Since all companies are of knowledge-intensive nature the focus is not necessarily on finding tangible resources to the same degree as intangibles, such as human capital. This can explain why the remaining three companies have not considered natural resources as a motive for investing in Serbia.

Economic environment

One of the main aspects when choosing investment location is whether there are any advantages in the economic environment. What all four companies emphasised, about Serbia being an attractive investment location, is the beneficial cost level in the country. Bowallius and Tudt explained that their companies wanted to find a location where skilled labour is cheap. Especially for Mantacore, the main reason for investing in Serbia depended on this fact. Tudt mentioned that the goal for Winstart is to hire more personnel and wants to do that in Serbia where it is possible to get same skills as in Sweden for 3-4 times lower cost.

Liljegren also mentioned the possibilities to lower the overall costs due to low wages and beneficial land leases. However, for Cleps it was primarily the returns that made Serbia attractive. According to Liljegren it is possible to charge higher electricity prices due to a political agreement regarding tariffs. He said that this leads to higher returns on investments of same size as the ones made in Sweden. This is an interesting topic, Liljegren said, since this shows that some prices are not set by market demand, but by the government. Not allowing prices being set by market demand indicates that the country still is in the transition phase, which has the possibilities to attract investors to the country.

Tham explained that it is visible how the government focuses on creating stability in the country. Selective transitional actions, such keeping control over certain pricing but actively working toward creating a more western society, is a way of making Serbia a more investor-friendly country. Tham further explained that the government supports investments in infrastructure, education, and medical care; Liljegren also talked about the increased attention to renewable energy. These are all factors indicating that operating within knowledge-intensive industries makes Serbia an interesting investment location.

Transitioning countries are, as mentioned earlier, often characterised by high inflation. This was the case in Serbia during the 1990's, Liljegren said. Bowallius admitted indirectly that the currency currently is quite instable as he said that the main upside with a membership of the EU would be a more stabilised currency. The instable currency, however, seems to be something that does not affect any of the companies vastly; none of the respondents mentioned this aspect being a problem.

As described earlier, Bowallius said that Mantacore's initial plan was to also enter the Serbian market, that is, not only cheap labour appealed. But the market was not ready for Mantacore's business. Getinge has long been selling its products in the country, but as Tham also mentioned, the market was considered not being ready for establishment of its own sales office. Both respondents, however, admitted that the market has changed since the start of their companies' initial entrance. Tudt, who said that this country is developing rapidly, confirmed this statement. He said that Serbia is the place to be and it is where all the action is. However, his Serbian company is not yet active, which could be an indicator of him considering the market not being ready for having its own business.

Cultural and Social advantages

A big difference between Serbia and many developing countries seems to be the Human Capital. Serbia has a well-reputed University, which contributes to a high quality of education. Mantacore has taken advantage of the university, who supplies the company with talented students needed for the development centre. In agreement with Bowallius, Liljegren also commented this and claimed that the technical knowledge is as high, or might even be higher, than in the Nordic countries.

An issue for Swedish companies doing business abroad is the language, especially in a non-English speaking country. All respondents emphasised the importance of having someone actually knowing the Serbian language. Mantacore, for instance, mitigated this by having an employee who used to live in Belgrade.

Liljegren talked about culture issues with making business in a country with a population that has learned how to live a life during a war. The way to do business has been affected because they have experienced an economic collapse. The respect for the financial system is, according to Liljegren, lower in Serbia than in many other countries. However, Tudt believes it is easier to operate in Serbia compared to emerging markets such as for instance India, as he considers the Serbian population to be "almost like people in western countries". Liljegren agreed and claimed that it is easier to do business in Serbia than in Ghana, where Cleps also has business. He indicated that the work ethic in Serbia is more enhanced. This could depend on the different development stages these two countries are in; Ghana is a developing country whereas Serbia is transitioning into stabilisation. Bowallius talked about India being a first alternative for Mantacore, due to the cheap well-educated labour, but the choice fell on Serbia because of contacts; a former employee originates from Serbia.

Political power and legal environment

There seem to be different opinions whether Serbia will be accepted as a member of the European Union. All of the respondents did, however, agreed to that the cooperation with the European Union has opened up the country for international companies and investors. A membership in the EU has both positive and negative effects on the investors. A strong motive for currently investing in Serbia is the cheap labour, which is something Bowallius

believes will diminish if Serbia becomes a member of the EU. However, he does not only consider the potential membership negatively. As previously mentioned, he predicts a more stable currency, which would make transactions more manageable. Tudt also mentioned this and believes a membership would lead to smoother transactions. The other respondents only have a positive view on the potential membership. This could be because of the difficulties in making business in Serbia due to the slow bureaucracy. Liljegren explained that it takes a lot of time to get permissions needed.

“There are shortcuts, but they cost money, a lot of money”

Christer Liljegren, Cleps AB

The business activities in Serbia are time consuming because of the instable political environment. If there is not a willingness to take the shortcut Liljegren mentioned, the procedures will take time. The other respondents did confirm this as well. As a compliment to the discussion about having a good reputation, in order to attract skilled labour, the aspect of transitioning to stabilisation could be added. It seems like the educated people in Serbia are positive to this change and see the possibilities to work for international companies. An indicator of this is the security these companies offer; Bowallius talked about offering competitive salaries and a high standard in personnel policies. Liljegren also mentioned the fact that Cleps brings trustworthy suppliers to the market.

