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**HOST COUNTRY DETERMINANTS AND INVESTMENT
MOTIVES OF FINNISH FDI IN THE PUBLISHING
SECTORS OF BULGARIA AND ROMANIA**

Case: Sanoma Magazines International

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1 INTRODUCTION

1.1 Background

Foreign direct investments (FDI) are an essential part of the international business and have also inspired numerous researchers investigating their reasons and effects. Foreign direct investment is also one of the drivers of international business together with exports and imports. The term FDI refers to investments of equity funds in other nations. FDI is used especially by multinational enterprises in order to control their foreign operations and many companies use it to gain a foothold in global markets. FDI can be made by setting up new operations in foreign markets (greenfield investments) or acquiring existing businesses in other countries. (Rugman & Hodgetts 2003, 8.)

According to IMF (2003, 153) a foreign direct investment company is “an incorporated enterprise in which a foreign investor owns 10 percent or more of the ordinary shares or voting power of an unincorporated enterprise in which a foreign investor has equivalent ownership”. The 10 percent ownership of the ordinary shares or voting stock is the general criterion used in determining whether an investment can be classified as a direct investment (IMF 2003, 23, 153). FDI involves a long-term relationship and reflects a lasting interest and control by the investor investing in an economy other than its home country. This implies that the foreign investor has a lot of influence on the management of the enterprise in the other economy. (UNCTAD 2003b, 231.)

The role of FDI is very important in the development of transition economies, which makes them even more interesting objects for research. The nations of Central Eastern Europe have encountered many social and economic changes since the collapse of the communist system, which initiated a development into functioning market economies. These countries are classified as transition economies in order to describe this development process and the special circumstances in the economies that also shape the business environment. Since the countries have developed from centrally planned economies towards market economies they are offering increasing amounts of opportunities for foreign companies looking for new ways to expand and increase their profits. The reintegration of Central and Eastern European (CEE) countries into the world economy has been and still is a difficult process. In many cases liberalisation in trade and capital flows became the first vehicles of integration.

Bulgaria and Romania are examples of transition economies in CEE. Their development has, however, been somewhat behind the more successful transition economies and they have begun to attract foreign companies and FDI rather late.

Appendix 1 includes a description of the FDI structure and development of Central Eastern Europe. The description in this section concentrates on Bulgaria and Romania, which have been chosen as the research context of this study. The countries in CEE, not joining the EU, increased the inflows of FDI in 2003. Especially in the south-eastern part of the area, the increase was at least partly due to privatisation deals. (UNCTAD 2004, 70.) The inflows of FDI to the new EU-countries began to decrease in 2002, when most of the large privatisation projects were finalised, especially in the Czech Republic and Slovakia. In south-eastern Europe, however, the privatisation is still an ongoing process. Structural changes are also believed to attract increasing amounts of FDI to south-eastern Europe in the near future. (Spiridovitch 2004a.)

In order to illustrate the changes the amounts of per capita FDI inflows to the Czech Republic, Bulgaria and Romania from 2002 to 2005 have been presented in Figure 1.

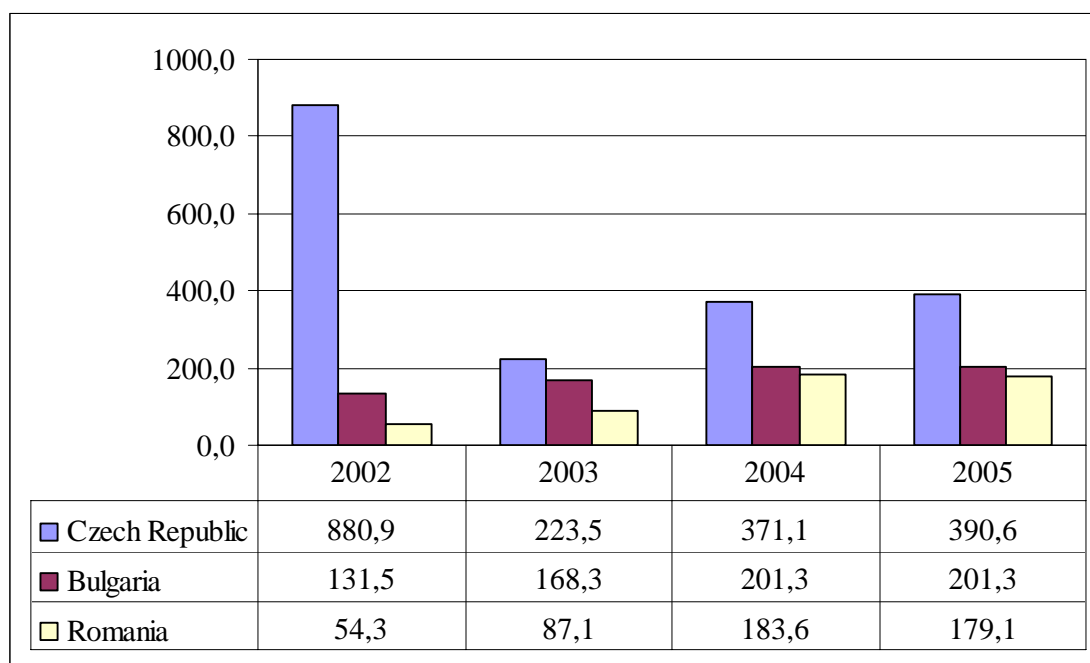


Figure 1 FDI inflows to selected host countries in CEE 2002-2005, €per capita (The Vienna Institute for International Economic Studies 2005; CIA 2005)

As the amounts in Figure 1 show the inflows to the Czech Republic decreased significantly from the preceding year in 2003 after the EU membership whereas the inflows to Bulgaria and Romania increased. The inflows to the Czech Republic have however began to rise again, but the comparison of the inflows to Bulgaria and Romania reveals that the differences in amounts have decreased significantly, although in 2002 the inflows to the Czech Republic were much higher.

As can be concluded on the basis of Figure 1 the amounts of FDI inflows to Bulgaria and Romania have until lately been modest in comparison with for example the Czech Republic. The comparison of per capita inward FDI stock of the Czech Republic and Bulgaria and Romania has been presented in Figure 2 in order to further exemplify the differences.

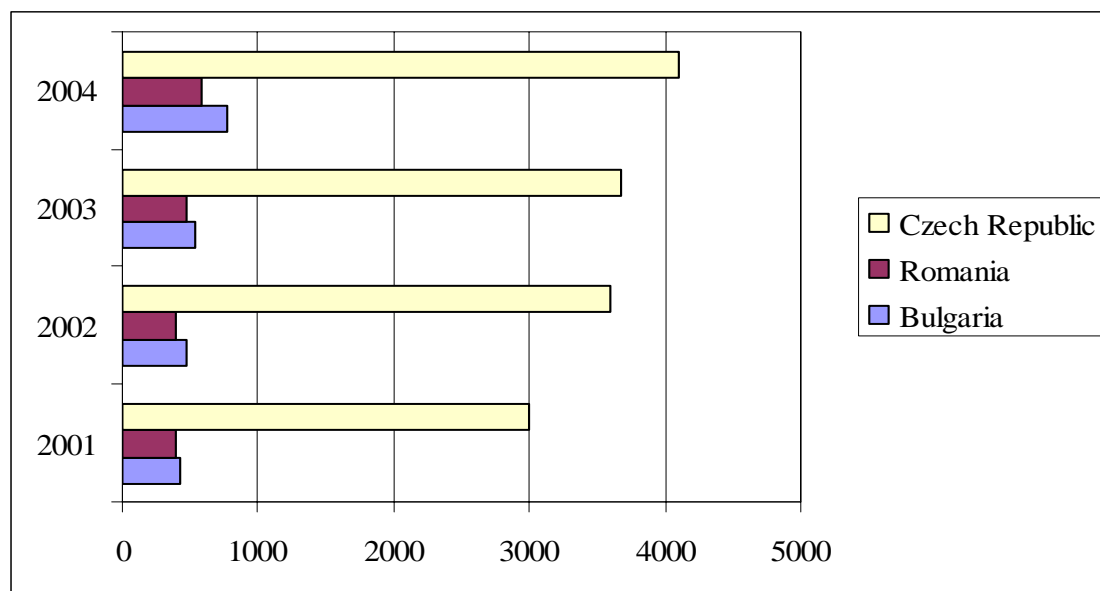


Figure 2 The development of FDI inward stock in Bulgaria, Romania and the Czech Republic 2001-2004, €per capita (The Vienna Institute for International Economic Studies 2005; CIA 2005)

The differences in the amounts of FDI stock is even clearer and reveals the more favourable position of the Czech Republic. The most important reasons for the lack of interest towards Bulgaria and Romania have been the small size of the market in the case of Bulgaria, the low purchasing power of the population, weak middle class, underdeveloped infrastructure, bureaucracy and corruption, which apply for both countries. (Spiridovitsh 2004b, 18.) Appendix 2 includes a wider description of the FDI in Bulgaria and Romania.

Despite the relatively small amounts of FDI to Bulgaria and Romania so far, the interest towards these countries has been increasing due to their development and future integration to EU among other things. Also the Finnish companies have begun to emerge to these countries as they are looking for new opportunities and profits. According to the Embassies of Bulgaria and Romania in Finland there are around 60 Finnish companies operating in Romania and less than 20 in Bulgaria (Bulgarian Embassy in Finland 2005; Romanian Embassy in Finland 2005). For a deeper description of the trade between Finland and Bulgaria and Romania as well as Finnish investments in these countries see Appendices 3 and 4.

Although the amount of Finnish operations in Bulgaria and Romania has been quite modest so far, it is likely to increase in the future. These countries are in other words rather new business environments from the Finnish point of view and the research of the Finnish firms is also consequently rare. It is therefore interesting to study the experiences of a publishing company with Finnish ownership, which already has operations in the countries and thus increase the understanding of the opportunities and other possibilities these business environments offer. As a background for the analysis the following sections will shortly describe the FDI factors and publishing markets of Bulgaria and Romania, since these two aspects form the most important context of the research setting. These descriptive sections will be followed by a more detailed description of the research problems and the purpose of the study.

1.1 FDI opportunities and challenges in Bulgaria and Romania

The level of education is high in both Bulgaria and Romania and the production costs on the other hand are low. 15% of the population in Bulgaria has a university degree, which provides companies with highly educated employees with lower costs. As can be seen in Figure 3, the average wage in both Bulgaria and Romania in 2003 was under 200 €

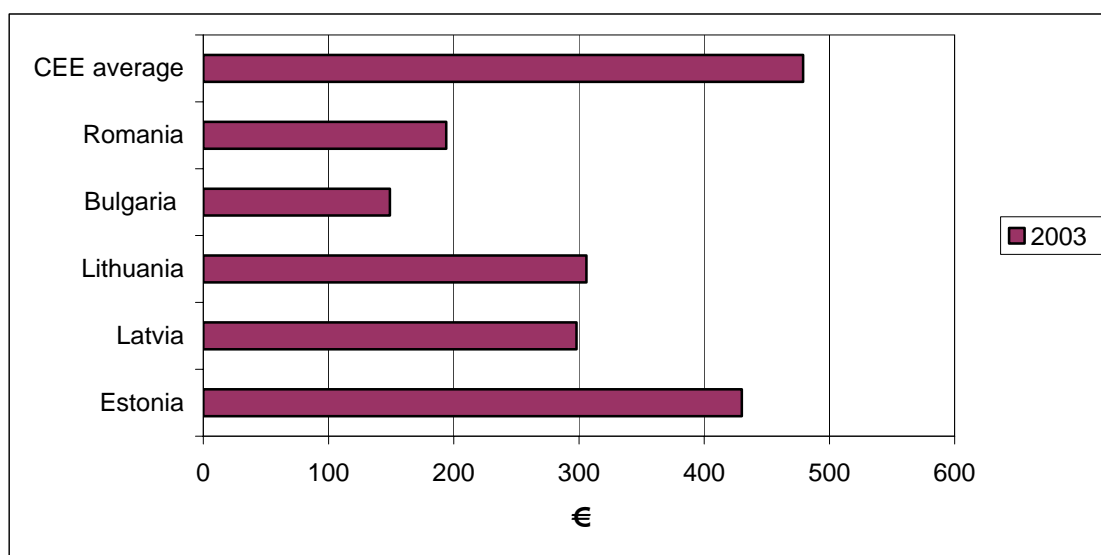


Figure 3 The average wage in Bulgaria and Romania in 2003 (adapted from Spiridovitsh 2004b, 37; Baltic Rim Economies 2004)

The comparison in Figure 3 reveals that the average wages of Bulgaria and Romania were less than 50% of the CEE average in 2003. The figures for the Baltic States

have been presented in order to show the differences between the wage levels of these countries and the Balkans. The wages in Bulgaria and Romania are considerably lower than the wage level in the Baltic States, although the average wage in the Baltic countries is still quite low compared for example with older EU-member countries.

Bulgaria has a lot of know-how in electronics, because it was the most important supplier of semiconductors to the whole eastern block in the communist era. There are therefore a large proportion of IT professionals in Bulgaria. (Spiridovitch 2004b.) In addition to this, EBRD (2003a) states that the productivity gains were higher than increase in real wages in 2002, which preserves Bulgaria's external competitiveness. Positive developments for the foreign investors have also been the improvements in macroeconomic and political stability, stronger growth and the prospect of EU membership in 2007. (EIU ViewsWire 2003a.)

In Romania, on the other hand, there is an abundance of raw materials available. The cheap and relatively skilled workforce together with a diversified industrial structure allows intermediate inputs to be bought locally, and natural resources create possibilities especially for resource-seeking FDI in Romania. (EIU ViewsWire 2003b.) EBRD (2003b) lists comparatively low wages, rising productivity, attractive market size, location and the prospects of EU membership as the key factors for foreign investors, which are interested in relocating their production to Romania. The privatisation is still underway and the EU accession is set to happen in 2007. (Spiridovitch 2004c, 3; EIU ViewsWire 2003b.)

The low employment and other business-related costs attract direct investors to the Bulgaria as well (Spiridovitch 2004b, 37). Bitzenis (2003) studied 64 MNEs investing FDI in Bulgaria, and the most important incentives for these investors, according to the research, are market size, low labour costs, geographical proximity, international pressures, market growth, links to other neighbouring countries, lack of local competition, acquiring assets, avoiding trade barriers, local unsatisfied demand, following the clients, existing business links, export base and cultural closeness, explaining especially the amount of Greek investors in the country.

Low production and employment costs together with high education levels suggest that resource-seeking motives for direct investments in Bulgaria and Romania are probably very important, especially because of low cost work force. The presence of foreign retail chains, suggests also market-seeking FDI motives attracted by large market size of Romania and growing private consumption.

The negative features of Bulgaria from an investor's point of view include the relatively small size of the market and the low average purchasing power of the population, of which a considerable percentage is classified as poor and also the middle class is still quite weak. There are also deficiencies in the laws and their execution and the infrastructure and finance possibilities are still underdeveloped. Also the corruption

and bureaucracy create challenges for foreign investors. (Spiridovitch 2004b, 3.) Other negative factors in Bulgaria include crime, macroeconomic instability, high taxation and lack of managerial skills. (Bitzenis 2003.)

The negative aspects of the Romanian market are the instability of the macro economy and the weak execution of laws. Bureaucracy and corruption as well as defective infrastructure create challenges for business operations in the country. The organisational culture is also quite undeveloped. (Spiridovitch 2004c, 3.) EIU ViewsWire (2003b) adds the economic instability, poor reform progress, high regional risk and the unpredictable legal and regulatory systems to the list of obstacles for FDI in Romania. The slow progress in privatisation and structural reforms as well as the poor investment climate and administrative barriers are the main obstacles to private sector development and higher FDI inflows (EBRD 2003b, 6). A large proportion of the population is also poor leading to weak purchasing power. In 2003 approximately 25 percent of the population was living in poverty and about 9 percent in extreme poverty (Anti-Poverty Commission and Promotion of Social Inclusion in EIU ViewsWire 2005).

Romania is becoming a two-tier economy with emerging sectors associated with FDI and declining sectors that are either state-owned or receive subsidies from the state. The main sectors to attract FDI have been telecommunications, trade and services, energy, metallurgy, pharmaceuticals, food and beverages. Increases in real wages and the emergence of a new middle-class are stimulating the demand for example higher-quality consumer goods, food and beverages, resulting in the development of retail chains. The expanding sectors are the same that attract inflows of FDI, with motives either to serve the domestic market or to act as a base for exports. (EIU ViewsWire 2004.)

The amount of Finnish companies and Finnish investments is low both in Bulgaria and Romania. According to Gerova (interview 10.5.2005), the reasons for the lack of Finnish companies in these countries is due to the distance and the unfamiliarity of the markets. These countries are still considered to include more risks related to investments than some of the more familiar countries such as the Baltic States. She also points out that many Finnish companies are afraid of the competition from the German and Italian companies, among others, and think that they have already conquered the markets. Also the lack of local contacts can be a problem for the Finnish companies.

There are however possibilities for the Finnish companies in Bulgaria and Romania. There are already especially Finnish consultants, for example, developing the forest sector in Romania. Also the infrastructure, environment technology, machinery, water supply systems, biotechnology, IT-related technology, forest and paper and even the development of agriculture are interesting sectors for Finnish companies. Gerova (2005) thinks that it is important to visit the countries and create relationships with the

local partners in order to be more successful. She also states that the Finnish firms might not yet understand the potential in certain sectors and this reflects the lack of Finnish companies in the markets.

1.2 Publishing markets in Bulgaria and Romania

The publishing markets of Bulgaria and Romania offer new opportunities for foreign publishers looking for ways to grow their business. These markets are still in many ways underdeveloped and as a result not as saturated as many of the Western ones. This chapter will briefly describe the opportunities provided by the sector in Bulgaria and Romania.

Romania is the second-largest domestic market in CEE after Poland, but on the other hand it also belongs to one of the poorest countries in the area as can be seen in Table 1 presenting the GDP per capita in purchasing power standards (EIU 2005). The GDP rates of Latvia and Slovenia have been presented in order to enable comparison with two other CEE countries.

Table 1 GDP per capita in purchasing power standards (PPS), EU-25 –average=100. Comparison of Bulgaria and Romania (adapted from Eurostat 2005)

YEAR	2000	2001	2002	2003	2004	2005	2006
Bulgaria	26,8	28,3	28,6	29,6 (f)	29,9 (f)	31,2 (f)	32,0 (f)
Romania	25,2	26,5	28,5	29,5	31,7 (f)	32,9 (f)	34,0 (f)
Latvia	35,2	37,1	38,7	40,7	43,3	45,6 (f)	47,8 (f)
Slovenia	72,7	74,1	74,8	76,3	78,0	79,3 (f)	80,7 (f)

*(f) =forecast

The comparison with Latvia and Slovenia shows that the GDP levels of Bulgaria and Romania are very low, even lower than Latvia which is also far from the EU-25 average. Romania's as well as Bulgaria's GDP per head at purchasing power parity in 2004 was half of the level in Hungary which according to Eurostat was 61 and also far behind the EU-25 average which is 100. Both Bulgaria and Romania have reached similar levels although at the moment Romania is slightly ahead of Bulgaria in the GDP development. Both of the countries are however far from the development of the EU average. The real GDP growth rates, presented in Table 2, however seem more positive and can create new opportunities in the future.

Table 2 Real GDP growth rate at constant prices 2000-2005. Percentage change on previous year. (Eurostat 2005)

YEAR	2000	2001	2002	2003	2004	2005	2006
EU-25	3,7	1,8	1,1	1,0	2,3	2,0 (f)	2,3(f)
EU-15	3,7	1,8	1,1	0,9	2,2	1,9(f)	2,2(f)
Bulgaria	5,4	4,1	4,9	4,5	5,6	6,0(f)	4,5(f)
Romania	2,1	5,7	5,0	4,9	8,3(f)	5,5(f)	5,1(f)

*(f) =forecast

According to Spiridovitch (2004b, 3) the sustained growth of GDP and expected positive development in Bulgaria create possibilities for foreign investors. This is also true in Romania, because the GDP growth rates have been above the EU averages as could be seen in Table 2.

The distribution of GDP by economic sectors in Bulgaria and Romania is quite similar in general. Service sector is the most important sector contributing to the GDP in both countries. It accounts for 51 % of the Bulgarian and 44 % the Romanian GDP. Industry is another large economic sector contributing to over 25 % of the Bulgarian and Romanian GDP. (National Statistical Institute of Bulgaria 2005; National Institute of Statistics Romania 2005.)

The importance of the service sector for the GDPs of Bulgaria and Romania is due to the intensive growth in services resulting from economic development and growth. Romania is, however, becoming a two-tier economy, with emerging sectors growing fast and traditional ones declining. The emergence of a new relatively well paid middle class and increasing real wages are stimulating the demand for higher quality consumers goods and is reflected in the development of retail outlets and shopping malls spreading to the large cities. (EIU 2004)

In Bulgaria consumerist spending is also emerging, although many Bulgarians still live in poverty. The most disadvantaged are the pensioners, Turkish and Roma minorities, inhabitants of the countryside and depressed industrial areas. The development of a mass consumer society is still to be expected and a western styled middle class is also quite underdeveloped. The increase in real wages, however, provides foreign companies with possibilities of markets for consumer goods. These markets are modest in size, but will grow steadily and remain accessible. (EIU 2003b.)

The publishing and the media markets as a whole have encountered many changes after the end of the communism. The monopoly position of the state media has been

replaced by several private media groups in both Bulgaria and Romania. Table 3 introduces the publishing activities in Bulgaria in terms of circulation and titles of print media.

Table 3 Publishing activities in Bulgaria: Circulation of newspapers and magazines in millions and the number of titles in the market (adapted from National Statistical Institute of Bulgaria 2005)

<i>Magazines</i>					
Year	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Titles	581	647	678	673	661
Annual circulation	12	19	17	15	17
<i>Newspapers</i>					
Year	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Titles	582	545	465	401	386
Annual circulation	397	443	375	358	298

As can be concluded from the figures of Table 3 the circulation and the number of magazine titles have remained on quite a similar level from the beginning of 2000. The number newspaper titles has however decreased considerably since 2000. The circulation of magazines is quite low compared with the number of titles and the lack of growth in the circulation and diminishing number of titles tells about the slow development of the sector. Tabakova (2005) also points out that since the 1990s new publications have been emerging continuously while many of the older ones have totally disappeared. She also emphasises that the contemporary print market is dominated by tabloids, both dailies and weeklies, while magazines dealing with gossips, celebrities and affairs are the most prominent ones in the magazine media.

It can be said that the monopoly position of the state in the Bulgarian media has been replaced by the domination of several private groups. The largest media group in the Bulgarian print market is the German media group Westdeutsche Allgemeine Zeitung (WAZ), which started the invasion of the Bulgarian market in 1996. Currently the group owns newspaper publishing companies and one of the biggest distribution companies and printing houses in Sofia and Varna printing also other publications in addition to their own. WAZ publications also collect the greatest portion of advertising revenues directed to print media and have much higher profits than the competitive newspapers. (Popova 2004.)

As well as the Bulgarian media, the Romanian one has experienced profound changes and evolved in different directions after the fall of communism in 1989. The development has partly been influenced by politics and the officials have been accused of using the media as a tool to gain influence and power. (Ulmanu 2004.)

The Romanian print media is partly overcrowded already, largely due to low purchasing power, although the circulation figures are rather low for a country with 22 million inhabitants (ibid.). Table 4 illustrates the number of print media titles in Romania.

Table 4 Publishing activities in Romania: the number of titles of newspapers, magazines and other periodicals (adapted from National Statistical Institute of Bulgaria 2005)

<i>Newspapers, magazines and other periodicals</i>					
Year	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Titles total	1986	1932	1923	1947	2013
Daily newspapers	118	108	98	94	69
Other periodicities	1868	1824	1825	1853	1944

There are over 20 dailies published in Bucharest and most of them have a national circulation. Even so less than half of them attract enough advertising to be self-sustainable. All Romanian dailies are morning newspapers, because of the distribution problems caused by the present infrastructure would make it considerably more difficult to produce and sell afternoon or evening editions. Specialised or niche monthly magazines are also a flourishing part of the print media. Magazines aimed at women, men, adults and youth include many successful titles, some of which are provided by the case company of this research, such as Cosmopolitan. (ibid.)

The leader of the Romanian print media market is the Swiss group Ringier, which is controlling a large share of the national newspaper market and owns the largest circulation daily in Romania, the Libertatea tabloid. In addition the company also publishes several TV, women's and music magazines. In 2003 the group expanded its operation in Romania by purchasing the most popular sports newspaper Pro Sport and it also publishes a business and economic weekly Capital that has the largest circulation of business publications in the market. (Preoteasa 2004.)

In addition to circulation of the magazines, advertising is an important source of income for the publishing companies. The Central Eastern European advertising market is also rapidly expanding and becoming more competitive. The development is encouraged by wide coverage and relatively cheap audiences in the region. As a result of the region's further GDP growth and the development of consumer markets, magazines in these countries will gain advantage from the increasing amount of luxury goods advertisers. (FIPP Magazine World 2005.) Table 5 presents the advertising growth rates and expenditure for Bulgaria and Romania. The figures for the Netherlands and Hungary are provided for comparison.

Table 5 Advertising expenditure and advertising growth rates in Bulgaria and Romania (adapted from ZenithOptimedia 2004)

Advertising expenditure in 2004 (\$ millions)						
	Total		Total \$ per capita	Magazines	Magazines \$ per capita	
Bulgaria	254		34,09	14	1,88	
Romania	200		8,96	18	0,81	
The Netherlands	3862		235,38	877	53,45	
Hungary	1923		192,17	211	21,09	
Advertising growth rates %						
	2000	2001	2002	2003	2004	2005 (f)
Bulgaria	68,6	44,2	32,0	20,5	13,1	13,5
Romania	2,0	-7,4	6,1	22,1	30,5	8,7
The Netherlands	9,3	-3,7	2,7	-6,0	-1,2	1,7
Hungary	6,8	18,9	19,7	16,0	16,5	17,0

*(f) =forecast

The advertising expenditure in Bulgaria and Romania has traditionally been very modest compared with Western Europe. Also the comparison with Hungary reveals a considerable difference in the amounts spent in advertising. This is due to the under-development of the media sectors resulting the in the lack of interest by the advertisers. The relatively small amount of advertising revenue, which is unequally distributed, has created economic dependency among the media outlets which formerly was unknown in these countries (Popova 2004).

The advertising growth rates might, however, predict a more promising future for the media companies, although the growth rates have also varied quite a lot. Since the sector is still in the early stage of development growth in the advertising rates is to be expected.

Printing and distribution capacities are also an important aspect of the publishing business and the Bulgarian and Romanian facilities are therefore shortly discussed in the following. The largest distribution company in Romania is formerly state-owned Rodipet, which was privatised in 2003. State-controlled distribution has had a significant effect primarily on the local press in Romania and even the powerful media group Ringier has faced problems with distribution and has even accused Rodipet of censorship. (Preoteasa 2004.) Distribution is also a problem in the Bulgarian print market in addition to low circulation figures. There are a couple of large distribution companies and many small ones. Some of the distribution companies tend to defer payments to newspapers and even try to conceal the income from subscription and

insist on higher discounts. (Popova 2004.) The distribution is in other words unorganised and the whole retail sector is quite underdeveloped creating problems for the print media.

There are many local and foreign actors in the Romanian print market and the costs are much higher for small papers, because larger number of copies entitle larger discounts. In general there are many printing facilities all over the country and many papers have also bought their own facilities. (Preoteasa 2004.) In Bulgaria, on the other hand, the state printing house Rodina was privatised in 2003 and is currently handling the printing of the most of the dailies and weeklies, apart from those owned by WAZ. (Popova 2004.)

1.3 Objective of the study

Theories concerning FDI and internationalisation are numerous and many studies have also investigated these phenomena in the context of transition economies. Among the research concerning FDI to transition economies of Central and Eastern Europe there have been quite few studies concerning Bulgaria and Romania, which justifies the choice of these countries as subject material for this study. In addition to the lack of prior studies concerning Bulgaria and Romania, the countries are also interesting in the sense that they are in the process of integration to the European Community and the transition development, they have entered after the collapse of the communist systems, is still in the process of change. Table 6 presents a collection of some of the recent FDI studies in this context.

Table 6 Review of recent studies concerning FDI in Bulgaria and Romania

AUTHOR	YEAR	METHODS	MAIN FINDINGS
Marinov, M.A. & Marinova S.T.	1999	Case study	-Increasing competition and decreasing demand in Western Europe pressured the case company <i>Interbrew SA</i> to enter CEE markets -Case presented linkages between investor's internalisation strategy, motives, strategy implementation and adaptation in the volatile markets of Hungary and Bulgaria
Karagianni, S. & Labrianidis, L.	2001	Statistical analysis on macro economy level	-Balkan markets have provided many opportunities for Greek companies since many developed investor countries have maintained a cautious attitude towards these markets -The future risk for the Greek companies in the Balkans is the losing of the markets if they do not develop internationally competitive products
Minassian, G.	2002	Statistical analysis on macro economy level	-Slow emergence of economic institutions and negative effect of corruption on the prospects of growth and FDI inflows in the Balkans -Despite many obstacles the Balkans have managed to stabilise price growth and lay the foundations for future growth
Slaveski, T. & Nedanovski, P.	2002	Statistical analysis on macro economy level	-Political instability, low intraregional trade and the small size of national markets are some of the causes for the lack of FDI to the Balkans
Bitzenis, A.	2003	Survey of MNEs investing in Bulgaria	-The most important investment incentives in Bulgaria are market size, low labour costs, geographical proximity, international pressures, market growth, links to other neighbouring countries, lack of local competition, acquiring assets, avoiding trade barriers, local unsatisfied demand, following the clients, existing business links, export base and cultural closeness, explaining especially the amount of Greek investors in the country.
Kowalska, M.	2003	Case study	-Investment incentives of Bulgaria include stability, peace, potential of local entrepreneurs, location and cross-regional cooperation -Reforms are needed especially in the law-enforcement and regulations
Bitzenis, A.	2004	Statistical analysis on macro economy level	-Slow reform process and inefficiency of the government in Bulgaria have delayed privatisation and limited FDI inflows - Geographical distance of Bulgaria from advanced Western countries is an important barrier for FDI
Marinova, S.T., Marinov, M.A. & Yaprak, A.	2004	Multiple case study	- In the research of FDI privatisation processes in Bulgaria Complementarity, compatibility and congruity of motives, promises and actions were considered important in the successful development of FDI privatisation relationships

The purpose of this study is to investigate the location factors and investment motives affecting the choice of the host countries for FDI. Location determinants are present in many FDI theories, but different theories emphasise different aspect of investment decisions. One of widely recognised FDI theories is Dunning's eclectic

paradigm. This theory explains the investment activities of TNCs by means of ownership specific, internalisation and location advantages. (Dunning 1980.) The location is in other words seen as one of aspects affecting FDI decisions. This study will concentrate on this part of the investment determinants and study the importance of different host country factors in Bulgaria and Romania.

The eclectic paradigm will be the starting point for the analysis. It has been selected in order to provide a general view of the different advantages that form the background of the investments. The paradigm enables the investigation of the firm specific advantages as a part of the motivation for the investments. Since the location decisions have been affected by different strategic and other firm-related issues it is important to bear in mind that the firm is an entity and many other factors influence the location and host country determinants of the investment decisions. That is why the eclectic paradigm can be seen as an important part of the analysis, although the aim is to concentrate on the host country determinants and investment motives.

For the purpose of this study it is also important to determine the host country determinants related to foreign direct investments in transition economies, and to investigate how they affect foreign investor's opportunities to invest in these countries. The thesis aims at studying the opportunities, incentives, challenges and obstacles for FDI in these countries from the point of view of the case company. The study will examine factors concerning the location decisions related to FDI decisions. One of the research objectives is therefore to examine what the key determinants in choosing a location for foreign direct investments are and which factors in the host country increase and decrease the investment opportunities of foreign investors. The host country determinants are investigated by means of a theoretical framework used in the doctoral thesis of Wilska (2002). This framework has been chosen since it provides a useful tool for the purposes of this study and it includes an extensive list of the host country factors used in the analysis. Therefore it can be seen as a suitable analytical tool covering the host country determinant aspect of the theoretical framework of this study.

The third aspect of the theoretical framework is formed by the foreign production motives presented by Dunning (e.g. Dunning 1993). The decisions are based on four kinds of motives; market-seeking, resource-seeking, efficiency-seeking and strategic assets -seeking motives. This division of motives will be used in the study of the motives of the case company when it was considering Bulgaria and Romania as operational environments.

The empirical part will consist of the experiences and investment motives of a case company with Finnish ownership and the data will be collected primarily by means of interviews with persons responsible for the operations in these countries. Since there are relatively few Finnish companies with experiences of these countries and consequently there have not been many studies concerning the business there, the

results of this study can help the future investors in operating in Bulgaria and Romania as well as test the suitability of traditional FDI theories in this context.

The case company Sanoma Magazines International is based in the Netherlands and has operational units in both Bulgaria and Romania. It is owned by the Finnish publishing Group SanomaWSOY which makes it also interesting from a Finnish perspective. The case company was chosen on the basis of the experiences it has of both Bulgaria and Romania and because of the interesting nature of publishing business it engages in these markets. The analysis will concentrate on the material gained from several interviews with managers of the case company.

The study aims at understanding the investment motives and the location related determinants of the case company in this context. The analysis will also provide information about the investment environments of Bulgaria and Romania and the business realities from a foreign company's point of view.

The research problems of this study are related to the factors affecting a company's expansion and related FDI decisions in the Bulgarian and Romanian context. These issues will be studied especially from the point of view of the case company, by interviewing representatives of the company who have experiences of the investments to these areas. Company websites and annual reports will be used as secondary sources of information concerning the case company's operations and structure. Background material for the study will also be collected by interviewing an expert from Finpro specialising in Finnish FDI in Bulgaria and Romania. The research questions include following aspects:

- What are the motives and location specific determinants of Finnish foreign direct investment decisions in the publishing sectors of Bulgaria and Romania?
 - What are the motives for choosing these countries as targets for FDI?
 - What are the host country specific advantages and disadvantages related to the investment motives?
 - What are the most important similarities and differences of the publishing markets in Bulgaria and Romania?
 - What is the potential of the publishing sectors of Bulgaria and Romania?

Since the research approach chosen for this thesis is a case study, the motives and location related determinants related to them are discussed from the company perspective and can not be directly generalised for the whole population of companies investing in these areas. Since the foreign actors in the publishing sectors of Bulgaria and Romania are still very few a survey approach of the sector would not be very

useful. There is also very little research concerning the publishing sectors of Bulgaria and Romania and FDI in these countries in general. Therefore this study can be seen as a pilot study for wider research in the future. The experiences of the company can also give an insight to the investment and business environments of Bulgaria and Romania and provide useful information for other foreign companies planning to invest in the area.

The aim of this introduction has been to present the background of the study as well as state the purpose and research questions. The purpose of the introduction is also to place the study into its context and give the reader an idea of the objectives and research problems which will be investigated later in the study. The second chapter consists of the theoretical framework and will consist of the OLI-paradigm, the host country determinants of FDI and investment motives for FDI. The theoretical framework will introduce the theoretical foundation on which the research questions and the analysis of the data will be based on. The third chapter introduces the methodology used in the thesis and the reasoning for the methodological choices made in this thesis. This chapter also includes the evaluation of the study and gives the reader an opportunity to view the results of the study in a critical manner. The fourth chapter begins with the description of the case company and continues by the analysis of the data gathered from the case company interviews. The final chapter presents the results and conclusions drawn on the basis of the empirical part.

2 THEORETICAL FRAMEWORK

The purpose of this chapter is to describe and the theoretical framework and the interdependence between different aspects of the framework. The theoretical framework of this study is based on three aspects: The eclectic paradigm, the host country determinants affecting the location of FDI and the motives for foreign production. The framework consists of Dunning's eclectic model and motives for foreign production as well as Wilska's framework of host country determinants affecting the location choice of FDI.

Dunning's work is widely recognised and the eclectic paradigm is one of the best-known theories explaining FDI. The eclectic paradigm also includes the location aspect, which is the focus in this study. The eclectic model is also used as starting point for the analysis in this study in order to provide a wide description of the investment operations. Wilska's framework on the other hand has been chosen, because it has been developed to investigate a wide range of host country factors, whereas many other studies only test a couple of selected determinants. The third pillar of the theoretical framework consists of Dunning's foreign production motives, which initiate the FDI operations and provide a means to investigate the investment factors affecting the investment decisions of the company.

The different aspects of the theoretical framework will be discussed in more detail in respective chapters. The next section includes a review of the most important theories of FDI. This is followed by more detailed descriptions of the theories selected to form the theoretical basis of this study. The concluding section includes a discussion of the relationship and interdependence of the host country determinants and foreign productions motives.

2.1 Review of FDI theories

From an investor's perspective FDI is associated with the process of international capital flows and a certain degree of risk depending on the environmental factors such as political, economic, commercial and financial conditions (Marinova & Marinov 2003a, 5). There are several theories concerning FDI, with different perspectives. The following will give a short introduction to the most important theoretical developments of FDI research. Figure 4 presents the interdependence of different views of FDI research.

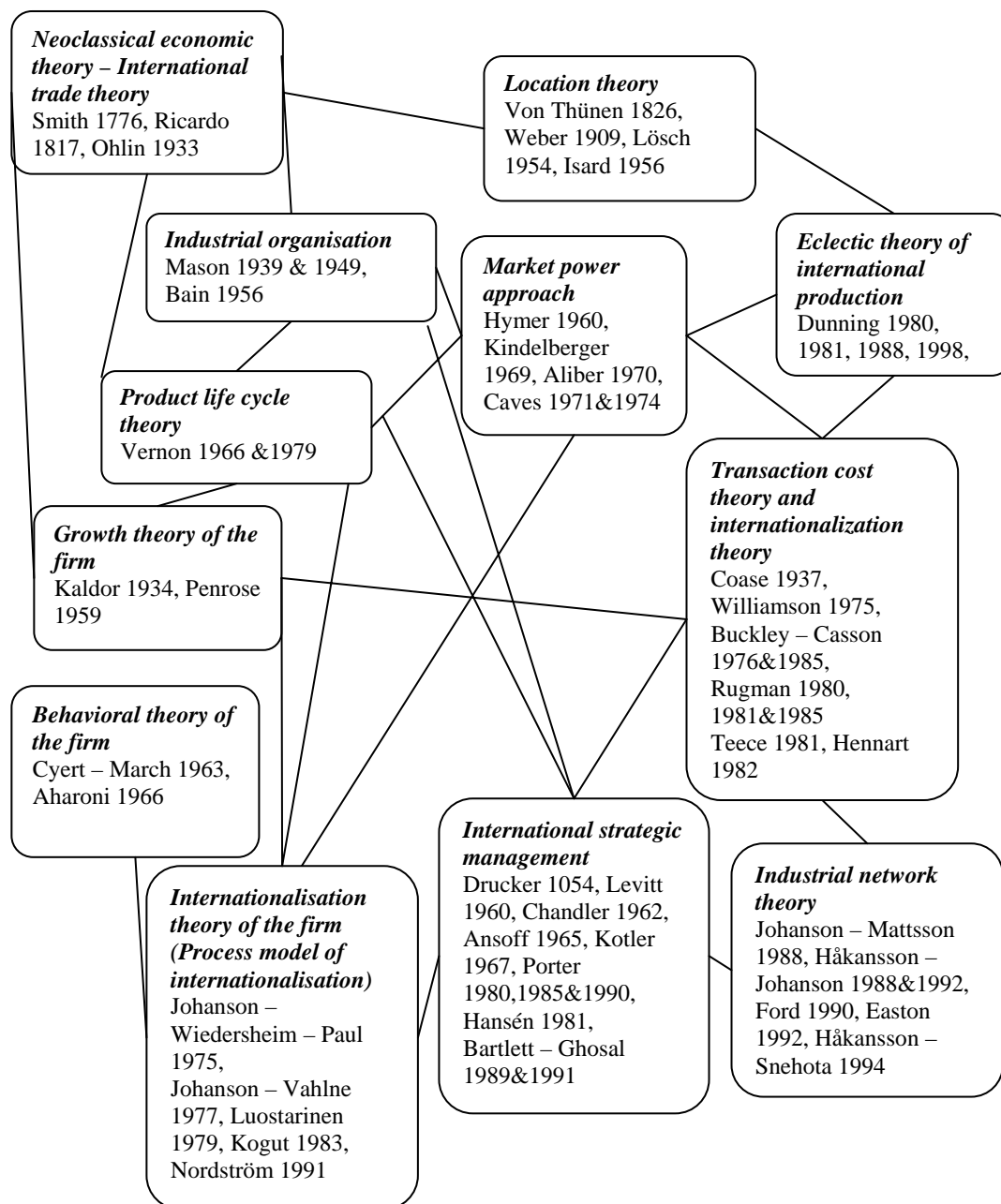


Figure 4 Main theoretical approaches to the study of FDI in international business (adapted from Wilska 2002, 29)

Neoclassical models of trade, which dominated the international economics until 1950s, concentrated on where the production should be situated and largely ignored the ownership and organisation of economic activity (see Figure 4 for representatives of these models) (Dunning 1993, 66).