Liljegren continued stating that the political instability and corruption affect Cleps in other ways. Social responsibility, like environmental energy, has not been a priority. The primary focus of the country has been on stabilisation. The company can find new possibilities with the new requirements for renewable energy that are reaching the WB countries, especially now with EU watching Serbia under a magnifying glass. Tudt talked about a learning process, knowing who to contact and when. This is a further indication of the Serbian bureaucracy being complicated, which is one of the criteria when measuring the level of corruption. We noticed that Getinge, who only enters the market through exports, does not seem to be affected by such factors. Tham does not see a difference in conducting business in Serbia than elsewhere, but he did state that this is due to the close cooperation with the local representative, Medika Project.

An indication of a step towards a membership, the European Union is today supplying international investors in Serbia with financing. Tham, for instance, mentioned the financing Getinge got for its new project. The government has just started to function; hence, the conditions for global companies to invest in Serbia are getting better. Tham confirmed this and sees the great possibility of being on the market when Serbia is building up a functional health and medical care. It has been difficult to enter the Serbian market in the past, but as the current government aims for a membership the country has to show the EU that it is an open country. This helps international investors entering the market.

5.2.3 Internalisation

The OLI-framework expresses that a reason for a company to move its operations to a foreign country is to avoid dealing with external companies, such as distributors and licensees, since it lowers the transaction costs in terms of search, negotiation, and moral hazard. If a company cannot reap the benefits of placing its operations closer to the target market, it should not go all in and instead go for export. This is something that Getinge has considered. The Balkan area is an interesting region with lots of potential. As Tham mentioned, Getinge's main customer in the area is the military hospital in Belgrade, which is a quite large customer. Although the area has potential, according to Tham, the company experienced that this region was not ready for its own sales office and has instead induced cooperation with a local distributor. In Getinge's case the smoothest way to enter the Serbian market is to work with Medika Project. Tham finds this distributor highly reliable and competent. Without this collaboration the transactional costs would probably be higher, which could be explained by the length of the cooperation. He stated that Medika has been the key to Getinge's success in Serbia. As mentioned earlier, the culture in Serbia differs from Sweden, which means that it is necessary that someone is acquainted to it.

Tudt is the only respondent who explicitly mentioned the need for internalisation. The main risk he identified with the investments is the distance between Sweden and Serbia. Tudt admitted to some control problems due to the geographical distance, since he cannot completely have power over his business in Serbia when being in Sweden. Even though Tudt has the advantage of knowing the language he mentioned that it is hard to create a functioning corporate culture without a trustworthy contact when being absent. He further indicated the

necessity of getting closer to the market as he talked about the learning process. It is important to create routines so that the company can function.

Registering a Serbian country is common when starting activities in a country such as Serbia. Liljegren explained this as a way of keeping the credit worthiness of the parent company, which is a hedging activity; this newly created company will not economically affect the parent company and its credit worthiness. All the respondents stated that it is still a risk to invest in a country like Serbia, which means hedging activities are necessary.

5.3 Discussion

5.3.1 Summarising the Entry Strategies

According Raff et al's (2009) pecking order, Greenfield investment was the least preferred entry mode among the existing options, which differs from our findings where this mode of entry is the dominant one. An explanation to this could be differences in what type of companies being studied and also what definition of Greenfield being used. When large capital intensive firms invest abroad, Greenfield often refers to building up new plants from ground up. In our study, dominated by small, knowledge intensive firms, a Greenfield investment is referred to as starting up a new company from ground up, which indicates a smaller magnitude of investments.

The findings of Hakkala et al's (2008) study suggested that when investing in countries characterised with corruption, a Joint Venture was preferred. These finding were explained by the need for foreign investor to have cooperation with local actors who know the system in such a country. This was confirmed by our study, where we saw cohesion among these companies; the companies investing horizontally and vertically had a local, personal contact *within* the company. We believe that due to the fact that this contact was within the organisation, the problems with corruption more easily could be mitigated, which enables Greenfield investments. The choice of making Greenfield investments through starting up a subsidiary could partly be described as a risk management measure, since it is a way to keep the parent company credit worthy.

Since Mantacore is not interested in penetrating the Serbian market and keeps its headquarters in Sweden, the investments are of a vertical nature. The theory refers to vertical investments as efficiency- and resource-seeking, which also corresponds to this case, as cheap labour is appealing. However, vertical and efficiency-seeking investments are characterised by the search for unskilled labour. Hence, we define Mantacore's investments as resource-seeking due to the educated human capital Mantacore wants to come across.

Winstart's investments, on the other hand, are more of a market-seeking nature. Cheap labour was a reason for the investments, but is however, not something that currently has been utilised. Market-seeking investments are, according to the theory, connected to horizontal investments, which this case also corresponds to. Yet, the headquarters still remains in Sweden, which the company considered as negative. What makes this case difficult to analyse with the current theoretical framework is the character of Winstart's business, as it is Internet based. This means that there is no actual production, hence, to characterise the nature of motives is difficult to do.

Getinge is purely market-seeking, as it sells its products on the Serbian market. These are, however, not horizontal investments since Getinge does not aim at placing its operations closer to the market. The company keeps its production and headquarters elsewhere and does not have any own activities in Serbia. Hence, Getinge's investment cannot be characterised as either horizontal or vertical.

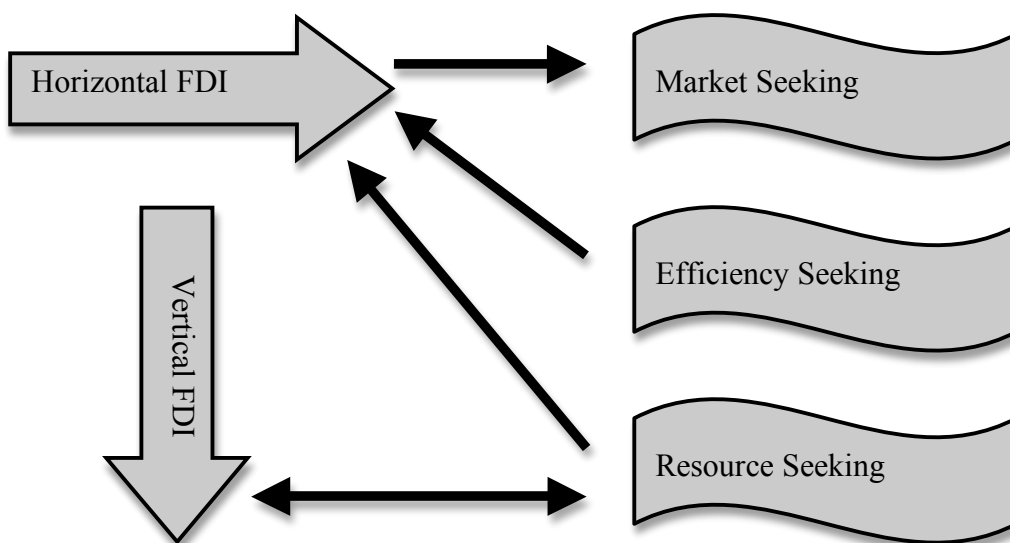
Cleps investments, on the other hand, have many characteristics. As the company looks for a new, unexploited market, the investments are of market-seeking nature. The headquarter activities remains in Sweden, but the aim of the investment is to get closer to the market, which makes it a horizontal investment. However, Cleps has also seen possibilities of improved returns through higher revenues and lower costs with locating its business in Serbia. This refers to the nature of the investment as efficiency-seeking.

TABLE 5.1. ENTRY STRATEGIES

	Market	Efficiency	Resource	Horizontal	Vertical
Mantacore			X		X
Getinge	X				
Cleps	X	X	X	X	
Winstart	X			X	

Table 5.1. summarises the companies’ entry strategies, which shows that the theory is not compatible with our empirical findings. Kersan- Skabic’s and Orlic’s (2007) study showed a tendency that the investments in WB countries were dominated by efficiency seeking determinants. Our study does not support this. We saw a combination of market seeking and resource seeking as reason for investing, since cheap labour is a initial main reason, but as the country has proceed further in the process of transitioning to stabilisation the benefit of cheap labour will diminish. The studied cases then see the benefit of capture increased market shares. We cannot either equalize market-seeking with horizontal investments. However, our cases show that horizontal investments often are of market-seeking nature. Based on our findings, we see that the reason for making vertical investments not necessarily has to be based on the search for efficiency. We rather believe the quest for particular resources better can explain this type of investment in a country such as Serbia, as Mantacore in our study wanted to get access to well-educated, cheap human capital. Hence, a new model can be introduced:

FIGURE 5.1. ENTRY STRATEGIES IN COUNTRIES TRANSITIONING INTO STABILISATION



One of the main reasons for investing in Serbia is skilled and competent labour. Hence, our findings do not support discussion about separating skilled labour and production. This suggests that what the original theory explains as vertical FDI not necessarily is applicable for Serbia and other countries transitioning into stabilisation. We believe it is important to separate vertical FDI from efficiency-seeking and market-seeking from horizontal FDI when describing natures of investments in this type of countries.