The *Industrial organization* approach is based on the work of Mason (1939) among others. Until recently, this approach has mainly been applied to manufacturing sectors. The basis of the approach derives from neo-classical economics. The proposition is

that the higher a firm's market share, the higher will be its profit. Market power, market share, and profits are all related.

Penrose (1959: 49) states that "managerial resources with experience within the firm are necessary for the efficient absorption of managers from outside the firm. Thus, the availability of inherited managers with such experience limits the amount of expansion that can be planned and undertaken in any period of time." This proposition belonging to *the growth theory of the firm* suggests that the finite capacities of the firm's internally experienced managers limit the rate at which the firm can grow in a given period of time (Tan & Mahoney 2005). Figure 4 illustrates the relations of this theory with other approaches in the field.

The theory of industrial organisation by Hymer (1960) is one of the best known theories that belongs to the *market power approach*. According to this theory, companies must have some monopolistic advantage to be able to compete in foreign markets with the local firms, which might have the advantage of local knowledge. Other representatives of the market power approach are Kindelberger and Caves as can be seen in Figure 4.

The product life cycle theory, originally presented by Vernon (1966), is based on the interaction between firm-specific advantages, product life cycle and location-specific advantages. The theory relates the stages of a product to the location of investment and the choice of operation between exports and production abroad (Wilska 2002).

The internationalisation approach (e.g. Buckley & Casson 1976) has two general statements: firms choose the location with lowest costs for each of their activities and grow by internalising markets until the costs of further growth exceed the benefits. As Figure 4 illustrates this approach is connected with *the transaction cost theory* (e.g. Williamson 1975) which emphasises the economies of transaction as the major motivation for internationalisation.

One of the best-known theories concerning FDI is the *eclectic paradigm* (Dunning 1981). This theory, also known as the *OLI paradigm*, explains the investment activities of TNCs by means of ownership specific, internalisation and location advantages. Dunning (1993) also states that there are four main motives for foreign production multinational enterprises engage in. Following this classification, firms can be divided into natural resource seekers, market seekers, efficiency seekers and strategic asset or capability seekers. This division is however not straightforward in the sense that at least many larger MNEs have several objectives and most of the FDI they are involved in include characteristics of more than one of these categories. (Dunning 1993, 56-57.)

The Nordic internationalisation model, also known as *the Uppsala model*, of Johanson & Vahlne (1977) and Luostarinen (1979) among others, describe the internationalisation as a process, in which firms move into markets that are further away in

physical, cultural and economic terms as they gain experiences and knowledge from the earlier experiences of expansion. This approach has been presented in Figure 4 under the title internationalisation theory of the firm (Process model of internationalisation).

The behavioural theory of the firm, developed by Cyert and March (1963) among others, emphasises behavioural rules instead of profit maximisation. The behavioural rules include uncertainty, multiple and conflicting goals and decision makers' limited information processing capabilities.

International strategic management is based on business policy and strategic management which have been developed from organisation behaviour, marketing, economics and psychology (Wilska 2002, 27). One of the best-known contributors of the approach is Porter (e.g. 1990) introduced a diamond model presenting four attributes of the proximate environment determining the national competitive advantage of nations. According to Porter, firm strategy, structure and rivalry, factor conditions, related and supporting industries and demand conditions have the greatest influence on the company's ability to innovate and upgrade. These factors shape the information available for firms perceiving their opportunities, the pool of inputs, skills and knowledge, the goals that condition the investment and the pressures on firms to act. (Porter 1991). Some of the other important strategic management theorists have been listed in Figure 4 and include Kotler and Ansoff among others.

In *the industrial network theory* (Johanson & Mattsson 1988 etc.) FDI is seen as one aspect of growth of a firm in general, or as a means of forming relationships in industrial markets. The relationships on the other hand are the drivers of internationalisation. The increased mutual trust and commitment lead to FDI.

Theories of FDI location have their roots in the work Adam Smith, David Ricardo and J.H. von Thünen and Alfred Weber (see Figure 4). Since then several theories concerning FDI have included the location aspect as an important part of FDI decisions. Location decision can be studied on macro level and industrial level studying the different sectors.

2.1.1 Location in the FDI decisions

FDI is an important avenue for the growth of a company and it also plays an important role in transfers of capital, technology and managerial skills between countries. Location decisions are at the core of FDI investigation. The investing company seeking to maximise its profits with investments may depend on the location of particular subsidiaries for its profits. Location of the investments is therefore a very important aspect of the investment decisions (Benito & Gripsrud 1995, 43.)

A number of factors can have an effect on the location decisions of firms and the location aspect is present in almost every theory concerning FDI and international firms. The emphasis is on different factors depending on the firm's overall strategy, assets and the type of industry it represents. There are however factors that firms in general consider when making decision concerning FDI. These are related to the host countries' characteristics.

There are many empirical studies concerning the location aspect of FDI. Borsos-Torstila (1999) has studied the determinants of FDI operations of Finnish firms in transition economies and used location factors as a part of the framework. Also Golubeva (2001) has conducted an empirical research of FDI decision-making in transition economies including location factors as motivators. According to Marinova and Marinov (2003a, 5) an investor's perspective of FDI is associated with the process of international capital flows and a certain degree of risk depending on the environmental factors such as political, economic, commercial and financial conditions. Tahir and Larimo (2004) on the other hand investigated the role of location-specific variables and strategic motives in order to understand the location strategies of Finnish manufacturing firms in Asian countries. They identified that the large size of the target country, low cultural distance and low wage rate increased the probability of market and efficiency-seeking FDI. According to their study low inflation rates, low level of risks and low level of exchange rate fluctuations in the target country also increased the probability of undertaking risk-reducing FDI. These are some examples of the empirical studies concerning the location aspects of FDI.

According to the doctoral thesis of Wilska (2002, 45-46), used in the theoretical framework of this study, these determinants can be divided into host country market and input related factors, which are the primary determinants; secondary determinants related to external trade; and auxiliary factors. Location is also one of the three pillars of Dunning's eclectic paradigm that forms another aspect of the theoretical framework of this study. Appendix 5 includes more studies investigating the location factors of FDI.

The scope of the theories related to FDI in this study concentrates on three aspects. The first of these is the eclectic paradigm formed by Dunning (1980) This paradigm relies on three pillars: ownership, location and internalisation and considers the role of these in the decisions of foreign production. The second aspect is formed by the host country determinants presented in the doctoral thesis of Wilska (2002). This theory lists the important host country characteristics for FDI collected from several earlier theories. The third aspect is the theory of foreign production decisions by Dunning (1993), which defines the motives of investors for relocating their production to foreign countries.

The common nominator of the theories chosen for this study is the inclusion of location as an explanatory factor in FDI decisions. As the purpose of this study is to investigate the locations specific determinants and the motives behind the investment decisions of the case company, these theories form a suitable framework for this study. The three theoretical aspects of this study have been chosen in an attempt to find a covering framework for the purpose of the research problems in which the different theories would complement one another. In the analysis of the data the different theoretical aspects are used partly parallel in order to form a deeper understanding of the phenomenon.

2.2 The eclectic paradigm

Dunning (see for example Dunning & Archer 1987) has put forward one of the best known theories concerning FDI, namely the eclectic paradigm. The paradigm is a synthesis of earlier approaches to the FDI phenomenon. This theory, also known as the OLI paradigm, explains the investment activities of TNCs by means of ownership specific, internalisation and location advantages.

The theory states that the enterprises with headquarters in one country have some form of involvement outside the national borders of their home country if they have some competitive or ownership advantages over firms of other nationalities. In this situation they find it economic to combine these assets with factor endowments that are located in other countries. The choice to exploit these advantages determines the form of international involvement. (Dunning 1993.)

The eclectic paradigm of international production is based on a hypothesis that the level and structure of a company's foreign value adding activities are dependent on three determinants. First condition is the extent to which the company possesses or is able to acquire sustainable ownership-specific advantages compared with its competitors or potential competitors. These ownership-specific (O) advantages or assets can be tangible such as natural endowments, manpower and capital, or intangible and include for example patents, managerial skills and technology. (Dunning 1993, 76-79; 1980, 9)

The second condition, namely the internalisation advantages, refers to the decision of the company to add value to its O advantages rather than sell them or the right to use them to other companies. In other words the company has to consider whether it is more advantageous to sell or lease the assets to other companies, or to make use of them itself, in other words internalise them. The I advantages are connected to market imperfections and may reflect a greater organisational efficiency of hierarchies or the ability to exercise monopoly power over the assets governed by the company. (Ibid.)

Location advantages are related to the inputs that are available for all companies in certain countries including natural resources and transportation costs among other things. The L advantages depend on the extent to which the company decides to use and create O advantages in foreign locations. The distribution of the resources and capabilities is assumed to be uneven and the therefore also a decisive factor in comparisons of the L advantages of different countries. (Ibid.)

According to the eclectic approach a national company supplying its own market has various ways to pursue growth. It can diversify into new product lines or into new activities, including the production of knowledge. It can also acquire existing companies or exploit foreign markets. If it is economically grounded to expand into foreign markets, the company becomes an international enterprise. In order to be able to operate alongside indigenous competitors in these markets the company has to have additional ownership advantages needed to outweigh the costs of servicing an unfamiliar or distant environment. There are in other words two kinds of inputs that the companies can exploit. The first are location specific and related to certain environments. The others are created by the firms themselves. Multinational enterprises can also acquire additional advantages since they can possess different location advantages in different countries. The third aspect of the eclectic paradigm is the propensity to internalise ownership or location advantages by means of FDI. (Wilska 2002, 25; Dunning 1980, 9.)

2.3 Host country determinants (Wilska)

A number of factors can have an effect on the location decisions of firms. The emphasis is on different factors depending on the firm's overall strategy, assets and the type of industry it represents. There are however factors that firms in general consider when they are making decision concerning FDI. These are related to the host countries' characteristics. According to Wilska (2002, 45-46) these determinants can be divided into host country market and input related factors, which are the primary determinants; secondary determinants related to external trade, capital movement determinants and background conditions. These have been presented in Table 7.

Table 7 Host country determinants according to Wilska (2002, 191-193)

PRIMARY DETERMINANTS: 1. Host country market and input related determinants	1.1. Market size and growth 1.2. Transport infrastructure and distribution systems 1.3. Inputs 1.3.1. Labour 1.3.2. Intermediate goods 1.3.3. Natural resources 1.3.4. Land 1.3.5. Capital 1.4. Production related infrastructure 1.5. Linkages 1.6. Competition
SECONDARY DETERMINANTS: 2. External trade related determinants	2.1. Degree of openness towards external trade and foreign investment 2.2. Economic integration 2.3. Exchange rate policy 2.4. Promotional policies 2.5. Transport infrastructure 2.6. Geographical distance
3. Capital movement related determinants	3.1. Degree of openness towards foreign investment 3.2. Taxes and other incentives
4. Background conditions	4.1. Macroeconomic environment 4.2. Other infrastructure 4.3. Political and social stability 4.4. Metaphysical factors 4.5. Cultural distance

Some of the determinants in Table 7 need further description and they are therefore briefly discussed in the following paragraphs. The primary determinants (Table 7: 1) are factors that are related to the new host country and inputs available there. Market size, growth, demand and market potential are included in the market determinants (Table 7: 1.1). Quality and density of national transportation infrastructure and the distribution channels available are also important (Table 7: 1.2.). The input determinants (Table 7: 1.3.) include factors such as availability, quality and cost of labour, labour regulations, competent managers and the availability and cost of land and capital. The production related infrastructure (Table 7: 1.5.) refers to availability and cost of energy, water and communications. Linkages (Table 7: 1.6.) on the other hand mean nearness to suppliers, raw materials, clients, parent or partner owned firms or firms that are of same nationality or in the same industry. The competitive situation (Table 7: 1.7.) in the host country needs to be compared with other factors such as the opportunities and production related benefits in order to define its significance. (Wilska 2002, 45.)

The secondary determinants are related to external trade, capital movements and background conditions (Table 7: 2, 3 & 4). The degree of openness towards external trade and foreign investments (Table 7: 2.1.) refer to the existence of artificial barriers, such as tariffs to trade in goods and services. Economic integration (Table 7: 2.2.) from the investor's point of view means access to neighbouring markets as result of

integration arrangements and trade agreements of the host country. Promotional policies (Table 7: 2.4.) refer to export promotion and import subsidies. Transport infrastructure as a secondary determinant (Table 7: 2.5.) means the international transportation infrastructure. Geographical distance (Table 7: 2.6.) on the other hand refers to proximity and location of the host country in relation to the home country and possible third markets. (Wilska 2002, 46.)

The second group of determinants under the secondary determinants are the capital movement determinants first of which is the degree of openness towards foreign investment (Table 7: 3.1.) concerning government policies on foreign investment. These include investment laws and regulations and general openness towards international capital movements and repatriation of profits etc. The other aspect are the taxes and other investment incentives provided for the foreign investor (Table 7: 3.2.).

In the background conditions the macroeconomic environment (Table 7: 4.1.) includes factors such as economic growth, inflation and interest rates among other things. The other infrastructure (Table 7: 4.2.) means basic infrastructure that is not directly related to production and transportation. Metaphysical factors (Table 7: 4.4.) include civil institutions, political, judicial and economic organisations, strategic and political capacity, the rule of law and other socio-cultural factors. The cultural distance (Table 7: 4.5.) finally refer to ideological, language, cultural, business and political differences between the home and host countries of the investors.

The conclusion that can be drawn on the basis of the factors in Table 7 is that there are a number of factors influencing a firm's direct investment decisions. The importance of each factor depends on the firm and the reason for which it is expanding abroad. The decisions concerning foreign production will be discussed in the following chapter.

2.4 Foreign production decisions

The other interest area of this study, in addition the location specific determinants represented by the host country determinants, are the investment motives of the investors engaging in FDI operations. The theoretical background used for this purpose is Dunning's classification of the motives for FDI which has been developed and extended from Behrman (1972).

According to Dunning (1993) there are four main motives for foreign production multinational enterprises engage in. Following this classification, firms can be divided into natural resource seekers, market seekers, efficiency seekers and strategic asset or capability seekers. This division is however not straightforward in the sense that at

least many larger MNEs have several objectives and most of the FDI they are involved in include characteristics of more than one of these categories. Dunning also points out that each type of these activities is either aggressive or defensive, depending on whether the investor is taking a pro-active action or reacting to actions of the competitors or governments, which might require them to protect their market position. The motives of the foreign investors can also change, especially when they move from the initial stage of first investments abroad to being experienced foreign actors. The first foreign investments are usually made in order to seek natural resources and access markets. Later on, as the foreign activities of the firm increase they can use their presence in different markets in raising efficiency and thus improve the global market position. (Dunning 1993, 56-57.) The following subchapters will present the four types of FDI production motives in more detail.

2.4.1 *Resource-seeking FDI*

The FDI made in order to gain access to resources is motivated by the lower real cost of the resources in the host country compared with their home country. The resource-seekers can be further divided into three main types presented below. (Dunning 1993, 57.)

The first type consists of primary producers and manufacturers seeking physical resources in order to minimise costs and secure the supply sources. These resources include for example minerals, raw materials and agricultural products. Another characteristic of this kind of FDI is that it usually requires significant amounts of capital. (Dunning 1993, 57.)

The second type of resource-seeking FDI aims at finding large supplies of cheap and well motivated either unskilled or semi-skilled labour. This kind of investment activity is usually carried out by manufacturing and service MNEs based in countries with higher real labour costs than in host countries. FDI is a means to supply labour intensive intermediate or final products for export. Host countries can attract such production by setting up free trade or export processing zones. (Dunning 1993, 57.)

In the third type of resource-seeking FDI is driven by the need to acquire technological capability, management or marketing expertise and organisational skills (Dunning 1993, 57).

2.4.2 *Market-seeking FDI*

The companies engaging in market-seeking FDI invest in the country or region in order to supply goods or services to the markets in the host country or a country that can be accessed through the production in the host country. Most of the market-seeking companies have previously exported to markets, which are driven to the investment decision as a result of increased tariffs or other barriers to trade imposed by the host country, and increasing the costs. According to Dunning (1993) this is also the most important reason for market-seeking FDI. Governments can also attract inward FDI by offering investment incentives such as tax concessions. Firms may also aim at replacing its exports to a foreign market by setting up production to a third country and exporting to that market from there. (Dunning 1993, 58.)

Market-seeking FDI can be motivated by the desire to sustain or protect existing markets or access new markets. Attractive markets for these kinds of investments are large sized markets with prospects of growth. Another reason for market-seeking FDI can be caused by the main suppliers or customers setting up production abroad and the firm has to follow them in order retain its business. Market oriented FDI can also be affected by the need to adapt products to local tastes and needs or resources and capabilities. Serving local markets from a close production location also decreases the transaction costs. An increasingly important reason for market-seeking direct investments is the global strategy of MNEs, which might require a physical presence in the leading markets served by its competitors. (Dunning 1993, 58-59.)

2.4.3 *Efficiency-seeking FDI*

The role of efficiency-seeking FDI is to rationalise the structure of established investments, which can be resource- or market-seeking. By doing this it can gain benefits such as economies of scale and risk diversification from common governance of geographically dispersed activities. Efficiency-seeking FDI intends to take advantage of different conditions, cultures, institutions and other characteristics of the markets it has presence in. Efficiency-seeking investment can also be motivated in countries with similar economic structures and income levels by taking advantage of the economies of scale and scope. (Dunning 1993, 59.)

The main attractions of these kinds of investments according to Wilska (2002, 41) are low labour costs and incentives to local production. Skilled or less expensive labour force or cheaper assets and infrastructure may offer foreign firms possibilities to increase their efficiency (EBRD 2003c, 92).

2.4.4 *Strategic assets -seeking FDI*

Strategic asset -seekers usually acquire the assets of foreign companies in order to advance or sustain their international competitiveness. This can be a part of an integrated global strategy or the first investment of a foreign investor aiming at acquiring a competitive strength in foreign markets. The motive is especially to increase the firm's existing portfolio of assets. This is done by acquiring the assets of foreign firms that are perceived as possibilities to either sustain or strengthen the competitive position of the investor or weaken the competitors. (Dunning 1993, 60.) Strategic objectives for FDI can include among other things market domination and the establishment of strategic alliances (Marinova & Marinov 2003a, 2). The firm focuses on protecting or expanding the ownership-specific advantage by acquiring new assets or by entering into a partnership with a foreign firm. The increasing amount of mergers and acquisitions can be seen as a consequence of increase in strategic assets -seeking FDI. (Wilska 2002, 41.)

2.4.5 *FDI motives in the context of transition economies*

Emerging markets are receiving growing amounts of FDI as result of global strategies of multinational enterprises, in which they aim to take advantage of new business opportunities. FDI is also important for the economic development of developing countries. The emerging markets on the other hand provide many opportunities for multinational enterprises and especially those who seek notable growth. Estrin and Meyer (2004) have identified some factors influencing FDI in emerging markets. These criteria can also be applied to the developing transition economies of CEE, which form the research area in this study.

According to Estrin and Meyer (2004, 1-3) many host country factors influence FDI inflows into emerging countries. Investors can be attracted by large and growing markets and natural or created assets such as raw materials and cheap labour. Another factor is the institutional context of the host country. The amount of inward FDI is strongly influenced by FDI-specific laws and regulations. The institutional environment in emerging markets is usually a challenge for the foreign investors because of the weaknesses it includes in comparison with more mature economies. The legal framework affecting business law as well as competition policies, regulatory policy, corporate taxation and property rights tend to be less developed than in the home countries of the investors. (Estrin & Meyer 2004, 1-3.)