FIGURE 5.2 COST CURVE OF INVESTING IN COUNTRIES TRANSITIONING INTO STABILISATION

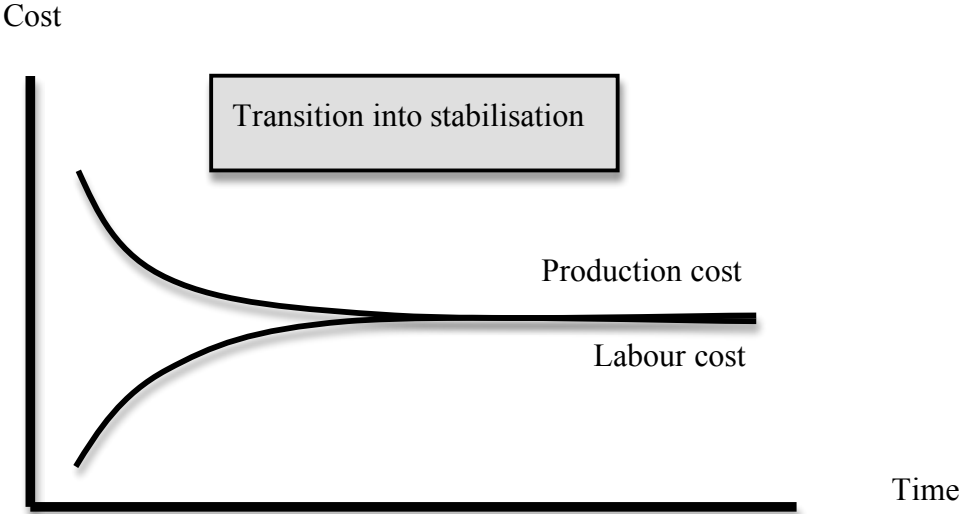


Figure 5.2 is a combination of the learning curve and diminishing advantages of cheap labour. This shows our interpretation of how companies perceive advantages when investing in a country transitioning into stabilisation. All companies have had the motives of finding cheap, skilled labour when investing in Serbia. However, the companies seem to be aware of the probability of a rise in wage levels as a consequence of a membership of the European Union. Nevertheless, the longer time the companies are active on the market, the more efficient the companies will learn to become. This will lead to diminishing overall production costs. We also believe, that being present on a growing market leads to increasing market shares, which in turns would lead to higher returns. This indicates that the motive of only seeking cheap labour is not as strong as implied. The investors seem to more appreciate the competence level in the country and being present on a fast growing market.

5.3.2 Summarising the Entry Motives

TABLE 5.2 SUMMARY OF OLI-FRAMEWORK

	Ownership	Location				Internalisation
		<i>Nature</i>	<i>Economic</i>	<i>Culture</i>	<i>Political</i>	
Mantacore	Yes	No	Yes	Yes	No	N/A
Getinge	Yes	No	Yes	Yes	N/A	No
Cleps	Yes	Yes	Yes	Yes	No	Yes
Winstart	Yes	No	Yes	Yes	No	Yes

Table 5.2. summarises the empirical data codified in accordance to the OLI-framework. The ownership-specific advantages were distinguished among all the companies, mainly through the reputation Swedish companies are associated with. This is what the theory calls ownership assets. From a competitive viewpoint Cleps has an advantage of being first on the market with its business, but from an efficiency viewpoint, being first is not considered as an advantage. The OLI-framework is not designed for vertical investments; yet, we have utilized this theory when analysing motives present for Mantacore’s investment decision. To fit the theoretical framework to the empirical findings about Mantacore, we have chosen to analyse the ownership advantages from an employer perspective instead of a market perspective. None of the firms, however, mentioned any benefits of lowering transaction costs through international production. Hence, there were no ownership transaction advantages present. All respondents stated their believes of having comparative advantages over local firms, which, according to the OLI-framework, means all companies being suitable for Foreign Direct Investments.

For choosing Serbia as investment location, certain variables have been more viable than others. Natural resources have not been a dominant factor for any of the case companies, although Cleps has considered the power of wind. The economic environment, on the other hand, has been one dominant aspect. The most significant factor is the beneficial cost level in the country, mainly the low wages of skilled workers. Cleps also has the potential to reap benefits from greater returns due to possibilities of charging higher prices. We conclude that this is a consequence of the country transitioning into stabilisation, as the government sets certain prices instead of the market. Another indication of benefits from the transition is the government focusing on certain investments; this focus pays off for our case companies. Two

aspects that seem to be less beneficial to the companies are the market development and the instable currency. Of the former we got the impression that all the companies considering the Serbian market not being entirely ready for their businesses. Cleps is already active with setting up its business, but points out the implications. The latter seems to be less of a problem for the companies. An explanation to why an instable currency has not discouraged the companies to invest in Serbia could be the possibilities to hedge through for instance geographical diversification and various currency hedge instruments. The three companies that chose to actually start up a business in Serbia did so by founding a subsidiary, which can be seen as a risk management measure.

The other dominant factor is the cultural aspect. The culture differences between Sweden and Serbia seem to be significant, but are still not as major as between Sweden and countries in developing stages. What are common attractions for all the companies are the educated labour and the technical knowledge in Serbia, which one respondent even stated as potentially being higher than in the Nordic countries. One implication with doing business in Serbia can be the perceived lack of trust of the financial system. This can complicate the business environment. However, the companies seem to consider the work ethic in the country to be fairly high compared to certain developing countries.

The political environment is not something that currently has a positive effect on any of the companies, although Getinge seems to be rather unaffected. The explanation is that this company does not directly have to be involved. It seems that the rest of the respondents even consider the political environment being unfavourable. There were discussions about both corruption and difficulties doing transactions. Hakkala et al's (2008) study showed that horizontal investments are more affected by corruption than vertical, which also is confirmed in our study. The attitudes towards a potential membership of the European Union were, however, positive. This indicates that none of the companies see the advantage of the current political situation, but that the market-seeking companies do see future advantages as the country is transitioning to stabilisation.

The location advantages these companies have are rather significant; some companies can reap more benefits than others, which table 5.2. points out. Cleps is the company that has most location-specific advantages. This could be because Cleps is the company that has

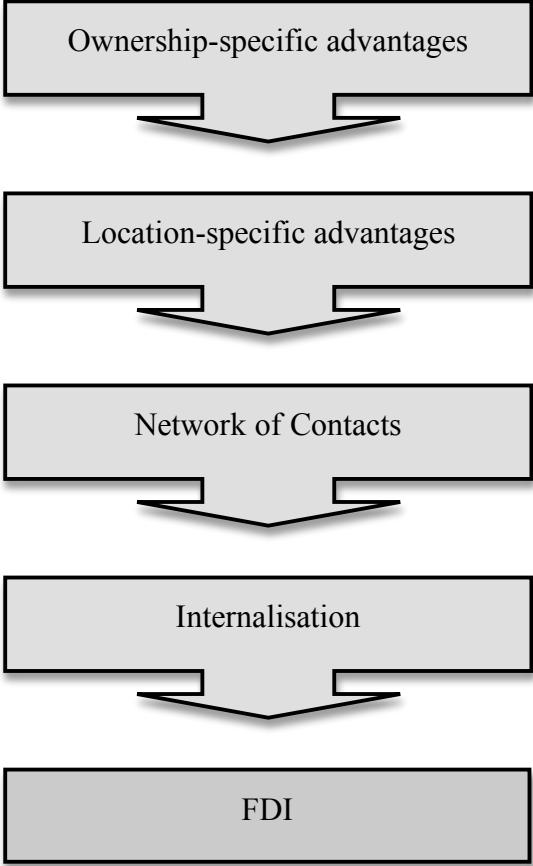
integrated the most in Serbia. The advantages the economic environment and the cultural aspects offer indicate that Serbia is a suitable investment location for all four companies.

According to Dunning's OLI-framework, the step internalisation argues for the importance of placing the production close to the market in order to reduce transaction costs and moral hazard. However, only two of the case companies explicitly express the need to locate the business where the market is, as a control measure. Also, when doing business in a country like Serbia, the importance of having local contacts within the country seems to be a very critical factor. Hence, a company might choose to export from the home country via a local distributor instead of entering on its own, if the company does not have a connection to the country in question *within* the firm. The aspect of contacts, however, is something not explicitly covered in the OLI-framework.

5.3.2.1 Adding a New Perspective to the OLI-Framework: Network of Contacts

The main discrepancy between the theoretical framework and our empirical findings is the apparent importance of having a local contact *within* the company. All respondents emphasised the importance of having someone to trust and who also knows the language. This can help bridge both culture and language gaps, and helps with communication problems. Further, this is a way for the company to be able to quickly enter the foreign market and exploit the existing networks. We believe that none of the companies would consider this location if they did not have a contact in, or a connection to, Serbia. An important trigger for investing in a country like Serbia seems to be the network of contact. We see a significant cohesion between the choice of internalise and having someone *within* the firm who knows the country and the language, and has connections. Hence, we will add an additional step to our modified version of the OLI-framework seen in figure 5.3.

FIGURE 5.3 THE OLNI-FRAMEWORK



The OLI-framework should be used step by step and so also our modified OLNI-framework. Before deciding to internalise the company considers the need for a local contact within the firm, which figure 5.3. shows. The analytical discussion has lead to the conclusion that the companies getting a YES for all three steps in the OLI-framework are also the ones with horizontal investments, which indicates the validity of the OLI-framework. However, the aspect of network of contacts is not covered in this framework, which is why we see the need to extend the theory.

6. Conclusion and Further Research

This chapter starts with describing the limitations of the study. Further, the research questions will be answered from the conclusions the empirical findings and the subsequent analysis generated. Finally, recommendations for further research are discussed.

6.1 Limitations of the Conclusions

Since we knew what we aimed at studying and responding rate from the companies active in Serbia was smaller than expected, the circumstances limited the width of our research. The less extensive width of our empirical data has also limited our ability to obtain information regarding firms investing through M&A and Joint Ventures, which subsequently also will limit our ability to generalise certain aspects.

Liljegren, the founder of Cleps, is a relative to one of the authors, which may bias the conclusion, since this interview contributed to more information compared to the other ones.

The choice to only study Serbia for representing countries transitioning into stabilisation may also have led to biases in the conclusions. The explanation for all the close relations with Serbia within these Swedish companies can depend on immigrants from this country. They could have promoted and called attention to this region. We have no facts supporting this assumption, which is the reason for not evaluating this matter any further.

With these limitations in mind, we will now present our conclusions:

6.2 Nature of Investment

We saw cohesion in our findings indicating that for a country transitioning into stabilisation it is not possible to make the same equalisations the existing theories make between certain investment types. Market-seeking investments do not necessary denote horizontal nature, since exporting is a form of market-seeking but is not characterised as a horizontal investment. We also found that efficiency-seeking investments cannot be equalised to vertical entry strategies. This indicates that it can be difficult to classify an investment as either

horizontal or vertical. The Knowledge Capital model could be used as a tool for explaining the phenomena presented in this thesis, as it combines the two entry strategies. However, this model is too complex but yet too limited, in order to explanatory depict the nature of entry strategies in countries transitioning into stabilisation. It does not separate market-seeking from horizontal investments and efficiency-seeking from vertical investments, which we consider necessary. Our model offers more flexibility, which easier can explain the reality.

Previous frameworks state that the distinction between horizontal and vertical investments is based on classification of skills. This is not applicable to our study. The reason for this is the nature of the companies we have studied, all being knowledge intensive firms. One of the main reasons for investing in Serbia is, according to our research, skilled and competent labour. The entire discussion about separating skilled labour and production in vertical investments can in our study therefore be rejected. This suggests that what the original theory explains as vertical FDI not necessarily is applicable for countries transitioning into stabilisation.

Earlier research has also indicated efficiency-seeking investments as most significant factor determining investments in WB countries. Our study, on the other hand, shows that resource-seeking seems to be the most dominant factor along with market-seeking. The former is more significant than the latter, since there seems to be some doubts about the Serbian market being ready for the businesses our case companies offer. That resource-seeking is more significant than efficiency could be explained by the skill-level in the country. Transitioning countries may offer higher skill-levels than many developing countries. However, the previous research conducted in 2007 was based on data from earlier years. The transitioning phase has changed since this data was obtained, which might explain the differences in findings.