There are a number of risks involved in making FDI, especially in transition economies. Investors have to therefore consider numerous factors before taking the decision to invest, some of which are similar to the ones included in the investment decisions in domestic markets. According to Nowak and Steagall (2003, 60-61) these include workforce and its productivity, skill and educational level; the cost of labour, which includes the regulatory environment; the cost of raw materials and the reliability of inputs, such as electricity and the taxes.

In addition to these Nowak and Steagall (2003, 61-62) suggest further variables that need to be considered in making FDI. Among these factors the political stability of the host country is very important. This refers to the government and the policies affecting the business of foreign-owned firms in the country. Another important factor is the currency risk. The third issue mentioned by Nowak and Steagall is the access to markets.

Marinova and Marinov (2003b, 98-99) studied the investor motives for investing in the CEE countries and according to their research the investors find the opportunity for building a long-term position that market as the most important motive for investing. This suggests that investors see the potential of the region in the long run and do not invest there merely to collect short run wins. Marinova and Marinov (2003b, 101) also suggest that market-seeking motives are highly relevant to the foreign investors in CEE countries. The markets in the region hold potential for development and expansion and can also offer opportunities to create new market segments as the consumer demand increases (Marinova & Marinov 2003b, 101).

An important motive for investing in the CEE countries is the low cost of skilled labour available in these countries. The population in the CEE is highly educated and especially the technical expertise of the region is respected among investors. Together with the low labour costs, caused by the lower level economic development and living standards, the labour pool offers opportunities to reduce the production costs. (Marinova & Marinov 2003b, 101.) According to Ernst&Young (2004) the investor motives for direct investments are usually either related to new and growing markets or reducing costs. The CEE countries are attractive in terms of both these factors, representing a new and dynamic marketplace and lower costs for business than the older EU members.

2.5 Combining FDI motives with host country determinants

According to Dunning (1998) the literature on the location preferences of foreign direct investors acknowledges that the location decisions do not depend so much on the types of activities the companies engage in, but rather on the motives for the invest-

ment and whether the investment is a new or a sequential one. Natural resource - seeking and market seeking investments are attracted by very different kinds of incentives. Dunning (1998) also states that one of the important changes in the motives of FDI in the last decades has been the rapid growth of strategic asset -seeking FDI aimed at protecting and augmenting the ownership advantages by the acquisition of new assets or by means of partnering arrangements with foreign companies.

Table 8 summarises some of the variables related to the different motives for FDI described in sections 2.4.1-2.4.4. Other contextual variables such as the size of the company, degree of multinationality, country of origin and destination and industry also have a significant role in the location decisions. (Dunning 1998.)

Table 8 Variables influencing location of FDI (adapted from Dunning 1998, 53)

FDI motives	Some of the related location factors
Resource-seeking motives	<ol style="list-style-type: none"> 1. Availability, price and quality of natural resources, local opportunities for upgrading quality of resources and the processing and transportation 2. Infrastructure enabling resource exploitation and products to be exported 3. Government restrictions on FDI and/or capital and dividend remissions 4. Investment incentives, e.g. tax holidays 5. Availability of local partners to jointly promote knowledge and/or capital-intensive resource exploitation
Market-seeking motives	<ol style="list-style-type: none"> 1. Mostly large and growing domestic markets, and adjacent regional markets (e.g. NAFTA and EU) 2. Availability and price of skilled and professional labour 3. Presence and competitiveness of related firms 4. Quality of national and local infrastructure and institutional competence 5. Less spatially related market distortions, increased role of agglomerative spatial economies and local service support facilities 6. Macroeconomic and macro-organisational policies pursued by host governments 7. Increased need for presence close to users in knowledge-intensive sectors 8. Promotional activities by regional or local development agencies
Efficiency-seeking motives	<ol style="list-style-type: none"> 1. Often production cost related 2. Freedom to engage in trade in intermediate and final products 3. Presence of agglomerative economies e.g. export processing zones 4. Investment incentives 5. Increased role of governments in removing obstacles to restructuring economic activity and facilitating the upgrading of human resources by appropriate educational and training programs 6. Availability of specialised spatial clusters, which offers opportunities for new initiatives and encourages competitiveness enhancing cooperation within and between firms
Strategic asset-seeking motives	<ol style="list-style-type: none"> 1. Availability of knowledge-related assets and markets necessary to protect or enhance ownership specific advantages at the right price 2. Institutional and other variables influencing ease or difficulty at which such assets can be acquired by foreign firms 3. Growing geographical dispersion of knowledge-based assets and need of firms to harness such assets from foreign locations increases the importance of this motive 4. The price and the availability of synergistic assets to foreign investors 5. Opportunities offered for exchange of localised tacit knowledge, ideas and interactive learning 6. Access to different cultures, institutions and systems as well as different consumer demands and preferences

According to Dunning (1998) the factors in Table 8 reflect four main developments affecting the current motives of FDI. Firstly, the reduction of transaction costs has led to more aggressive market-seeking FDI and promoted international division of labour. It has also favoured the spatial clusters of companies engaging in related activities, so that companies can benefit from the presence of other companies and have access to localised support facilities, shared service centres, distribution networks, customised demand patterns and specialised factor inputs. Secondly, the complementary foreign assets and capabilities which are of interest to companies looking for ways to add value to their core competitive advantages are increasingly knowledge-based and this is particularly important when the affiliates become more rooted in the host economies. Third issue is related to the increasing importance of strategic motives which shifts the focus of the locational needs from access to markets or resources to access to knowledge intensive assets and learning experiences. Fourthly Dunning states that much of the recent FDI in developing countries can be explained by market-seeking motives or the desire to take advantage of lower labour costs and natural resources.

Dunning (1998) also emphasises that the importance of location as a variable affecting the global competitiveness of companies should be given more attention. Location configuration of the company's activities can even be seen as an ownership advantage and it also affects the ways in which the company exploits and augments its existing ownership advantages. The gradual geographical dispersion of created assets and the development of multinationality by deepening and widening the cross-border value chains lead to the growing importance of the structure and content of location portfolios. Harnessing new competitive advantages and deploying the home-based assets more efficiently is affected by the location portfolio, which is therefore important for the global competitive position of the company.

Also Wilska (2002) points out that host country determinants he has studied are closely linked with investment motives and the type of the motive determines the importance of different host country factors for the investing company. Figures 17, 18 and 19 in Appendix 6 present the host country determinants related to market-seeking, resource-seeking and efficiency-seeking motives. Strategic asset -seeking motives were not included in Wilska's framework.

As can be seen in the Figures in Appendix 6, there are also other factors that have to be taken into consideration in addition to the primary motive of investment. When the motives are market-seeking it is also important to know, whether the operation will involve production in the host country and what is the main origin of raw materials and intermediate goods. The involvement of production is also important when motives are resources driven and also the main destination country of sales needs to be included in the analysis. Efficiency-seeking motives on the other hand have to be combined with the knowledge of the main destination markets of sales and the main

origin of raw materials and intermediate goods. The importance of the primary and secondary determinants presented in Table 8 is in other words dependant on the investment motives and other factors. (Wilska 2002, 188-193.)

The primary motives or the driving forces of the case companies studies by Wilska were either production or market related. The most important determinant was market size and the growth prospects of the markets, which are of primary concern for market-seekers. National transport infrastructure or distribution systems were not considered important in the country selection, but could be seen to have affected the site location within the host countries. Labour related issues on the other hand were the driving force for efficiency-seeking companies. Natural resources were significant even for some companies which did not primarily have resource-seeking motives. Land, capital or production- related infrastructure were not important for the case companies' country selection. Linkages and competition on the other hand had an important effect on the investment decisions. (Wilska 2002, 165-167.)

3 EMPIRICAL RESEARCH DESIGN

The methodology used in this thesis will consist of a qualitative case study including one company in Finnish ownership as a case. There are several reasons for choosing the approach in this context and these will be argued shortly in the following paragraphs. First however, this section will shortly describe some of the key characteristics of qualitative research which will help to argue the suitability of the approach in this study.

A broad definition of qualitative research according to Denzin and Lincoln (1998, 3) states that it involves an interpretative and naturalistic approach in relation to the research object. The aim is to understand and interpret the object in its setting and the meanings different people add to the phenomena (Denzin & Lincoln 1998, 3). In qualitative research the emphasis is on meanings and it is not so much interested in the quantity, amount, intensity or frequency of the processes or meanings it is studying. Moreover the situational constraints shape the inquiry. Qualitative research also studies the social experience and its effect on the creation and giving of meanings (Denzin & Lincoln 1998, 8.) The conceptual framework and the research questions guide the focus and boundaries of the data collection and samples. (Miles & Huberman 1984, 36-37.)

Qualitative research includes the collection and study of different empirical materials that can vary from case studies, life stories, personal experience, interviews and observations to historical, interactional and visual texts (Denzin & Lincoln 1998, 3). Qualitative data is rather in the form of words than numbers as in quantitative research. It has traditionally been used especially by social sciences.

Eskola and Suoranta (1996) describe the characteristics of qualitative methodology with several indicators. These criteria will be used in the following paragraphs in order to reason the use of a qualitative approach in this study.

The first indicator is that qualitative data in its most simplified form usually means textual data. The existence of the text can either be dependent or independent of the researcher. Typically, however, the respondents producing the data have been able to do so without many restrictions posed by the researcher. The research design is also developed throughout the research process and different phases of the research are bound together and the interpretation also occurs during the whole process. (Eskola & Suoranta 1996, 11.) In this study the data analysed is textual; the company documents were originally ready texts and the interviews were recorded and transcribed into texts as well, in order to be able to analyse the material more thoroughly. Secondary data retrieved from the case company websites and statistical sources are documents that have not been produced for this study in particular and have therefore not been influenced by the researcher. The creation of the data provided by the interviews, however,

has been initiated by the researcher. The interviews were however not structured which allowed more freedom for the interviewees to present their own point of view of the themes provided by the researcher. The research design was also revised and developed to a more focused direction several times during the process.

Active participation of the research objects is another typical feature of qualitative research (Eskola & Suoranta 1996, 12). In this study the respondents from the case company, which is the actual research object, participated actively in the data creation by means of interviews carried out in order to collect the material. The interviews conducted in a way which allowed open ended answers and therefore more freedom for the respondents. The data providers participated in other words quite actively in the study and influenced the quality of the data in significant way.

Qualitative samples also tend to be more purposive than random which can be explained at least partly by the initial definition, which is usually more limited. Another reason for this is that random sampling might reduce the interpretability of the material. Samples in qualitative research can also change when for example the understanding of one relationship reveals several other features that have to be studied individually. Qualitative research is therefore an investigating process. (Miles & Huberman 1984, 36-37.) Quality of the data is more important than the quantity (Eskola & Suoranta 1996, 13). Very often the data area also chosen because of the easy access and a statistically representative sample size is also likely to be too large for the intensive qualitative analysis. (Silverman 2000, 102.) In this context a single case was chosen as a research object in order to construct richer descriptions and analyses of the material. The small amount of similar companies in the markets and the lack of prior studies in this context also support a qualitative research method. A qualitative research method will help to achieve a deeper understanding of the motives for FDI in Bulgaria and Romania and the location specific aspects of the investment decisions. This study can also act as a prior work or a pilot study for a quantitative analysis on a broader material.

In a qualitative research method the analysis often starts from the data without initial hypothesis and theory can also be generated on the basis of the data. The researcher should start the study without strict preconceptions of the research object or the results of the analysis. The aim of qualitative analysis would be that the researched would learn and discover new aspects of the research phenomenon. (Eskola & Suoranta 1996, 13.) Partly because of the lack of prior studies in a similar research setting and context, this research was begun without many preconceptions or expectations of the results. The analysis provided a lot of new information which could be used in further research and possibly even in theory creation, although the aim of this study was not primarily to create theory. The aim regarding the theoretical value of the study was rather to investigate the suitability of the existing theories in this context

and on the basis of this discuss the possible development of the theories in further research.

Qualitative research also allows the researcher more freedom because of a more flexible planning and realisation of the study. More imagination in the use of new analysis methods and creative writing is also required from the researcher. (Eskola & Suoranta 1996, 14-15.) Since the data of the study in this case was collected primarily by means of theme interviews the analysis of the data requires effort from the researcher. The interviewees were allowed to speak quite freely of the themes of the interview design and consequently the organisation of the data and the discovery and analysis of the relevant issues for this study demanded imagination. It was important to bear in mind the research questions throughout the process and filter the relevant information from the free speech of the respondents. Also the analysis provided a challenge of crating new value and interpretations and not only descriptions of the material.

On the basis of the criteria describing qualitative research it seems to be a sound reasoning for the use of this research approach in this context. The research design consist of first of all the research approach chosen for this study, the data collection and analysis and finally the evaluation of the study. These will all be discussed and argued in the following sections.

3.1 Research approach

The research method chosen for this study is a single case study and the choice and suitability of the method in this context will be discussed as follows. According to Yin (1996, 19) research questions have an important role in the consideration of a suitable research approach and questions seeking answers to “why” and “how” –typed questions are the ones that usually best suit a case study approach. Case study also suits a research setting investigating decisions (Yin 1996, 23). In this thesis the research problems are related to the motives of the case company and therefore seek answers to why the company has made the investment decisions about the operations in Bulgaria and Romania. These motives and related location determinants require interviews from the persons responsible for the operations in the company, since other methods would provide enough information about the research problems.

Case study is in other words a research method, which focuses on understanding the dynamics present within a single setting. Case studies can include either single or multiple cases and numerous levels of analysis. Case studies also usually combine different data collection methods such as archives and interviews. (Eisenhardt 1989.) In

this case the data was collected most of all by means of interviews from chosen persons from the case company. Also some company documents such as annual reports and websites were used when necessary. In this study the analysis concentrates on a single case that has been chosen from the population of Finnish companies operating both in Bulgaria and Romania. The interest in the emerging publishing sectors of the countries also affected the choice of Sanoma Magazines International, part of the SanomaWSOY Group, as the case company of this study. The use of a single case company operating in both areas enables the comparison of the markets within this case. The selection of only one case is also suitable for the scope of this study and enables the conduction of the research in a reasonable timeframe and with reasonable resources.

According to Stake (1994, 236-237) the case can be defined as a functioning specific or an integrated system and has working parts and is usually purposive. The behaviour of a case is patterned and can be characterised as consistent and sequential. The researcher may also have to have information about other cases in order to understand the one in question, but even so each case study is a concentrated inquiry into a single case.

This research is a single case inquiry. Comparison is however made between different parts of the case itself. The case company Sanoma Magazines International is the majority owner of operational units both in Bulgaria and Romania. This enables the comparison of these operational environments inside the case company. The early stage of development of the publishing markets in Bulgaria and Romania and the small number of similar companies in the markets also speaks for a single case study. The lack of international publishing companies in the markets would complicate a cross-case comparison and a quantitative inquiry on a wider population would not be possible in studying the publishing markets and investment opportunities for Finnish publishers in these countries. The single case company having operations in both countries, however, enables a reliable comparison of the markets, since two of the respondents of the interviews are responsible for the operations in both of the countries and have experiences that can be compared immediately. The operational units and the operations of SMI in Bulgaria and Romania are also quite similar in terms of size and age for instance which also facilitates the comparison.

Stake (1994, 237) also identifies three types of purposes for which cases are studied. Firstly, intrinsic case study is carried out primarily because of the interest in the particular case and not in the problem or population of cases it represents. Instrumentals case study on the other hand refers to a research of a single case in order to acquire an insight into a more generic issue or refine a theory. The case is in other words of secondary interest and is chosen, because it is expected to provide information about an external problem or issue. The researcher however often has several interests si-

multaneously and intrinsic and instrumental purposes are usually overlapping. This is also true in this case study. The case company has partly been selected, because it is expected to provide information about the research questions and enable testing of the theoretical framework. Because of the small number of other international publishing companies, especially in Bulgaria and resulting pioneer position of SMI in many respects however emphasises the intrinsic value of the case company itself. The motives for choosing the particular case in this research have in other words been both intrinsic and instrumental. The third type of case study proposed by Stake (1994, 237) is a collective one in which several cases are used jointly in order to study a phenomenon, population or general condition. In this study however only one case is used for reasons explained earlier. The case is however studied in relation to its operational environment including other publishing companies operating in the same areas. Only the selected case company is however studied in depth and the other factors are used as background material to which the case is reflected.

3.2 Data collection

Qualitative research usually works with smaller samples of data than quantitative analysis. The conceptual framework and the research questions guide the focus and boundaries of the data collection and samples. Although it would be interesting to study all the facets of the phenomenon under investigation, the researcher has to make choices in the data collection and restrict the quantity of data in order to be able to conduct the research in a reasonable time frame (Miles & Huberman 1984, 36-37).

Qualitative samples also tend to be more purposive than random, which can be explained at least partly by the initial definition which is usually more limited. Another reason for this is that the social processes that qualitative research studies have a logic and coherence and random sampling might reduce the interpretability of the material. Samples in qualitative research can also change when for example the understanding of one relationship reveals several other features that have to be studied individually. Qualitative research is therefore an investigating process (Miles & Huberman 1984, 36-37). In qualitative research, the data are often derived from one or more cases which are rarely selected on a random basis. Very often the data are chosen because of the easy access. A statistically representative sample size is also likely to be too large for the intensive qualitative analysis (Silverman 2000, 102).

As already mentioned, in this study the analysis is based on the data collected from a single case. The use of only one case is justified on one hand by the early stage development of the publishing sector in Bulgaria and Romania and the small amount of

foreign companies in the sector. There are no other companies with Finnish ownership from the same sector operating in these countries at the moment and the presence of other foreign publishing companies is also limited. Therefore there is no other Finnish company that would be eligible for making comparisons in cross-case analysis within this sector. Another justification for the use of a single case is that this study can be considered as a pilot study to test the theoretical framework in this geographical and sectoral setting. The results of the analysis can be used as a basis for further studies on a wider range of data. As the company can be seen as a pioneer in the publishing sector of Bulgaria and Romania the experiences of the investment environment presented in this study can also provide interesting information for other companies planning to enter the markets.

The case company for this study was selected from the population of the companies with Finnish ownership which have operations in Bulgaria and Romania. The overall number of Finnish companies in Bulgaria and Romania is small, under 100 altogether, according to the embassies of Bulgaria and Romania in Finland. According to the same data sources, the case company is also the only company in Finnish ownership that currently has operations both in Bulgaria and Romania, which increases the uniqueness of the case and its importance as a research object.

There were in other words several reasons for decision to use Sanoma Magazines International as the case company in this study. Firstly it corresponds to the requirements of the research approach as it is a company owned Finnish citizens and it has invested in both Bulgaria and Romania and has running operations in both countries. This allows the simultaneous study and comparison of the investment environments of these countries. Another reason for choosing the company is related to the development of the publishing sector in Bulgaria and Romania. The sector is still quite underdeveloped in both countries and Sanoma Magazines International is one of the first foreign companies entering the markets within the sector, which makes it an interesting object to study and the research can be seen as a pilot study within this sector and geographical area. Considering the fast development of the sector it would be interesting to repeat the analysis in five or ten years in order to see the effect of the changes happening in the industry.

3.2.1 Sources of data

According to Silverman (2001, 11), there are several major methods in the field of data collection of qualitative research. These include observation, analysing texts and documents, interviews, recording and transcribing. Interviews are usually the most important sources for case study information, because most of the case studies deal

with human affairs which should be reported and interpreted by means of respondents who can provide important insights into the situation (Yin 1984, 88-90). This is also the case in this study since the research problems are related to the investment decisions and motives which are made by employees of the case company and only these people have the information needed for the analysis. Consequently, the methods used in this study are telephone interviews and email inquiries for primary data the data collection and public document and statistical information analysis for secondary data. The document analysis of public documents provided by the company websites and statistical sources were used in the collection of background information for the analysis of the primary data. Different sources of material also enabled triangulation of data, meaning the comparison of data from different sources (Eskola & Suoranta 1996, 40-41). Some of the strategic issues mentioned in the interviews could for example been compared with the data in annual reports and company websites in order to form a more complete picture of the operations. The statistical sources also provided significant information about the markets among other things, which were necessary for the consideration of the host country determinants related to the investment decisions of the case company.

The primary data for this study was collected by means of interviews, conducted by telephone and email. Two employees of the case company, engaged in the joint ventures in Bulgaria and Romania or responsible for running the operations in these countries were interviewed in order to collect data from the company perspective. One expert from Finpro was interviewed in order to collect background information about the investment environments in Bulgaria and Romania in general and a basis for the formation of the questions for the case company. The data collected from the case company was also compared with the background information in the analysis.