We believe that the nature of investments in countries transitioning into stabilisation is dominated by resource-seeking strategies, which is a plausible conclusion to generalise among small, knowledge intensive companies.

6.3 Entry Mode

Greenfield investment is the dominant entry mode in our study. Previous research has indicated this being the least favoured option when investing abroad. The explanation for this could be due to differences in definitions of Greenfield investments and nature of the companies studied. The companies in our study are, as mentioned, small knowledge intensive firms. When these companies start up businesses abroad the investments do not mean building up plants, but rather focus on finding a suitable location and hiring personnel. Hence, this conclusion is perhaps mostly applicable to this type of organisations. However, it is not suggested that founding a business through Joint Venture or M&A are less preferred in countries transitioning into stabilisation, but we believe that M&A are too expensive for smaller companies.

Earlier research suggests that companies prefer joint venture with local actors in corrupt countries. We have seen a tendency of having a trustworthy, domestic person within the company mitigates corruption problems, which enables Greenfield investment. It is a risk management tool to start a subsidiary to keep the parent company credit worthy. It is also a way to get closer to the market and keep control over the business. What we conclude is that companies with local contact within the company have less need of establishing a Joint Venture with local actors.

6.4 Triggers

The most vivid trigger for deciding how to invest seems to be the network of contacts when choosing investment location in a country transitioning into stabilisation. We experience that the OLI-framework fails to cover this aspect, which is why we added a new perspective to the OLI-framework. Our modified model is called the OLNI-framework. Before considering internalisation there is a need for a Network of Contacts in order to be able to settle business in a country like Serbia.

One company lacks this close personal network of contacts and is also the only company that has not chosen to internalise; the company exports through a local distributor. Since this is the only large corporation included in the study, it is a rather unexplored aspect. The width of the

study constraints the possibility to generalise these findings. This implies that our conclusions and our new, extended theoretical framework might be mostly suited for small, knowledge intensive firms.

6.5 Further Research

In order to enable a statistical generalisation of the findings this thesis concluded, further empirical research of more positivistic nature could be conducted. A variable to include when researching investment motives in a country such as Serbia could be trade agreements. One benefit of horizontal FDI is to avoid trade cost and we believe that companies in Serbia might be able to use the free trade agreement that Serbia has with Russia. This is a factor not studied in this thesis since none of the respondents mentioned this agreement as a reason for their investments. We do, however, believe that this is something that can affect investment decisions and would be an interesting subject to investigate further.

Since the timeframe of this thesis was very limited, one country was chosen for researching the purpose. In a more extensive study a cross-country comparison could be made. For determining investment factors for countries transitioning into stabilisation, the entire West Balkan region could be used as focus area. Also different sizes of companies would be suitable to include. This would enable a statistical generalisation.

Another interesting topic is to discover what the companies do when the country has reached a more stabilised phase. Do they continue with their original investment strategy, or do they exploit the new possibilities these markets can offer? We have seen a tendency of the companies starting off the investments as resource-seeking but having a sequential strategy of sooner or later expanding on the Serbian market.

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7.3 Oral Source

Aleksandar Marjanovic, businessman in Belgrad, 2009

Exhibit 1

What is your position in the company?

- How long have you had this position?

Tell us about the company

- What do you do?
- How long have you existed?
- How many employees do you have?
- How many countries are you active in?

When was your established in Serbia?

- Year?

What kind of business do you have in Serbia?

- Do you export?
- Do you have your headquarter there?
- Subsidiary?
- Distributor?

Why was it appealing investing in Serbia?

- What were the underlying causes and reasons?
- Do you think that the Serbian market has changed over the years? (consumers, competition)

What risks do you see when making investments in Serbia?

- Then and today?

How has the geographical location affected investment decisions?

How has the political situation in Serbia impacted your business?

- Have you encountered any problems?

Which strategies were present when entering the market?

How do you think a EU membership might affect you?

Do you think you have any company benefits against other Serbian companies?

Exhibit 2

Mantacore AB

Mantacore is an IT company specialised for the insurance industry and is located in Stockholm, Arvika and in Belgrade, Serbia. The company provides a web-based standard system for the insurance business specialising in accidents and injuries. The company was founded in 1993 in Sweden and 2005 in Belgrade.

The office in Serbia is a Swedish subsidiary, with 15 of Mantacore's 50 employees, and was formed four years ago. The respondent for the interview was Ulf Bowallius (Bowallius), the founder and the former CEO. He left the position in favour of Carl Magnus Björk in February 2009, to concentrate on the role as business developer with focus on new markets and new selling channels.

For Mantacore Serbia was not the only option for investing abroad. India was also considered as a possible location. The reason for choosing Serbia was, according to Bowallius, more or less a coincidence. One of Mantacore's employees used to live in Belgrade, from where his parents originated. Through this contact the company had a source, which it could use to find excellent system developers. Bowallius emphasises the importance of having someone to trust and who also knows the language.

Bowallius says that the main reason for placing its development centre abroad was to lower the development costs. The aim was to find a place where programming and system development could be performed at a beneficial cost.

Mantacore had an initial plan to enter the Serbian market. The first step was to establish the current development centre for its Nordic customers. Next step was to extend its market through local Serbian customers. Bowallius explains that together with the Swedish trade council the company made a survey, which indicated that the market was not ready for Mantacore's business. He further explains that it was difficult to find insurance companies that were interested in Mantacore's solutions. Bowallius continues talking about that the company did have a couple of smaller customers at the beginning, to whom it offered services outside the core operations. It contributed to cash-inflows but the company did not experience that it was worth the effort. Hence, today Mantacore exports its Serbian services to its customers in the Nordic countries and the Baltic States.

However, Bowallius states that the company is currently not interested in penetrating the Serbian market, which means that its main task is to attract the best people to work for Mantacore. Bowallius explains how professors at the University of Belgrade have supplied Mantacore AB with the most proficient students. He also states that the company has a good reputation in the area since it is paying its taxes, offering competitive salaries, and is having a high standard in personnel politics. An IT company working with latest technology is an attractive employer here. He says that Swedish firms in general have a great reputation.

Bowallius tells us that since Mantacore entered Serbia things have happened within the insurance industry. Now there are several multinational organisations that have established a position on the Serbian market. Bowallius says that many of the smaller, domestic firms have

stepped aside in favour for the larger international firms.

In the discussion about Serbia's potential membership of the European Union Bowallius sees both pros and cons. The main upside he sees, from the perspective of Mantacore, is that it probably will make the currency more stable. However, he believes that a membership probably would do more economic harm than good for Mantacore, since the salaries would rise to a level almost equal to the European Union.

Getinge AB

Getinge is a global supplier in health care and life science industries and has its roots in Sweden since 1904. Later Electrolux, through whose distributors Getinge managed to extend its global network, acquired the company. In 1989 Electrolux sold off Getinge and four years later it was introduced on the Stockholm Exchange. The company operates worldwide. Getinge has its own sales offices in about 25 countries and the rest of their international businesses are performed through local distributors.

Getinge International AB consists out of all the distributor markets, which mainly are developing countries in Eastern Europe, parts of Asia, Middle East, and South America. The respondent for the interview was Wilhelm Tham (Tham), Sales Manager for Eastern Europe. Tham explains that since these markets are not ready for own sales offices, Getinge has chosen to institute cooperation with local distributors. This means that Getinge does not have any sales office in Serbia and is therefore exporting goods to this region. Getinge is divided into three business units and Tham works within Infection Control under the brand Getinge. He emphasises that he only can speak for his business unit, but he believes that no business units has made any investments in plants or sales offices in this region.

As sales manager for Eastern Europe, Tham works directly with the local distributor Medika Project in Serbia, with which Getinge has had cooperation for 12 years. Tham states that Medika Project is a very competent distributor, among the best in the region. He continues saying that it is highly important for Getinge to have technically skilled distributors and indicates that Medika Project has the right knowledge. This is of importance in order to keep good customer relationships, as Getinge's products are durable goods that demand proficient customer service. This cooperation started during the era of Yugoslavia, when Medika Project was Getinge's contact for the entire region.

Since Tham has not worked at Getinge from when it entered in the area, he is reluctant to answer whether there have been changes in the effects of the political situation in Serbia for Getinge. But he does state that collaborations with the European Union are traceable. Getinge recently closed a deal that was financed through the European Union, which indicates that financing in Serbia could be found through the EU, despite the fact that Serbia is not part of it. Tham, however, believes that Serbia works hard on becoming a future member of the European Union. He says that the government focuses on building stability, both economically and socially, especially through infrastructure, schools, and medical care. This means that investments in for instance medical equipment are of importance. In 2007 Getinge started off a project with the health authority in Serbia and the European Agency of Reconstruction. The aim of the project is to update Serbian hospitals regarding medical waste treatment. According to Tham, a standard order for Getinge is around two to three units,

which indicates the size of this project; Getinge delivered 78 units during 2008.

There is a large military hospital in Belgrade, which was the main hospital in former Yugoslavia, and is now open to the public. Getinge has delivered a large amount of medical equipment to this hospital since the end of the 1990's. Tham declares that this is an important reference for Getinge in the Balkan region, since it has given company a name in the area.

For Getinge it is also important with the increasing political stability and safety, as it improves the possibilities for successful investments. Tham has not seen any larger disadvantages doing business in Serbia compared to elsewhere. However, he believes the reason for this is because of the successful cooperation with Medika Project. He states the importance of having local representatives, both regarding installation and service and continues by saying that Medika has been the key factor to Getinge's success in Serbia. He also mentions that Swedish goods are very popular in this region, they stand for quality and reliability, and he adds that the main production still is in Sweden.

Cleps AB

Cleps is a consultancy company within the renewable energy industry. Its main business is consulting services in the area of distributed power generation, especially in wind power plants. Another special field of Cleps is contracting issues between network operators and owners of production plants. The company also have knowledge in project electrical installations.

The Swedish company was founded in 2001 on Gotland and in 2004 a subsidiary, with one employee, was registered in Serbia, Cleps d.o.o. The subsidiary also has another Swedish owner Slitevind AB and the owner structure between the two Swedish companies is 50/50. The respondent for the interview was Christer Liljegren (Liljegren), the CEO and the founder of the company. Cleps is also active on the African market in Ghana. The reason for starting up a new Serbian company and not take action as the parent company is due to the financial risk for the parent company; this is a way of keeping the mother company credit worthy, as new projects lead to higher financial risks

The initial reason for the activities in Serbia originated from a contact and cooperation with an investor in Serbia. It was an unexploited market for renewable energy. Liljegren indicates that this also is a possibility for Serbia to show the European parliament that the country invests in environmental energy sources, which he believes can attract other investors to the country. He continues saying that it is not an advantage to be the first on this market. It helps having other similar international investors already leading the way. It is hard to get permissions to set up large power plants and due to the political situation the focus has not been on renewable energy in Serbia. He says that, in general, social responsibility has not been a priority.