The expert interview from Finpro was conducted with Bulgarian project manager Elitza Gerova who has, among other tasks, been responsible for a project introducing Finnish companies to Bulgaria and Romania by means of country visit and meetings with local companies. She has also been involved in other commissions concerning Finnish companies entering these markets and has also studied foreign investments in Bulgaria. On account of her knowledge and experience of Bulgaria and Romania as business and investment environments she can be seen as a suitable interviewee for this study.

The first interviewee from the case company Sanoma Magazines International was business development director Hans Dreijklufft. He has been educated in business economics and has broad experience in the media and information industry. He has held several positions in different countries while working for a Dutch company called VNU/CIG. SanomaWSOY bought the consumer magazines from VNU/CIG on July 20, 2001 and that is when Dreijklufft became affiliated to Sanoma Magazines Interna-

tional. He moved to his current position as a business development director over 2 years ago. He joined the company after they had already started the operations in Romania and right at the moment when the negotiations with the Bulgarians had been started. He was therefore not involved in the fundamental decision of whether the company should move to Bulgaria or Romania. He was however closely involved in the creation of the actual joint venture in Bulgaria and is now working on a day-to-day basis with both Bulgaria and Romania, with the management teams in those countries. Because of his involvement in the operations from their early stage he is also aware of the motives to move into these countries. He has been involved in many acquisitions and responsible for the organisation of various greenfield operations. In his current position he is responsible for the expansion of the businesses within countries where the company has local operations and initiation of business activities in other countries. (Hans Dreijklufft, telephone interview 30.6.2005; Sanoma Magazines International.)

Since Mr. Dreijklufft is responsible for the overall development of the case company he has knowledge of the strategic decisions to start operations in new markets and factors that generally affect their investment decisions. Because of his participation in the organisation of the joint venture in Bulgaria and involvement in the operations in both Bulgaria and Romania he can be expected to have insights into the motives for investing in Bulgaria and Romania.

The other telephone interview with the case company was conducted with Els Loesberg who is responsible for the operations in south-eastern Europe, including Croatia, Serbia-Montenegro, Bulgaria and Romania. This interview was carried out in order to acquire more information about the investment environment and operating in the countries. Mrs. Loesberg joined the Dutch Publishing company VNU in 1997 and has held various editorial and publishing positions in the company. She joined Sanoma Magazines international as Chief Operating Officer in January 2000. In January 2005 she was appointed Deputy CEO and CEO of the cluster of South Eastern Europe and she therefore answers directly to the CEO of Sanoma Magazines International. The managing directors of the local subsidiaries on the cluster report to her. At the moment there is a local managing director in Bulgaria and Loesberg herself acts as the managing director of Romania as well as the regional director of the whole South Eastern cluster of the SMI. She will hold this position until the company appoints a local managing director to Romania. (Els Loesberg, telephone interview 8.8.2005; Sanoma Magazines International 2005.)

Because of her current position Loesberg is situated in Romania and is in close contact with the subsidiaries in Bulgaria and Romania and has an insight on the operations on the spot. She therefore has a lot of knowledge about the business environment and doing business as a foreign investor in these countries.

Shorter supplementary email inquiries were also sent to two other respondents working for the company. This was done in order to acquire additional information not fully covered by the telephone interviews. The persons responding to the additional questions were the managing director of Sanoma Bliask Bulgaria Dimitar Drumev, to whom the questions concerning Bulgaria and were directed and Peter Jansen, the former managing director of Romania, who answered to questions concerning Romania. Since these persons have both been working in Bulgaria and Romania respectively they were able to give information concerning the operational environment as well as the future of the operations in these countries.

3.2.2 *Types of interviews used in the data collection*

The purpose of the data collection by means of interviews in this study is to acquire information about Bulgaria and Romania as investment environments. The emphasis is specifically on the motives of selection of these countries as the location of investments. This method enables interaction between the respondents and the researcher and aims at a conversational data collection and discussion between the interviewees and the researcher.

As already explained altogether five persons were interviewed in the data collection. The first interview was with the expert from Finpro in the spring of 2005 and was conducted in order to gather background information for the study. The interview venue was in the Helsinki the premises of Finpro. The initial contact with the interviewee was made by email about one month before the interview and the respondent agreed to the interview and was cooperative with the research.

The initial contact with the case company was also made later in the spring 2005 made with the communications department of SanomaWSOY who directed the researcher to the communication manager in Sanoma Magazines International. The communications manager helped in the selection of the suitable persons for the interviews. The first suggestion was business development Hans Dreijklufft, who agreed to the interview after receiving an email from the researcher explaining the purpose of the study. The interview was agreed to be held in June by telephone, according to the timetable of the respondent. Dreijklufft also suggested that the researcher should contact regional director Els Loesberg. She was also contacted by email early in the summer and the interview was agreed to be held in the beginning of August, since Loesberg was on holiday in July. Loesberg on the other hand suggested the questionnaires to Dimitar Drumev and Peter Jansen, when the researcher contacted her after the interview for some additional questions.

All the respondents were cooperative with the research. Minor problems were caused by the very busy timetables of the respondents due to which the interviews had to be organised slightly later than the researcher would have hoped. Another problem was the physical distance between the researcher and the employees of the case company. Dreijklufft is situated in Amsterdam and Loesberg is employed in Bucharest. Personal interviews on the spot would have been too expensive to be realised with the resources of this study. Another problem would have been the organisation of the travelling. The timetables of the interviewees were so tight and evolving that they confirmed the suitability of the agreed time quite late which would have complicated the travelling arrangements. Because of the distance the interviews were decided to be conducted by telephone. The disadvantage of this kind of interview is the lack of personal contact and interaction present in an interview made on the spot. The lists of themes were sent to the interviewees in advance in order to give them a picture of what the discussion would be based on. Although the interviews were conducted by telephone they provided quite fruitful material and reminded quite a lot a natural discussion which encouraged the respondents to tell practical examples in order to exemplify their answers. The respondents also seemed to have the experiences enabling them to discuss the themes and therefore it can be said that the choice of the persons to be interviewed was successful.

Eskola and Suoranta (1996) divide interviews into four different types based on the formulation of the questions and the position of the researcher. First of these types is a structured interview in which the form and order of the questions is the same regardless of the respondent creating the same meaning of the questions for everyone. Also the answers are structured with the same answer alternatives for all the respondents. A semi structured interview on the other hand provides the same question for every interviewee but the respondents are able to use their own words in the answers and no ready answer alternatives are used. (Eskola & Suoranta 1996, 65.)

In a theme interview the topics or the thematic fields have been determined in advance, but the lack of the exact form and predetermined order of the questions separate them from the structured forms of interviews. The interviewer has to ensure that all the relevant themes are discussed, but the order and extent of individual themes varies from one interview to another. (Ibid.)

An open interview reminds most a real conversation. The researcher and the interviewee discuss a certain topic, but all the themes are not discussed with every respondent. (Eskola & Suoranta 1996, 66.)

Eskola and Suoranta (Ibid.) point out that theme interviews have become a more frequently used form of interview, because of the freedom it provides for the respondent who can speak relatively freely of the themes and the same themes guarantee the approximately same discussion topics in every interview. Theme interview is also the

type of interview used in the telephone interviews with the representatives of the case company. This type of interview was used in order to allow the respondent as much freedom as possible and yet retain the control by using the list of themes guiding the course of interview. The aim was to gather information about the location factors and their effect to the investment decisions and it was thought that this type of mechanism would be the most efficient way to investigate the importance of different factors and the relationships to one another. Letting the interviewees tell about the topics freely reveals the relationships of different things and also brings out issues that are important for the research but which the interviewer might not have asked. One of the reasons that the exact questions were not predetermined was to make the interviews remind more a discussion and let the respondents tell real life examples about the themes and their experiences of them. Some of the themes already came out before the initiation of the interviewer in the discussion of another theme and too strict questions would have caused too much repetition. With the theme list it was also easier to change the order of the themes and for example ask the respondent to elaborate a theme they already brought up by themselves. Theme interview is a more demanding form of interview than the more structured ones but in this case it enabled the efficient collection of information and even brought up issues that the researcher had not considered. This proved to be a suitable type of interview in this case.

The two shorter email interviews were however semi-structured due to the nature of the interview. Since there is no direct interaction between the two parties the interview is actually a questionnaire sent to the respondents and it is answered at a different time than the questions are asked. The themes themselves are not enough in this type of data collection, since the interviewer would not be able to explain them to the respondent or ask for additional explanations if the respondent misunderstands the purpose of the themes. The inquiry therefore had to be in the form of direct questions. No ready answer alternatives were however provided in order to allow more freedom in the answers. The contact by email was considered adequate since the aim was to gather mainly supplementary information about some themes not fully or widely covered in the preceding telephone interviews.

The themes used in different interviews have been presented in individual lists in Appendix 7. The themes for the expert interview were partly chosen on the basis of the framework of Wilska and the interview was used as background material for the study and in the development of the final interview framework for the case company. The themes of the case company interviews partly include the same themes as this first list and the aim was to acquire information about the investment environment from the company's point of view and about the importance of different determinants for the company considering the investment decisions. The themes also include the investment motives of the company in this context. The secondary data was used in a docu-

ment analysis providing background information to which the data from the interviews could be compared.

3.3 Data analysis

Qualitative data offers well-grounded and rich descriptions as well as explanations of the phenomenon in their own environment and can help the researcher to provide fruitful explanations. This kind of material also contributes to going beyond initial preconceptions and frameworks. (Miles & Huberman 1984, 15.) Most analysis methods in qualitative research can be used already during the data collection and it is also recommended that the phases of the research process are somewhat overlapping. Analysis during the data collection allows the researcher to cycle back and forth between the data and developing strategies to collect more data (Miles & Huberman 1984: 49).

The analysis in this study is carried out by thematically organising and categorising the data and finally forming different types of motives and related host country determinants on the basis of the categories. The themes are formed partly on the basis of theory and partly arising from the data. The interaction between the theoretical framework and the data provided by the case company is very important in the investigation of the suitability of the theories in this context. The theories are also used as analytical tools in describing, organising and analysing the data.

The thematisation defined by for example Eskola & Suoranta (1998, 175-176) is usually the first analytical device used in the categorisation of the data. The researcher can thus raise the themes that illuminate the research problem in question. After this it is possible to compare the occurrence of the themes in the data. The researcher has to identify and differentiate the themes that are important in terms of the research problem and this requires the combination of theory and the empirical part (Eskola & Suoranta 1998, 175-176).

The qualitative analysis in this study will start with a more general look at the data. The central themes of the theoretical part will provide the starting point for the analysis. Some themes also arise from the data. On the basis of the themes the analysis will aim at dividing the data into categories that will describe and represent the central themes and features. These in turn reflect the issues important in terms of the research problems.

The categories are constructed partly on the basis of themes and features presented in theories and earlier studies and partly derived from the themes found in the data. The categorisation is, in other words, a combination of themes from theory and em-

pirical data. As already pointed out the analysis will lead to the forming of combining types where different aspect of the data are compared and combined.

3.4 Evaluation of the study

Because of the freedom in conducting a qualitative study the researcher has to pay attention to guiding the reader and explaining the research process in a consistent way in order to allow the evaluation of the research. (Eskola & Suoranta 1996, 14-15). Qualitative research is almost necessarily more subjective and less standardised than the analysis of quantitative data. The importance of giving the reader of the study a clear description of the technical operations and thinking processes that have led to the reported conclusions is therefore emphasised. The reader has to have more than the intuition of the researcher in order to be able to draw conclusions about the trustworthiness and the importance of the study (Mäkelä 1990, 59).

The theoretical framework directs the formation of the categories as well as the interpretations of the researcher in this study. It is difficult to estimate how much the subjectivity affects the results, and the results therefore need to be compared with other studies and theories. The subjective presumptions are always present in qualitative analysis to some extent and the possible consequences of this have to be considered in the evaluation of the analysis. The possibility to evaluate of the study is however increased by the methods presented below.

The evaluation of this thesis will be based on the four indicators identified by Mäkelä (1990). These include the significance, the sufficiency of the data, the coverage of the data and the possibility to evaluate and repeat the analysis (Mäkelä 1990, 47). These indicators are suitable for data which are clearly defined and can be treated as autonomous cultural products. The description suits this study and these assessment criteria are therefore used to evaluate the study.

The significance of the data in this context can be argued by the suitability for the aims of this study. The aim of the study was to investigate the motives and location related determinants of a company with Finnish ownership in Bulgaria and Romania. As the case company has operations in both the target countries it provided comparable data of both markets. The other motivation was to acquire information about the realities and the investment environment of the publishing sectors of Bulgaria and Romania. The study also provides an insight into the whole sector although it only uses data from a single case. There are not many international publishing companies on the market yet and therefore a quantitative study on a wider population would not have been useful. The data is also significant in the sense that there are not

many studies concerning the publishing sectors of Bulgaria and Romania and particularly few, if any that would investigate the markets from a foreign company's point of view. This study can therefore be justified by its pioneering nature and it can also be seen as a pilot study preceding further studies.

Because of the qualitative case study approach the sufficiency and coverage of the data is more difficult to evaluate than in a quantitative study. Qualitative analysis does not aim at statistical generalisations but describing, understanding or giving a theoretically sensible interpretation of the phenomenon. The sufficiency of data is thought to be achieved when new cases would not bring any new relevant information from the point of view of the research problem. (Eskola & Suoranta 1996, 34-35.)

Because the research problems dealt with the factors affecting the case company's the data was collected by discussing with persons responsible for the operations in Bulgaria and Romania and having information about the investment decisions of company. Since there are quite few people who are making these decisions and managing the operations in these countries only four people from the case company were included in the data collection. The respondents were however able to provide enough data relevant for the research problem and all the relevant themes were covered in the interviews. Other employees would not probably have had information about the themes and would not have therefore provided any relevant new information. The issues arising in different discussions also supported one another and gave quite an informative picture of the operation and motives behind them. It can therefore be said that the data is sufficient in relation to understanding the motives in this company.

It is however not possible to directly generalise the results of the analysis very widely. The experiences of the company can however provide information that can be relevant to other companies in the same context. There are few foreign publishing companies operating in Bulgaria and Romania and it can be speculated that the realities or the host country determinants on small markets are quite similar regardless of the company. Every company is however a different case with different ownership advantages and other background conditions affecting the ability to take advantage of different environments. Therefore one has to be careful not to assume that these criteria would be suitable for every company. This case study can however be considered as a pilot study and the results could act as hypotheses for further research. They also provide an insight to investment decisions and location determinants in a context not widely investigated earlier.

The last aspect of the evaluation is the repeatability of the study. Due to the qualitative nature of the study the researcher guides the choices made in the research design in a more subjective way. The repeatability of and evaluation of the study has however been facilitated by several methods. The theoretical framework upon which the analysis is based has been defined and the analytical process has been explained and all the

choices have been reasoned. The evaluation of the study is also facilitated by the operational of the research problem presented in Table 9.

Table 9 Research questions and sources of data

<i>Research problem</i>	<i>Sub problems</i>	<i>Theoretical background</i>	<i>Sources of empirical data</i>
<i>What are the motives and location specific determinants of Finnish foreign direct investment decisions in the publishing sectors of Bulgaria and Romania?</i>	What are the motives for choosing these countries as targets for FDI	The OLI paradigm (Dunning)	Background information from statistical sources
	What are the host country specific advantages and disadvantages related to the investment motives?	Motives for foreign production (Dunning)	Expert interview
	What are the most important similarities and differences of the publishing markets in Bulgaria and Romania?	Host country determinants of FDI (Wilska)	Interviews with the case company
	What is the potential of the publishing sectors of Bulgaria and Romania?		Other material from the company (websites, annual reports)

Table 9 presents the components of the research process beginning with the research problems and continuing with the theories used and the sources of data. The evaluation of the study has in other words been facilitated by the visibility of the choices and the research process which increases the ability to review the results critically. This also increases the repeatability of the analysis and the probability of another researcher coming to similar conclusions with the same data.

4 THE INVESTMENT MOTIVES AND DETERMINANTS OF LOCATION CHOICE IN THE CASE COMPANY SANOMA MAGAZINES INTERNATIONAL

The case company Sanoma Magazines International is a publishing company operating in the European markets. It belongs to the SanomaWSOY group and is part of the Sanoma Magazines division of the group. SanomaWSOY is Finland's leading media group and also the largest media corporation in the Nordic countries. The group consists of five divisions engaging in different fields of media and operating in 20 European countries. (SanomaWSOY 2005.) The group structure has been presented in Figure 5.

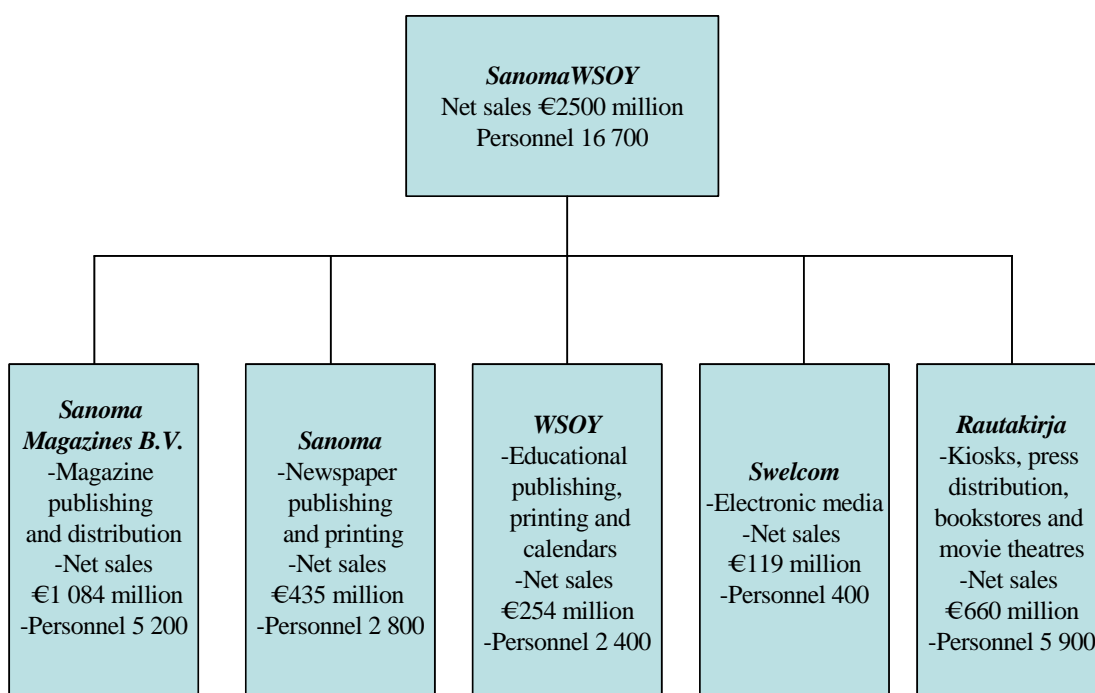


Figure 5 SanomaWSOY group structure: net sales in 2004 and average personnel 1-9/2005 (Sanoma WSOY 2005)

SanomaWSOY's net sales totalled €2,5 billion in 2004 and the operating profit was €294 million. Last year the group employed 13 657 people. (SanomaWSOY 2005.)

Sanoma Magazines is the largest division of SanomaWSOY. It publishes some 275 titles in twelve countries including Bulgaria and Romania. Sanoma Magazines division began operations in 2001 after SanomaWSOY announced the acquisition of the consumer information group of a Dutch company VNU/CIG on July 20, 2001. The acquisition was formalised in October 2001, after which SanomaWSOY organised its magazine publishing under, Sanoma Magazines BV, a company based in the Nether-

lands. The new company consists of VNU/CIG's business and Helsinki Media's magazine publishing. The headquarters of Sanoma Magazines BV are in Amsterdam. (SanomaWSOY 2005.) Sanoma Magazines has five business units which have been presented in Figure 6.

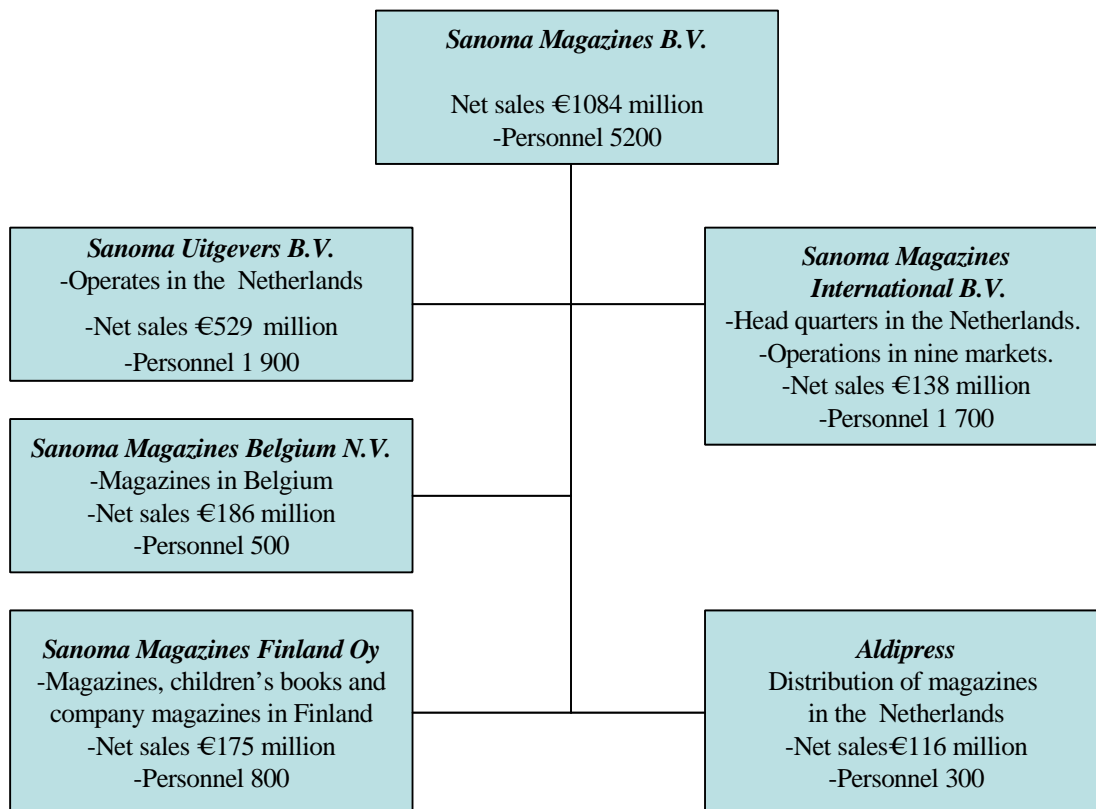


Figure 6 The organisational structure of the Sanoma Magazine's businesses: net sales in 2004 and average personnel 1-9/2005 (Sanoma WSOY 2005)

The operations in the Netherlands are by far the biggest, worth about 500 million euros; the values of the operations in Finland, Belgium and International are each about 200 million euros. Sanoma Magazines International is responsible for all the operations in Central and Eastern Europe. They have considered and are still considering, if only less intensely at the moment, moving to southern Europe meaning Spain, Portugal, Turkey and Greece. (Hans Dreijklufft, telephone interview 30.6.2005.)

Sanoma Magazines International (SMI) started its operations in the beginning of 1990s with acquisitions in Hungary and the Czech Republic and has been spreading to into other Central and Eastern European countries over the last 14 years. The company has preferred acquisitions and if that has not been possible they have started greenfield projects in locations of interest for them. Sanoma Magazines International operates currently in Hungary, the Czech Republic, Croatia, Romania, Slovakia, and Bulgaria and in January 2005 it also acquired quite a large Russian media company Independent Media operating in Russia and Ukraine. During 2005 the company will

also launch the first magazine in Serbia and Montenegro. See Figure 7 for the organisation structure of SMI.

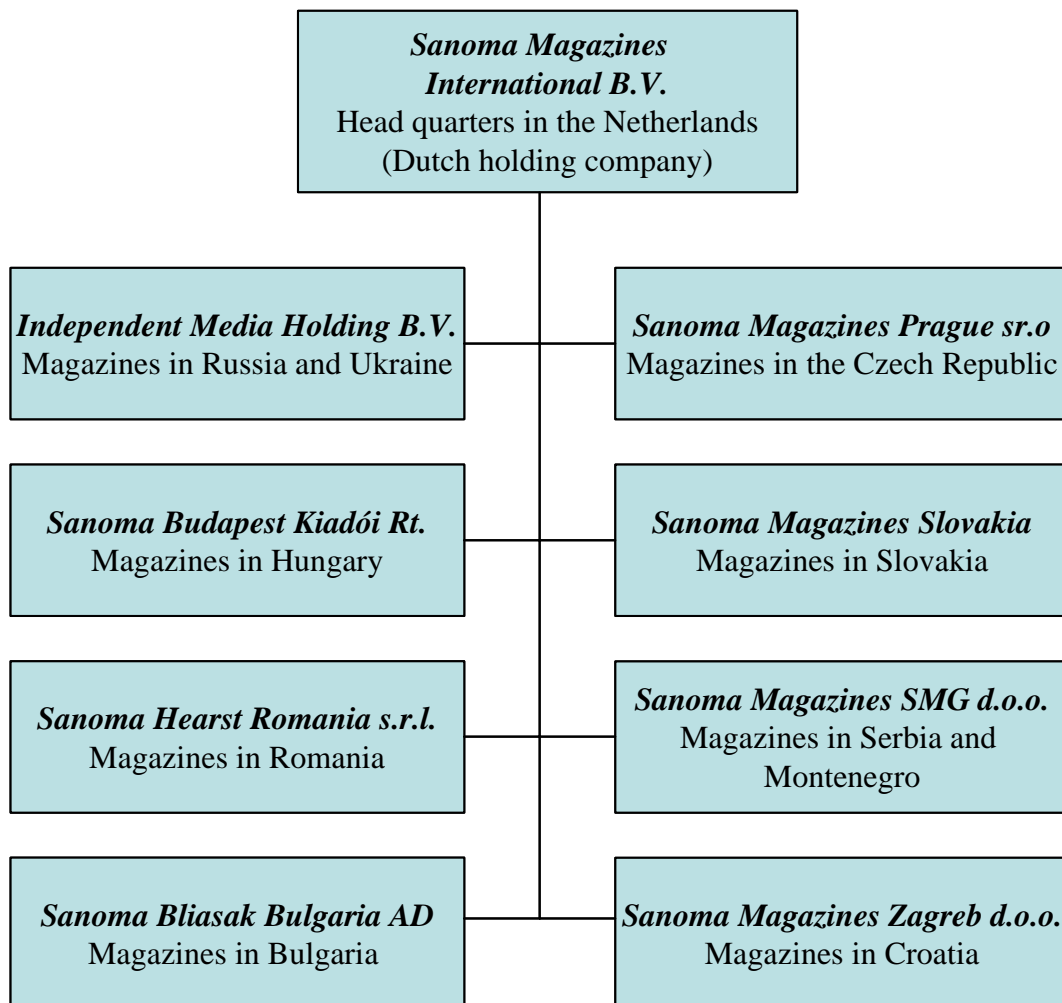


Figure 7 The structure of Sanoma Magazines International(Sanoma WSOY 2005)

The largest business of Sanoma Magazines International at the moment is Hungary, which is quite a developed business with a value of about 70 million euros. The second largest business unit is the Russian business; approximately 60 million euros. The value of the Czech business is about 35 million euros. In the rest of the countries the operations are still relatively small. (SanomaWSOY 2005; Dreijklufft 2005.) Last year the net sales of SMI rose by 9 % and reached 138 million euros.

4.1 Operations in Bulgaria and Romania

Sanoma Magazines International has a publishing company both in Bulgaria and Romania. As can be seen in Table 10 SMI employs over 2000 people of whom 145 are situated in Bulgaria and Romania. (Sanoma Magazines International 2005.)

Table 10 Number of personnel and magazines of Sanoma Magazines International in 2005 (adapted from Sanoma Magazines International 2005)

<i>Sanoma Magazines International</i>	<i>Personnel under employment and invoicing contract</i>	<i>Number of magazines</i>
<i>Total</i>	2019	110
<i>Corporate staff</i>	12	-
<i>Sanoma Hearst Romania</i>	85	9
<i>Sanoma Bliasak Bulgaria</i>	60	6

The number of titles published by SMI and its operating units in Bulgaria and Romania has also been listed in Table 9. As can be seen 9 titles are currently published in Romania and 6 in Bulgaria which is quite a small amount compared with the total number of titles published by the company. The operations in Bulgaria and Romania are, however, quite new developments and the number of titles can be expected to grow gradually as the markets and the operational units develop and enlarge.

The company publishes mostly consumer magazines and also b-to-b magazines in some countries, but so far not in Bulgaria and Romania. (Els Loesberg, telephone interview 8.8.2005.) As was already pointed out earlier, the case company Sanoma Magazines International belongs to the Finnish SanomaWSOY group and is part of the Sanoma Magazine division of the group. Therefore the investments made by Sanoma Magazines International are of a Finnish origin. The fact that Sanoma Magazines International has operations both in Bulgaria and Romania, enables the simultaneous collection of information about both of these countries and comparisons between them.

Sanoma Hearst Romania SRL publishes magazines and operates the country's leading consumer portal. SMI owns 65% of Sanoma Hearst Romania and Hearst is the owner of the remaining 35 % (SanomaWSOY 2005.) Sanoma Magazines International started the operation in Romania in 1999 with a joint venture agreement with Hearst, a large international publishing company based in the US. Hearst is the owner publisher of Cosmopolitan among other titles. Hearst usually sells licences to different companies to publish Cosmopolitan and other titles in different markets, but in some countries they prefer to have joint ventures with their partners. In the case of Romania, which is a country with over 20 million inhabitants, the company finds it important to

have a partial ownership of the business. Hearst and Sanoma Magazines International decided to found a greenfield investment in Romania, because they could not find a suitable business to acquire at the market. This was largely due to publishing being and a very small business sector, which it also still is in many respects. (Dreijklufft 2005.)

The launching of magazines in Romania started with Cosmopolitan. The company has also aimed at buying additional titles to rapidly grow the portfolio and has even succeeded to a certain extent. They bought one parenting title in 2000 and have been launching new titles continuously, from 1 to 2 per year. (Dreijklufft 2005.) The second title was FHM with a licence from EMAP, a British publishing company. In addition to Cosmopolitan and FHM they also have weekly and monthly magazines on the market. At the moment Sanoma Hearst Romania has 9 titles in the market. (Loesberg 2005.)

The operations of SMI in Bulgaria were started in 2004 by establishing a joint venture with a local publisher. Working together with local people also belongs to the strategic aims of SMI. The name of the partner company was Bliasak which means glitter or glamour in English. It was a small family-owned company with 3 magazines: two monthlies and 1 weekly. (Loesberg 2005.) Sanoma Bliasak Bulgaria AD started operations in January 2004 after an agreement of a 50/50 joint venture with the Bulgarian company Bliasak Media OOD. (SanomaWSOY 2005.)

The process of moving to Bulgaria started in 2003 when the representatives of SMI visited the country and set up meetings with different publishing companies. Their partner in Romania, Hearst, arranged the contact with the current partner Bliasak. Bliasak had been approaching Hearst in order to buy the licence for Cosmopolitan in Bulgaria. Hearst however hesitated to grant the license to Bliasak alone, because it was a small and unknown company. Hearst suspected the financial standing and reliability of the company and suggested that Bliasak should contact Sanoma Magazines International. Hearst justified this suggestion with its experience of Sanoma Magazines International as a reliable partner and a knowledgeable in doing business in CEE. Hearst also suggested the partnership with Bliasak to Sanoma Magazines International as they thought that Bliasak good be an interesting partner for SMI. The two companies came to an agreement after negotiations and founded the joint venture. Sanoma Magazines International is also aiming at buying the additional shares in the coming years. (Dreijklufft 2005.)

In 2004, after the joint venture, Sanoma Bliasak Bulgaria launched Cosmopolitan in the Bulgarian market. After that they have been working on Elle and National Geographic which were launched during the autumn 2005. The company also aims to grow as large as possible as quickly as possible, although they already are the leading publisher in the segments they are serving. (Loesberg 2005.)

The company is also working on additional concepts to launch and looking for additional acquisitions in Bulgaria. The companies that are of interest for Sanoma Magazines International in Bulgaria are mostly one-title companies. (Dreijklufft 2005.)

According to Hannu Syrjänen, president & CEO of SanomaWSOY group, Bulgaria fits well in the strategy of Sanoma Magazines International as it aims to be the leading publisher of consumer magazines in Central and Eastern Europe, where it has been operating since 1992. (SanomaWSOY 2005.)

The importance of the operations of Sanoma Magazines International in Bulgaria and Romania is, however, limited at the moment considering the overall operations of the company. This is especially true in Bulgaria. Although the businesses have developed well, the absolute numbers are still very small. Romania is a much more important region for the company, because of the size of the market. There are, however, a lot more international players on the Romanian market already, but even so the publishing business is still relatively small, both on the revenue and the profit level. (Dreijklufft 2005.)

According to Loesberg (2005) SMI has 60 full time equivalent employees in Bulgaria and the number will be doubled every year. The company is in other words growing very rapidly. The expected net revenues for 2005 will be 5 million euros, covering the expected net revenues from both advertising and circulation. In Romania the company has 105 employees and next year the number will grow to 113 if they launch the magazines they are planning to launch. The expected net revenues for 2005 are 8 million euros. (Els Loesberg 2005.) The operations do not have strong impact on the results of Sanoma Magazines in total. Sanoma Magazines is about a 1, 1 billion business. The comparison of the revenues created by the operations in Bulgaria and Romania, reveals that the impact of the businesses at the moment is not very visible. (Dreijklufft 2005.)

In publishing activities, distribution and printing are important supporting operations. The organisation of distribution has been organised slightly differently in the two countries. In Romania there are two big distribution companies and in addition to that many small ones. A few years ago SMI decided to work exclusively with one distribution company in the Romanian market called Hiparion Distribution S.A. Hiparion is currently also linked more closely to SanomaWSOY group since Rautakirja, the Finnish distribution company owned by SanomaWSOY, bought 51% of Hiparion half a year ago. SMI is now hoping that this arrangement will increase the effectiveness of its distribution in Romania. In Bulgaria the company has to work with several small distributors and the distribution as a whole is quite unorganised and causes delays and other disadvantages. (Loesberg 2005.)

Partly due to the underdevelopment of the distribution systems, the distribution of the magazines of SMI is concentrated on the bigger cities. There are venues where

people can buy magazines in the rural area as well, such point sales, kiosks and also supermarkets or other retailers, but in countries such as Bulgaria and Romania most of the sales come from the bigger cities. This is due to the fact that the countryside is still very poor and also developing quite slowly. Consequently, the bigger cities are the most important areas for SMI in Bulgaria and Romania, but it does not mean that the magazines would not be available in other parts of the country. (Loesberg 2005.)

Printing in Romania is also outsourced to 2 independent printing houses (Peter Jansen, email inquiry 2005). In Bulgaria the company works with one Bulgarian printing house and one that is based in Romania. They only have production manager in house. (Dimitar Drumev, email inquiry 2005.)

4.2 Products and target groups in Bulgaria and Romania

The magazines Sanoma Magazines International publishes in different countries are always published in the local languages. In magazine publishing business in general most of the money is in women's magazines and that is where SMI also starts the publishing activities. The publishing focus of the company is also in women's magazines. Dreijklufft points out that when the company is entering a new market they need to start from the top segment in order to achieve both readership and advertising revenues. This means that they try to start with glossy magazines such as Cosmopolitan, Elle, Marie Claire and Glamour. Since SMI does not have international brands they also have to cooperate with international publishers. (Dreijklufft 2005.)

The international titles are a good starting point, because most of the people in many countries know the brands, especially Cosmopolitan and Elle. Due to this the magazines can be sold at a reasonably good prize and more importantly, they also attract a lot of advertising. All the international advertisers such L'Oreal and Chanel and Unilever, and especially beauty, fashion and perfume advertisers, are interested in this type of magazines. They know the magazines and are willing to advertise in them, because of the large and interesting customer segments they appeal to. By means of the well-known brands, SMI can achieve higher advertising rates, which in turn increases the profits of the company. The local publications often have low advertising rates, and powerful brands are needed in order to raise the revenues. (Loesberg 2005.)

After introducing the most popular brands, the company can also launch more specialised magazines such as National Geographic. That is also a publication many people in Bulgaria and Romania already know. They are used to buying the American or the English version of it before SMI starts to deliver the local version. They also try to introduce titles such as FHM or Men's Health for the male audience. (Loesberg 2005.)

The strategy of the company in almost all countries is to finally move to their own core competence or core business area, which are women's weekly titles. The most significant advantage of these titles is that a lot more copies can be sold and due to this the magazines can also include more advertising. (Dreijklufft 2005.) The next citation includes Dreijklufft's description of the development strategy of the company's product range.

You start at the top and then slowly you go down. And on the way down we also introduce more special interest titles: parenting, home and decoration titles. And again also there; home and decoration you have more expensive titles, because there's always a group of people that can afford and that have a lot of money and can spend it. So that is what we try to do.

(Hans Dreijklufft, telephone interview 30.6.2005.)

In other words the company wants to position itself in the more quality end of the magazine range and sell their magazines at a more expensive price and earn more revenues.

4.3 OLI-advantages of the investments

One of the theoretical premises of this study is the OLI-paradigm, which includes ownership, internalisation and location specific advantages as the explaining factors for the decisions of foreign production. This section will apply these dimensions to the operations of SMI in Bulgaria and Romania. The model will be used first of all to describe the different aspects affecting the operations and the investment decisions that have lead to the company to establish the businesses. The OLI- paradigm will enable the description of the operations and the reasons behind them as a whole. This model combines the advantages created by ownership, location and internalisation and helps to investigate the relationships between these factors. This also provides a good starting point for the more detailed study of investment motives and host country determinants in the forthcoming sections. The model also includes the firm specific advantages arising from ownership of several assets which also affects the ability to take advantage of different locations. Locations factors are therefore not considered as the only factor affecting the investment decisions, but they are investigated in the company context together with the other OLI advantages and investment motives in order to form a wholesome picture of the importance of location in the decisions.

As for the ownership arrangements of the foreign subsidiaries of Sanoma Magazines International, the company always prefers to have a 100 % ownership of its subsidiaries. Full ownership is in other words the end goal of the investments. The company also prefers the acquisition of a running business because setting up a greenfield operation is time-consuming, expensive and more risky. (Dreijklufft 2005.) Loesberg (2005) also emphasised that greenfield entry mode is never the first option of SMI, since they prefer to work together with a local partner and acquire local knowledge, but if it is not possible to find a local reliable partner and they may decide to start a greenfield.

Acquisitions of SMI are usually made in two steps. First SMI buys the majority ownership and in a number of years they try to buy the rest of the shares, which is also their aim in the case of Sanoma Bliask Bulgaria. In Romania, however, they could not find a suitable local partner or a company to acquire. They therefore started a greenfield operation and are working with the international publisher Hearst. The company was more or less forced to the joint venture, because they wanted to have and also needed international titles on the market. Some of the titles, such as *Cosmopolitan*, on the other hand are owned by the partner, who wanted to form the joint venture. (Dreijklufft 2005.) They agreed to the joint venture with Hearst, because the company realised the importance of having a known brand as they entered these markets. By forming the joint venture with Hearst SMI has access to the licence of the well-known magazine *Cosmopolitan* in Romania. *Cosmopolitan* is one of the best known brands in the world and in order to guarantee that the brand stays within the company it was a strategic decision to form joint venture with Hearst, rather than only buy the licence for a limited time. Normally, the licence expires after 5 years after which it has to be negotiated again and the owner of the licence can even take the licence away. That would mean a risk of first building up the brand in the country and losing it in a couple of years. The joint venture is in other words also a guarantee for the future access to the brand. (Loesberg 2005.)

The ability to acquire licenses of international brands such as *Cosmopolitan* is in fact one of the most important ownership specific advantages related to SMI's operations in Bulgaria and Romania. In Romania they have the further advantage of having the owner of the license of *Cosmopolitan* as their partner as it guarantees that the license of *Cosmopolitan* will be available for them more permanently than usually. This partnership also helped them to acquire the same license for Bulgaria with Bliask, who was also interested in buying the license. As already explained, these international brands were already familiar to the consumers also in Bulgaria and Romania which facilitates the launching of the local versions and the market entry as a whole.

Another advantage related to ownership is the local knowledge the company wants to have access to. The reason they want to work with local people or local companies

is that they know the business, the country and understand the culture and the society. That is most essential in the magazine publishing. (Dreijklufft 2005.) This is also the reason they prefer to acquire local companies as already pointed out by earlier. In other words the local knowledge can be achieved by acquiring running businesses and working with local partners.