Liljegren explains that the bureaucracy in Serbia is significant and complicated. Cleps has earlier had problems due to the political instability in the country and Liljegren admits to some corruption problems. The main issue with corruption is time. He says that, as always

shortcuts are possible, but at a higher cost. If you are not willing to pay, doing business in Serbia takes time.

One important reason for the investment is the possibility to charge higher electricity prices. Cleps is currently waiting for a tariff on electricity prices; if this becomes reality, higher prices with the same, or even lower, investment costs compared to Sweden will make this a profitable investment. Liljegren states that the most notable difference between investing in Serbia and a developed country is the sizable price differences on land leases.

The electricity prices are not set by market demand, but are a social political issue. According to Liljegren, this is one of the most interesting aspects with being active on the Serbian market for an energy company. The government sets the tariffs and that will encourage similar activities in the country. This means that every kWh is paid by a fixed amount.

Liljegren also mentions the culture difference in making business in a country with a population that has learned how to survive a life with war. During 1990's there was a group of people who made a lot of money just by speculation on D-mark. The Serbian Dinar had a high inflation rate and by trading goods in D-mark businessmen became wealthy. Liljegren believes this has affected the legislation and the trust in the financial system, because these people have experienced a collapse of the system. However, he mentions the difference in doing business in Serbia compared to Ghana. He says that the culture differences are highly visible and he indicates that the work ethic is more enhanced in Serbia.

The main issue for the location is to find a good windy place for the equipment; hence, main location reason is to enter a new unexploited market. Liljegren mentions that what attracts Cleps to Serbia are the possibilities to a new market. There are currently a lot of investments in wind power in Sweden, but totally on the world market there are few. This is why Swedish companies in this business need to search for new profitable markets. What Cleps can contribute to this market is knowledge about renewable energy and bringing trustworthy suppliers to the area.

The company has experience in working with different legislation that competitors might not have, which therefore might not see this area as the possibility it actually is. Cleps currently works with creating a business plan around this experience. Liljegren mentions that the competition has changed since Cleps started up its activity in Serbia, now there are more actors on the market. He states that the analysis they made when Cleps first started its measurements and research in Serbia was correct; the Balkan area needs renewable energy. But the pace of the development is slower than forecasted.

Investments in wind power require big and heavy equipment. Serbia is located by the river Donau, which will make the transport easier. It is possible to transport the equipment on tank boats on the river, which gives Serbia a location advantage over other Balkan countries, Liljegren continues.

Liljegren emphasises, to be able to understand the legislation and also know how to do business in Serbia it is important to have local people to work for you that you can trust. If you do not know the language or the background to business in Serbia it is hard for a

company to survive. Liljegren continues that the people in Serbia have great skills and are well educated. He mentions that the technical knowledge in Serbia is as high, or might even be higher than in the Nordic countries. He says, this is something you have to use, the people want to work for international companies and especially Swedish companies have a well-known reputation there. It is always welcome to bring work to a country, hence, this helps cooperate with the ministry and the government in order to obtain the different permits needed for setting up business.

The politics has been a strong variable. The relationship with EU is important for international investors in Serbia. The government has just started to function, which means that global companies have the possibility to invest there. A year ago Liljegren doubted that the project would be able to follow through, but now it looks brighter. The plan is to get the projects going to be able to sell them off. When the company entered 2004 Cleps did not realize how instable the country actually was. Despite that Liljegren sees a change for the better it is still a struggle doing business here.

Winstart

The company was founded 1998 by Pera Tudt (Tudt) in Sweden and its business plan is to create web domains and web hotels which includes design etc. Pera Tudt is the creator and the only employee. Winstart registered a company in Serbia 2006 and is only active in the Scandinavian countries and Serbia. The plan for the Serbian company is that it will become a subsidiary.

The initial reason for investing and starting activities in Serbia is because it is from where Tudt is and know the language, but he also mentions the cheap labour that Winstart has access to. He states that it is much cheaper to hire people in Serbia than in Sweden, that it is possible to get the same skills for 3-4 times lower cost. Tudt also talks about the possibilities of being there at this moment. He talks about the problem Serbia has had and explains that the development is happening now and believes that it is an advantage to be where the change is. The country is developing in a faster pace than it did in more "western countries".

The main risk Tudt identified is the distance between Sweden and Serbia. He cannot have completely control over his business there. He talks about a learning process for the company regarding who he should contact and how. It is important to create routines so that the company can function.

For Winstart the geographical location is not a more of an issue than Tudt's background. He also believes that a possible EU-membership is positive for Winstart. Today the different transactions are complicated and Tudt believe this will be easier if Serbia becomes a member of the European Union.

Tudt continues about the good reputation Swedish companies have in Serbia. He believes this is a great advantage when trying to establish a company there. He also believe that compared to other emerging markets like India and China that it is easier to cooperate with Serbia, because the population is "almost like people in western countries".