The importance of understanding the culture and social environment of the countries can also be seen as and internalisation advantages for the company. The need to be close to the customers and acquire local knowledge by means of a direct presence and local employees were some of the most important reasons for the company to choose to internalise these markets by means of FDI and not by importing for example.

According to Loesberg (2005) it is more effective to have a direct presence in the countries the company has publishing activities. As she points out it is very difficult to import a magazine:

You can import a brand. With a brand I mean Cosmo, National Geographic, Elle, but you can't import a magazine as such.

(Els Loesberg, telephone interview 8.8.2005.)

The difficulty of importing magazines is explained further by the nature of the whole portfolio of Sanoma Magazines.

...we publish I think in 7 countries now magazines like Story... it's a gossip magazine and it started 30 years ago in the Netherlands... Now we have it in almost all our Eastern European countries. It's named Story, but even the logo of all those magazines is totally different from one another. And if you compare for instance the Croatian Story which a very upmarket magazine with the Romanian Story which a very low... real gossip. Very juicy. So there is an enormous difference and this tells you that the strength of our magazines is the local approach. It's so difficult to import magazines.

(Els Loesberg, telephone interview 8.8.2005.)

Loesberg continues that the translation of magazines is very difficult and even the pictures may have to be changed in different countries.

Sometimes you can't use... a pregnant woman... you would say, well a pregnant woman is a pregnant woman is a pregnant woman... But a Dutch pregnant woman looks totally different compared to a Romanian pregnant woman. They are dark. They have brown eyes. They have dark hair. They have different clothes and that's what really makes... That's key into success of your magazine, that the readers feel very close to you... that they recognise it at least.

(Els Loesberg, telephone interview 8.8.2005.)

The cultural differences of the different markets are the reason for the company to act more locally and develop different contents according to the local taste. That is the reason for not importing the magazines. The company rather modifies the brands to fit the different environments. The company is importing brands, although it does not have brands of its own and they are therefore resorting to big international brands like Cosmopolitan and National Geographic. (Loesberg 2005.) It is important to have a direct presence in the countries and know the customers well. This is the most important reason for setting up the operations in these countries and internalise the markets. Also, operationally SMI respects the needs and problems of every country regardless of the size of the market and sees it important to establish itself as a local actor. (Drumev, email inquiry 2005).

As for the location specific advantages of the investments competition, markets and their potential seem to be the most important factors in this context. The location aspect of the investments will be discussed in more detail in sections 4.4. and 4.5. with respect to the investment motives and location related determinants.

4.4 Host country determinants related to the investment decisions

This section will concentrate on the location related factors that have determined the decisions of the case company to invest in Bulgaria and Romania and which have also affect their business in these countries after the market entry. The determinants have been divided into the ones related to markets and competition. The section will also consider the positive and negative sides of the markets and the future of the operations in Bulgaria and Romania.

4.4.1 *Market related factors*

Markets as a whole are the most important host country determinants affecting the case company. As a publishing company it has to constantly look for new ways to increase its sales and this leads to looking for new markets with unsaturated demand.

Considering the factors related to market, the size of the country, its growth potential and low magazine penetration are important conditions for the investment decisions of the case company. These circumstances can be found in Bulgaria and Romania and they also encouraged the company to invest in the countries. (Jansen 2005.) The markets are also usually the first aspect of the country the company considers when they consider the advantages of new countries in terms of investments.

Even though the Bulgarian market is relatively small it was still considered interesting from the point of view of the investments. Nonetheless, Bulgaria is a small market and will never be crucial for SMI. The company has however a clear market leadership in the market and they have achieved good results which makes the investments to Bulgaria profitable. (Drumev 2005.) The size requirements of the markets will be discussed in more detail in relation to the motives of the investments in the following section.

According to Dreijklufft (2005) Romanian industries are also developing somewhat faster than the ones in Bulgaria.

You know, once people are in Romania they also look at the neighbouring countries and then very quickly.. They also think hey Bulgaria that's a nice country. It's a decent country, normal people and stable. So they also move into Bulgaria. So Romania is a bit more advanced than Bulgaria in that respect.

(Hans Dreijklufft, telephone interview 30.6.2005.)

On the other hand Dreijklufft argues that Bulgaria is catching up very rapidly at the moment and the publishing sector in Bulgaria is also developing very well. Bulgaria and Romania also have similar income levels and similar economic and political situation which are also background conditions for the investments (Drumev 2005). The importance of the political and economic stability as well as good prospects for the development of the economy are important factors, when the company is considering the investment potential of a country. This includes the GDP and GDP development as well as other macroeconomic factors. (Dreijklufft 2005; Drumev 2005.) The importance of the political and economic situation can also be seen in the next quotation describing the consideration of the investment related risks.

Then you look at stability I think. That is, because that determines your risks at the end of the day. But you know we are not that risk-averse so.
(Hans Dreijklufft, telephone interview 30.6.2005.)

According to Dreijklufft infrastructure and distribution systems in Bulgaria and Romania did not affect their investment decisions, although there are serious problems with distribution. This is due to the fact that every publisher entering those countries encounters the same problems and has the same disadvantages.

But it does not have any effect in our business. We only know that it means an upswing in our results along the line, along the route. If that improves then also our results improve.
(Hans Dreijklufft, telephone interview 30.6.2005.)

The problems with the distribution do on the other hand have an effect on the location of the operations inside Bulgaria and Romania. The operations are concentrated on the biggest cities partly due to delivery and other distribution related problems.

Salaries in Bulgaria and Romania are very low compared with Western countries. The majority of the money of SMI is however in paper and printing and a very small amount of it is in salaries. The wage levels were therefore not crucially important when the company was making the investment decisions. (Dreijklufft 2005.)

As a publishing business the company does not have any real raw materials. They only need paper and printing services in the operations. There are not that many printing facilities in Bulgaria and Romania, but especially in the monthly magazines business printing can also be done in other countries. The printing of weekly magazines however needs to be closer to the market. As already pointed out SMI has outsourced the printing of magazines both in Bulgaria and Romania. One of the printing houses handling the printing in the Bulgarian market is even based in Romania, which shows that printing facilities were not crucial considering the investment decisions. The company has also hired some office space, the quality of which is not very good. Raw materials, facilities and financing as a whole are not of importance in the investment decisions in Bulgaria and Romania. (Dreijklufft 2005.)

SMI has not generally encountered any severe problems during the investment processes in Bulgaria and Romania, although media can be a sensitive industry. Some countries even determine the maximum percentage of foreign companies' ownership in media companies, but not in the case of Bulgaria and Romania. There is in other words no limitation for the foreign ownership in media. (Dreijklufft 2005.) Newspaper business as a more sensitive business sector than magazines, however, has raised some concerns. This is especially the case with a German media company called Allgemeine

Zeitung, which has caused concerns, of having too much power in the area. Allgemeine Zeitung is an aggressive and expanding company in the newspaper business and has been buying many newspapers in the countries. SMI has however never come across such concerns, nor has the taxation has caused any problems if not any substantial incentives either. (Dreijklufft 2005)

There is also a big grey and black market in Bulgaria and Romania. But it is not a significant problem, since the large international companies also have the opportunity to change the situation, at least to some extent. (Dreijklufft 2005.) This is how Dreijklufft describes the cooperation with the local actors and the way they refuse any illegal suggestions of the local companies:

As you know guys it's over. We are not.. We can not afford it ourselves. We do not want it. We do not do it. No money under the table. We only work with normal invoices, we pay our VAT etc. So you see a chain reaction as soon as a multinational or an international player moves into a market. Then those kinds of things they stop. Because otherwise we do not work with distributors, who do not send us decent invoices.

(Hans Dreijklufft, telephone interview 30.6.2005.)

Considering acquisitions in the countries, Dreijklufft (2005) points out that the smaller the company the more probably there is black money involved in its operations. He also states that it is the way things have traditionally been handled in these countries. He emphasises that the condition for SMI to be able to operate in these regions is to try to change the situation and erase the problem. Even so he does not see it as a severe problem, at least not an factor that would cause them not to enter the markets. The disadvantage is that they might lose some advertisers, who do not want to pay officially:

Then it's sorry guys. That's not how it works: no advertising if you do not pay in a normal way. So it is there and we know that, but we can turn it around without losing any business. That's not an issue.

(Hans Dreijklufft, telephone interview 30.6.2005.)

The company has not encountered any severe problems with corruption in Bulgaria. Dreijklufft states that for SMI it is more a problem in Romania and points out that it has traditionally been part of doing business there and will therefore not disappear quickly. The legal system is also not optimal yet and the legal proceedings take considerably longer than in some other countries. But even so, Dreijklufft does not think corruption or bureaucracy are very large problems for them and according to him the

situation is also rapidly changing, because more international companies enter the countries and practices are improving. These factors are in other words not a reason for not moving into Bulgaria and Romania or making it impossible to work there. (Dreijklufft 2005.)

4.4.2 *Advantages and disadvantages of the markets*

According to Loesberg (2005), distribution is one of the most significant disadvantages of the publishing markets in both Bulgaria and Romania. Distribution of the magazines is an important aspect in the publishing business and is likely to affect the operations if it is as underdeveloped as in these markets, especially in Bulgaria. The lack of developed retail business and suitable kiosks has a negative effect on the business of SMI as is reflected in the following quotation:

When you go into Finland of course you see all beautiful kiosks. Where you have the shelves, with all the magazines. But in our countries that is not the case.

(Hans Dreijklufft, telephone interview 30.6.2005.)

According to Loesberg distribution in Bulgaria is unorganised and even chaotic in some respects. There are numerous small distributors and distribution is therefore very fragmented. There are a lot of small distribution companies and as a publishing company SMI has to deal with all of them. Although they are able to choose the biggest and most reliable ones, the situation is still quite difficult. (Loesberg 2005.)

SMI tries to, however, raise the level of infrastructure and distribution together with other publishers. At the moment they are developing the distribution in Bulgaria and Romania by combining the assets of SanomaWSOY by trying to introduce Rautakirja, SMI's sister company specialised in distribution, to Bulgaria. Rautakirja already bought a distribution company in Romania after SMI had introduced them to the company. After buying the business they are helping to improve the distribution of SMI's magazines in Romania, since the Romanian company Hiparion, now partly owned by Rautakirja also handles the distribution of SMI in Romania. Dreijklufft has also visited Bulgaria with Rautakirja and introduced them to several Bulgarian distributors. As a result they are considering making an investment in Bulgaria in the future. (Dreijklufft 2005.)

The development of retail business as a whole will increase the opportunities of SMI in Bulgaria and Romania, but that is a long term goal, emphasises Dreijklufft (2005), as is also the development of road systems and other infrastructure. When pro-

fessional companies selling the products of SMI, such as Carrefour and Tesco, move into the countries they will also increase the profitability of SMI. The introduction of the large companies and the development of the retail will however be a long and slow process.

Distribution is a remarkable problem for SMI as well as other publishing companies in both Bulgaria and Romania. According to Loesberg the company receives the data from the distributors far too late and it is difficult to manage the returns and the point of sales for example. She also names it as one of the biggest problems in these countries. (Loesberg 2005.)

The kiosks selling the magazines are also very small and the employees do not have incentives encouraging them sell more magazines. Due to this they only want to earn their daily salary affecting the results of the publisher:

So if you have for example an action that you say, ok we have a prize-off. We sell our magazine this week or this month for a lower prize and you would expect to sell more. The kiosks, they are taking more copies into their kiosk. Because each week or month they sell ten and they're happy if they sell ten. They make enough money, so it's not an issue for them to sell 15 or 20. So let's say that is all problems that you come across.

(Hans Dreijklufft, telephone interview 30.6.2005.)

There are also problems with corruption, especially in Romania. That appears for example in the relationships which play a very important role, especially in Romania.

And sometimes you have to play the game. You need to know the right people in the right places. That is part of doing business. Which we and I think that especially goes for people from Finland, but also here in the Netherlands we are not used to that. But I read somewhere and I think it's very true, you can also compare with doing business in Italy. From that point of view, to say that it's not so much typical for Romania. But you know it's yeah. It happens in more than one country, but it's also happening in Romania.

(Hans Dreijklufft, telephone interview 30.6.2005.)

On the other hand Dreijklufft emphasised that SMI, as a big company, will never pay any money under the table, but visiting people, going to right parties, having relationships at the government level helps and is sometimes necessary in order to proceed with the business.

Another negative factor, the company has come across in Bulgaria and Romania, mentioned by Dreijklufft is that a lot of training, coaching and support for the employees is needed, because publishing is relatively new industry in both countries. That is why there are not many suitable human resources available for the purposes of the company. More editorial, commercial and managerial employees are needed.

As for the quality of the workforce, the bottleneck seems to be the knowledge of the business, and the amount of people with good editorial, commercial or journalist skills is scarce. That leads to a competition for good people. Publishing is a small industry and it is easy to lose for example a marketing and sales director to one of the competitors and the company has to continuously pay attention to this. SMI also has to compete for the commercial, marketing and sales people with other international companies such as Procter&Gamble, Unilever, banks and other media companies such as television and newspapers. (Dreijklufft 2005.) As a result of the demand for skilled people the salaries are also rapidly increasing. That leads to the increase in costs which are sometimes rising quicker than the revenues.

Positive sides mentioned by Dreijklufft were that people are very eager and knowledgeable, which makes it pleasurable to work in the countries. The company mostly works with young people and they are especially eager to learn and are also catching up rapidly and becoming more competent. Loesberg also pointed out that the quality of the employees working for them in these countries is high. They have a lot of young people within the companies and they are very eager to learn and work with SMI, because it is an international company. (Loesberg 2005.)

Loesberg also sees many possibilities in these countries, partly because they are developing fast. On the other hand there are also many unpredictable factors and it is not possible to predict the future as in the Western parts of Europe. This is how she describes the incurring of debts in Romania. (Loesberg 2005.)

If you look at the official figures you see the enormous growth rates in this part of Europe and at the same time what happened last year in Romania for instance... It is so easy for the people to get loans, even small loans for buying a mobile phone or a video camera or television or whatever. So now they are really, they are almost drowning in their loans and they have to pay back every month.

(Els Loesberg, telephone interview 8.8.2005.)

The citation illustrates the fact that although the economy is growing the purchases may diminish, because of the increasing debts. This in turn decreases the sales of the magazines because they are usually among the first thing people cut from their pur-

chases if their disposable income decreases, since they are not necessity items. (Loesberg 2005.)

As for advertising Loesberg points out that international advertiser become interested in the market when the country reaches a certain level. Launching brands such as Cosmopolitan the publisher can also depend on having L'Oreal as an advertiser among other cosmetic companies. (Loesberg 2005.)

On the other hand advertising is still not as mature in Bulgaria and Romania as it is in more developed countries. According to Loesberg (2005) the advertising spending per capita in 2003 was 12 euros in Bulgaria and 27 euros in Romania whereas in Hungary for instance it was already 69 euros and in the Netherlands 232 euros. The comparison reveals the figures for Bulgaria and Romania are still far behind from those in the more developed markets. It also shows however the growth potential of these countries.

The same goes by the way for the gopher prices. If you look at our weeklies here in Romania and in Bulgaria, our women's weeklies in Bulgaria 34 euros cents and in Romania 30 euros cents and compare that to the weeklies that we have in Western Europe and they cost 2, 10 euros. So then you can imagine what will happen after few years. If we are here in the same standards.

(Els Loesberg, telephone interview 8.8.2005.)

Drumev (2005) also points out that because of the smaller size of the Bulgarian market advertisers also have noticeably smaller budgets in Bulgaria.

Despite the negative sides of the market the company seems to have a positive view of the future of the markets and the operations and the future potential of the investments is probably one of the most important advantages of the markets. Low penetration of international titles and high growth potential make these markets interesting (Jansen 2005).

4.4.3 Competitive situation

Another factor belonging to the most important host country determinants affecting the investment decisions is the competition in Bulgaria and Romania. The lack of large European publishers affected the decision to invest in the markets very significantly, especially in the case of Bulgaria. (Drumev 2005.) The lack of competition increases the potential of the market. This is how Dreijklufft describes the consideration of the competition as an aspect of the investment environment:

And then also you look at what is already available. Are there already players in that market? Yes or no? And then we said to each other, ok that's (Bulgaria) a logical next market and especially with them also coming closer to the EU. It makes life only easier. At the same time it also makes it more competitive. Because more and more companies are getting interested in those countries.

(Hans Dreijklufft, telephone interview 30.6.2005.)

The competitive situation was in other words a very important factor affecting the investment decisions, although the competition in the publishing markets of Bulgaria and Romania is already becoming fiercer, especially in Romania. The difference between the competitive situation in Bulgaria and Romania is that the German companies have not recognised Bulgaria until very recently. Due to the size of the Romanian market, the country has been on the radar screen of many companies for several years already. As a result the Romanian market is more competitive than Bulgaria. (Dreijklufft 2005.)

Due to the lack of competition, SMI is in addition to WAZ, among the few international companies in the publishing business in Bulgaria. Another foreign publisher operating in Bulgaria is Attica from Greece. In Romania on the other hand the German and other international publishers such as Swiss Ringier have crowded the market more effectively and are also trying to dictate it by starting a price war. This is an effective way to sell more magazines since the prices of the international brand magazines are quite high for the local consumers. The gopher prices of SMI in Bulgaria and Romania are already quite low compared with other markets they are serving and it is not easy to decrease the price without losing the quality. (Loesberg 2005.)

The competition is difficult, especially due to the German approach, as Loesberg calls the competitive strategy of some of their competitors, and describes it as follows:

Very low gopher prices. They make their magazines cheap, because they just as you said import the magazines. That's what they do. They just translate. They call it Lisa, they call it Lena, they call it Anna or Joanna and in fact it's a German magazine, which is just translated. But then they can ask 15 euros cents for it.

(Els Loesberg, telephone interview 8.8.2005.)

According to Dreijklufft (2005) SMI is the second largest publishing company in Romania. There most important competitor of SMI in is Ringier which is also the most

powerful company in the sector. There are also smaller local companies in the market, but Ringier is the most important competitor.

In Bulgaria the competition is still very limited. SMI is the leading magazine publisher in the country. The only competitor is a Greek company called Attica, but even they are not very strong. There are also a few local players, but the competition as a whole is not particularly strong at the moment. SMI is expecting increasing amounts of the competitors that are already present in Central Europe. (Dreijklufft 2005.)

One of the strengths of SMI compared with the competition is that the good employees want to work with them due to the atmosphere and the type of magazines they have among other things. (Loesberg 2005.)

The company also tries to differentiate itself from the competitors by offering the consumers quality magazines even if the magazines would be positioned on the lower side of the market. The differentiation of the magazines according to the needs of every different market is one of the biggest advantages the company has compared with the competitors who usually import and directly translate their magazines. (Loesberg 2005.) SMI wants to aim for quality rather than quick profits with cheaper prices:

We are magazine makers, not only money makers. I think that's one of our strengths, the way we make our magazines. Perhaps one of the biggest advantages is that we always aim for the local approach.

(Els Loesberg, telephone interview 8.8.2005.)

The aim for a local approach is also reflected in the eventual employment of local management in the different units. At the moment Loesberg is running the operations in Romania, but the aim is to replace her with a Romanian management as soon as possible. In Bulgaria they already have a Bulgarian managing director which gives them a significant advantage compared with the German companies who always have German management which tends to lead to a more German culture within the company. SMI on the other hand tries to set international standards. (Loesberg 2005.)

We are Sanoma and we live like that together. So we are very transparent organisation. But at the same time with a lot of local influences and local approach. Understanding the culture which is key when you make magazines of course.

(Els Loesberg, telephone interview 8.8.2005.)

The potential future competitors, according to Dreijklufft, are for example Bauer (Germany), Gruner & Jahr (Germany) and Burda which is already in Romania, al-

though only on a small scale so far. These actors do not, in other words, have a real presence on the markets yet, but SMI expects more competition from them in the future. Dreijklufft also points out that the size of the markets is not very large in total which means that, if even a couple of more competitors enter them, the situation will be much more difficult. This is why he also emphasises the importance of finding the markets at the right time and early enough:

But you have to move quickly. The markets are developing very rapidly.
(Hans Dreijklufft, telephone interview 30.6.2005.)

Although the markets are growing the overall size of the market is small. Due to this there is not too much space to share among many players and with even one or more extra ones the competition will become considerably fiercer. (Dreijklufft 2005.)

4.4.4 Future development

With respect to the forthcoming EU membership of Bulgaria and Romania Dreijklufft does not think it will have an immediate effect on their business. In his opinion the route towards EU membership makes the countries more visible and brings them closer to the rest of the Europe. Therefore they are already receiving much more interest among international publishers. He also sees the development positive for the countries themselves, because they can develop faster when foreign investments and international activity increases. The only effect he sees for the company directly is the increase in competition in those countries due to which the business will become more difficult. (Dreijklufft 2005.)

As for the future of SMI in Bulgaria and Romania in general Dreijklufft (2005) emphasises that it will probably be difficult to maintain their current strong positions in the business. In order to be successful in the future the company has to work hard. The company does however have a strong confidence in the future of the operations in spite of the increasing competition:

But assuming that we succeed and that's what we're working hard on, I see a very healthy future. But I think that. I think it will not be easy, because the as I say the growth of the market. It is not that fast.
(Hans Dreijklufft, telephone interview 30.6.2005.)

Despite the positive future expectations Dreijklufft is very cautious about making too positive predictions of the future business opportunities in the countries. He even

points out that sometimes there might be too much excitement concerning the development of these countries. Because of the increasing competition it will take a number of years before the company can make substantial profits in Bulgaria and Romania and the focus needs to be long term.

As for the individual countries and their future, Romania goes at present through a very competitive phase, with many new launches in recent times. As a consequence, circulation levels and profit margins have decreased. The situation will probably lead to a reorganisation and consolidation in the coming years, after which the growth trend will be resumed. (Jansen 2005.) The competition will intensify also in Bulgaria, but SMI's good position in these markets should allow it to be successful. Consolidation is however to be expected also in this market. Both of the markets are expected to develop positively, although pitfalls are not impossible. The Balkans is a growth area, but it needs support from the EU. (Drumev 2005.)

The only new country SMI is considering as a potential operating environment in the area at the moment is Macedonia. The reason for this is that there are a lot of similarities between Bulgarian and Macedonian languages. (Dreijklufft 2005.)

4.5 Motives related to the investments in Bulgaria and Romania

The investment motives of the case company will be investigated in this section by applying the criteria of Dunning's motives for foreign production. As already pointed out in the theoretical part of the study Dunning has identified four main motives for starting foreign operations, namely market-, resource-, efficiency- and strategic assets-seeking. This aspect of the theoretical premises of this study is used in order to examine the motivation initiating the investment decisions. The motives can also expose some of the strategic policies behind the expansion of the company as well as tell something about the investment environment of the target countries.

The investment motives of Sanoma Magazines International are first of all related to the aim to continuously grow the business. That leads the company to look into markets which offer opportunities for mid-sized publishing house to establish itself as the leading publisher. The company's goal is to be the leader in the markets they expand to, because that position also provides opportunities to make above average profits if the business is successful. (Dreijklufft 2005.) In the following quotation Dreijklufft sums up the most important factors affecting the investment decisions of the case company in general. These conditions have also affected the decisions of starting the operations in Bulgaria and Romania:

Size and opportunity are, I think are the most important for us really. And of course you have let's say your conditions to do it. That is ok, it needs to be safe, you are relatively safe, relatively stable and so. But at the end of the day it's the size and the opportunity. To establish yourself as the number one. That is really more important.

(Hans Dreijklufft, telephone interview 30.6.2005.)

Also Peter Jansen (email inquiry 2005) states that the most important reason to invest to these countries is future growth potential of the markets. Western magazine markets are almost saturated and have little growth potential, whereas Bulgarian and Romanian markets are still at the beginning of development. Growth prospects of the markets are therefore better and there is a lot more unsaturated demand.

Dreijklufft further emphasises the search for new markets offering new opportunities as a motivator for the investments as he describes the expansion strategies of Sanoma Magazines International:

Let's say virgin markets. Because to expand your business you're not going into or at least that is not our intension, to go to France or the UK or Germany, because that's where the battlefields with the very big publishers [are] already happening. So you look at the newer, smaller countries and when we started in Central Europe it was logical to look much more, continuously to look more East.

(Hans Dreijklufft, telephone interview 30.6.2005.)

On the basis of the discussions with the respondent from the case company the most important investment motive of the company seems to be market-seeking, which is not very surprising considering the business the company is engaging in. The size of the market is especially important in Romania, which has over 20 million inhabitants, but also Bulgaria is described as a potentially interesting company with its 8 million inhabitants. It is also in line with SMI strategy to operate in small and medium markets (Drumev 2005). The size of the potential investment targets is described in the following quotation:

But at the same time the markets need to have a certain size. At least in theory. So for example we have not, while we had the opportunity, we did not move into Slovenia. It's a market with only 2 million people and only 600 000 households. You can make calculations; you know what kind of maximum profits you can earn there if you do it well. And then you say, you know, it's just too small, because we have to spend a lot of time and effort and you can maybe do in ten year's time, five to tens year's time a million euros bottom line and that's just not, you know not worth it. So you need to look at a certain size of countries and what is that size. We are also in Croatia. That's about four and a half, five million people I think that's, yeah, that is a.. I would not say the bare minimum, because maybe you move too into other countries, but you organise in differently later on. That is a, yeah, the threshold almost.
(Hans Dreijklufft, telephone interview 30.6.2005.)

Another motive for the investments in Bulgaria and Romania seems to be the increase in effectiveness and reducing the risk by operating simultaneously in several markets. The choice of going into the Bulgaria and Romanian markets is part of a larger expansion throughout Central, South Eastern Europe and CIS in which Sanoma Magazines International functions as a common platform for the operations. Sanoma Magazines International has divided this geographical area into three clusters which are managed from respective directors in the headquarters. This ensures that the company can monitor the quality, targets, potential synergies and cost savings of all the markets simultaneously and gain effectiveness. The company intends to optimise the opportunities and also decrease the risks by having a presence in several markets simultaneously. Common governance of geographically spread operations can also increase synergy. (Sanoma Magazines International 2005.)

The motivation in the investments to Bulgaria and Romania can also be seen to have strategic features, especially in Romania. The company chose to form a joint venture with an international publisher in order to acquire the licence owned by the partner. The partnership also helped the company to form an agreement of the same license in Bulgaria and form a partnership with a local company, which is also of strategic importance for the company. The access to this license is a strategic asset both in Bulgaria and Romania as well as other markets the company is active in. The strategic partnership with Hearst enabled the company to acquire the important Cosmopolitan license to the Bulgarian market as well as guarantees the ability to build the Romanian brand on a more long term basis.

Dreijkluft (2005) also emphasises that the operations are long term. In other words the focus of the investments is long-term, because the company has to invest quite heavily before they can expect any real profits from these countries.

I do not know even what the levels are at this moment, but as I said the profits are limited. We invested for the companies, because we are there for the longer term.

(Hans Dreijkluft, telephone interview 30.6.2005.)

Dreijkluft pointed out however, that they are making money in both countries but continuously investing it in the companies again. It is however their long term goal to become successful in the markets.

4.6 Summary of main empirical findings

The final section of this chapter will include a discussion of main empirical findings resulting from the analysis of the data and present the types of factors relating to the different sub problems of the study. The most important findings related to the different theoretical aspects found in the data have been listed in Table 11 and will be discussed in detail in the following paragraphs. In addition to the findings related to the theoretical premises, the table and the discussion also illustrate the connection of the different aspects of the theories and phenomenon they analyse in the data.

Table 11 Investment motives, background conditions and host country determinants related to them

1: OLI- ADVANTAGES	2: HOST COUNTRY DETERMINANTS	3: INVESTMENT MOTIVES
<i>O-advantages:</i> Licences <i>I-advantages:</i> Close customer contact: local knowledge & approach, quality control <i>L-advantages:</i> Markets& Competition etc	<i>Markets</i> size and potential <i>Competition</i> Linkages Distribution	<i>Market-seeking</i> Efficiency-seeking Strategic assets -seeking

The starting point for the analysis was the OLI-paradigm and the most important findings discovered in terms of the three dimensions of the paradigm have been presented in the first column of Table 11. The ownership specific advantages represent the competitive advantages the company. These form the firm specific background conditions for the investment decisions. In this case the most important ownership specific seem to be the licences of the international magazine brands the case company as been able to acquire in the Bulgarian and Romanian market. The brands create a significant competitive advantage since they attract both customers and advertisers both of which have an important effect on the profitability.

The internalisation advantages meaning the advantages gained from the use of the assets of the company inside the company rather than selling or leasing them to another company. The case company finds it important to work close to the customer and acquire local knowledge by operating directly in the countries. By retaining the operations inside the company and having own operational units in the countries the company can also control the operations better and affect the quality of the products. Close customer contact and the control of the operations are in other words important factors in the decision to internalise the Bulgarian and Romanian markets and resort to FDI as the form of entry to these countries. The location specific advantages of Bulgaria and Romania on the other hand are related to two main factors; markets and competition; which formed an opportune environment for the investments.

The location specific advantages of the OLI paradigm correspond to the host country determinants forming the second part of the analysis. The markets and competition appear to be the most important factors determining the investment decisions. The size and potential of the markets as well as the relatively small number of international players seem to be the most important positive sides of the investment environments and were also the most important reasons for choosing these countries as the host countries for the investments. As well as the growing markets the lack of competition has also affected the investment decisions. The competition is however changing as more international publishers see the potential of the markets. The EU membership of the countries can also have an effect in the increase of international publishers.

Linkages especially to the customers were important in the decisions make direct investment as closeness to customers is considered to be one of the prerequisites of the business. This is however probably not distinctive to these countries, but rather a strategy used by the company in most of the markets. It can therefore be argued that it did not affect the selection of these countries as such, but had more effect on the decisions to engage in FDI in these countries and not some other operation mode. The company is also more increasingly paying attention to the linkages with the distributors which also have a significant effect on the business. The company is creating a group level cooperation with Rautakirja which has already entered Romania and is also consider-

ing operations in Bulgaria. This cooperation will increase the case company's control over the distribution.

At the moment distribution belongs to the most important problems of the publishing business in Bulgaria and Romania. The underdeveloped infrastructure and retail sector make the distribution of magazines difficult and have a negative affect of the sales of the magazines. This was not however seen as an important factor in the decisions of whether to invest in the country or not. Distribution and national transport infrastructure can however be considered to have had an effect on the locations of the operations inside the host countries, similarly as in the thesis of Wilska.

There are also some problems with bureaucracy and corruption, although international companies can partly affect the situation. The workforce in the publishing sector is seen as very eager and quick to learn, but on the other hand there is also rivalry of the good and skilled labour, which will probably intensify as more international companies enter the markets. Neither labour nor the problems with bureaucracy or corruption, however, had an effect on the host country selection, but they have an effect on the ongoing operations.

Raw materials were also not important considering the investment decisions and host country selection. The company has outsourced its printing operations which are the only raw material demanding part of the business and does not consider it as an important factor concerning the investments. Capital and land were also of no significant importance.

The host country determinants are also closely linked to the investment motives and consequently the most important motive of the case company seems to be market-seeking as could be expected on the basis of the host country factor analysis and the nature of the publishing business in general. The background conditions of the market-seeking motives can be found in the factors of the host country determinants analysis. As already pointed out the markets in these countries hold a lot of potential and are not as saturated as many of the Western ones. These countries are seen as a possibility to grow the business to new regions and earn more profits when the traditional markets are beginning to be overcrowded. The company has therefore been looking for markets with growth potential and less competition.

Other motives are related to the increase in efficiency and strategic reasons. The common governance of geographically dispersed operations and taking advantage of the advantages of presence in different locations can be seen as search for efficiency and aim to share the risk among different markets. The strategic assets -seeking motives on the other hand have had more effect on the mode of entry rather than the choice of location. The access to the licence of Cosmopolitan caused SMI to form a partnership and a joint venture type of operation mode in Romania. The same licence affected the choice of the local partner in Bulgaria. Another reason for the Bulgarian

partner was the access to local knowledge possessed by the company. The efficiency-seeking and strategic assets -seeking motives are however secondary and the primary motive for entering the Bulgarian and Romanian markets has been market-seeking.

One of the sub objectives of the study was to compare the realities of the publishing sectors in Bulgaria and Romania. The most significant similarities and differences perceived by the case company have been presented in Table 12.

Table 12 Comparison of the host country factors in the publishing sectors of Bulgaria and Romania

<i>SIMILARITIES</i>	<i>DIFFERENCES</i>
Similar income levels, economic and political situation	Romania: larger market and more competitive than Bulgaria
Market development and future potential	More corruption in Romania
EU accession	Distribution more problematic in Bulgaria

There are many similar characteristics in the host country factors of Bulgaria and Romania. The economic development of the countries has been quite similar resulting in similar income levels among other things. Also the political situation is perceived quite similar and both of the countries were described relatively stable in economic and political terms. The market development of the publishing sector is also quite similar in both of the countries. Publishing is a relatively new sector in the countries and still developing in many ways. Because of a similar historical development the sector is still quite underdeveloped in both countries. The case company sees many possibilities for growth in both of the markets which are perceived as having future potential due to unsaturated demand and increasing purchasing power among other factors. Positive expectations of the future potential of the markets is however a combining factor. Some of the similarities and the similar stage of development are due to the simultaneous accession process of the EU which affects especially the economic and political development of the countries.

The most important differences of the target countries are related to the size of the markets and the intensity of the competitive situation. Romania is a large domestic market with over 20 million inhabitants compared with less than 8 million in Bulgaria. This makes Romania a more important market for the company and the industry as a whole. Although the market-seeking motives have also been the primary motivation initiating the operations in Bulgaria the representatives of the company pointed out that because of the small size of the market it will never be crucial for the company.

This has also affected the difference in the competitive situations of the countries. The relatively large size of the Romanian market has attracted more foreign publishers to the country than in the case of Bulgaria. This has resulted in the case company facing more fierce competition in the Romanian market. The Bulgarian publishing market on the other hand has been much less competitive due to the lack of many large foreign companies which has created an attractive situation for the case company to establish itself as the leader in its customer segments.

Distribution creates challenges both in Bulgaria and Romania because of the under-developed infrastructure and the retail sector. The situation in terms of distribution is however even more serious in Bulgaria here the company has to deal with many small distributors the operations of which are unorganised creating many problems and slowing processes. In Romania the company is working with one distributor currently controlled by Rautakirja which is perceived to facilitate the organisation and control of the distribution process. Corruption and bureaucracy are affecting the business in both countries, but according to the experiences of the case company corruption is causing more problems in Romania.

Since the case company can be considered as a kind of a pilot case in many respects it was also studied for intrinsic reasons. It is therefore also interesting to consider the future development of the case company itself. The future of Sanoma Magazines International in Bulgaria and Romania from the company perspective can be investigated by using a SWOT analysis presenting the strengths, weaknesses, opportunities, and threats defining the future development of the company. Table 13 introduces a SWOT analysis of the case company's operations in Bulgaria and Romania.

Table 13 SWOT analysis of Sanoma Magazines International in Bulgaria and Romania

<i>Strengths</i>	<i>Weaknesses</i>
Strong market position Strong brands Strategic partnerships Local approach	Distribution Relatively high prices/ low purchasing power Small revenues (circulation and advertising)
<i>Opportunities</i>	<i>Threats</i>
EU: economic development Increasing profits	EU: increasing competition Saturation of the markets

All in all the future of the company as described as quite positive in the discussions with the company representatives and this also applies partly for the sector in general

The interviewees emphasised the strong position of the company related to the access to known international brands. The partnership with Hearst is also important and has an effect on the strong position of the company. The company also aims for a local approach and is working close to the markets and using local knowledge, which can be thought of as a real advantage compared with the competitors.

The weaknesses include most of all distribution problems leading to weaker control of the deliveries and final sales. This is however a problem the whole sector has to deal with and all the publishing companies need to consider its effects on their business. The case company is also developing the distribution in cooperation with Rautakirja which might improve the situation in the future. Another negative side is the relatively high price of the magazines of SMI compared with the competitors which might decrease the sales, especially in countries such as these where the purchasing power of most of the population is not very strong. The company wants to however position its magazines as quality ones and this as well as the local approach affects the prices

The forthcoming EU-membership of Bulgaria and Romania can be seen as both an opportunity and a threat to the case company as well as the whole publishing sector. On one hand it will probably have a positive impact of the economic development of the countries and increase the purchasing power. On the other hand competition will also increase as the countries come closer to Western Europe. This might eventually lead to the saturation of the markets. The development of the markets is however still in quite an early stage and the future will also hold opportunities for increasing profits. The whole publishing sector will probably gain many advantages of the EU membership which might also have an impact on the improvement of the infrastructure for instance. All in all, the entire sector is still developing rapidly and provides many opportunities for companies searching for new markets.

The material for this study was collected from a single case company and the investment motives and host country determinants are primarily company specific and cannot directly be applied to all the publishing companies operating in these countries. The experiences of the company however reflect the realities of the publishing markets of Bulgaria and Romania in general and describe some aspects of the potential of the markets, which have been presented in Table 14.

Table 14 Opportunities and challenges in the publishing markets of Bulgaria and Romania

<i>OPPORTUNITIES</i>	<i>CHALLENGES</i>
Market potential	Distribution
Unsaturated demand	Bureaucracy and corruption
Economic development	Circulation and advertising
Competitive situation	Purchasing power
	Increasing competition

The advantages and opportunity creating factors in the publishing sectors of Bulgaria and Romania are most related to the markets and economic development of the countries. There is still unsaturated demand, especially in the Bulgarian markets and the demand is also increasing if the economic development increases the purchasing power of the people. There is still also less competition than in the more competitive Western European markets.

In order to be able to operate effectively in the sector there are also some problems that need to be considered. Distribution is a problem for the case company and also for the whole sector, since the infrastructure and retail sector are still quite underdeveloped. The purchasing power of the people is not as high as in more developed markets and this has to be taken into consideration in addition to the total size of the market. It also affects the revenues created by the circulation and advertising, which are significantly lower than in other European markets. Also the competition is increasing and the markets are becoming more crowded increasing the requirements of the companies. There are also problems with bureaucracy and corruption which need to be considered when doing business in these countries.

5 SUMMARY AND CONCLUSIONS

The publishing markets of Bulgaria and Romania offer many possibilities, especially for companies entering the markets with international brands. The underdevelopment of the publishing markets attracts international companies in search for new ways to grow their business but at the same time the markets also offer many challenges for the foreign companies.

As well as investments in the publishing sector, FDI inflows to Bulgaria and Romania as a whole have been quite low and the amount of foreign companies has traditionally been very modest as well. The countries have not been as successful in attracting foreign investment as some others in the same region. Some of the reasons for this are the low average purchasing power of the population and macroeconomic instability. There are also deficiencies in the laws and their execution and the organisational culture is in many ways undeveloped. The infrastructure and financing possibilities are also underdeveloped and investment risk is higher than in the Western European markets. Also corruption and bureaucracy have created challenges for foreign investors.

Even so, the countries have many positive sides that have affected the development of these countries beginning to attract more FDI. Low production and employment costs together with high education levels attract resource-seeking investments in the region. The relatively large market size of the Romania market and growing private consumption in both countries on the other hand are beneficial for market-seeking FDI. The accession process to EU has also increased interest towards these countries and had a positive impact on their economic development.

The special challenges of the companies operating in the publishing sectors of Bulgaria and Romania are the low purchasing power and resulting lower circulation and advertising rates. The infrastructure also has an effect on the business. The relatively quick growth of GDP and the development of service and retail sectors however rise expectations of future potential and growth of the markets.

The purpose of this study was to investigate the investment motives and location related determinants of the investment environment from the case company Sanoma Magazines International's perspective and at the same time acquire more information about realities of working within the publishing sectors of Bulgaria and Romania.

The investments were investigated from the point of view of the investing company. The empirical part therefore consisted of the experiences and investment motives of the case company Sanoma Magazines International. The thesis also aimed at studying the opportunities and challenges for FDI in these countries from the point of view of the case company. The amount of Finnish companies with experiences of Bulgaria and Romania has so far been very modest and there are not many studies

concerning the business in these countries from a foreign investor's perspective. The experiences of the case company investigated in this study also illuminate the investment environment and include interesting information for foreign companies considering expansion to Bulgaria and Romania.

Since it was the purpose to study the investment decisions and related location determinants from one company's perspective the research approach chosen was a single case study. The case company was selected firstly because it is a company in Finnish ownership and has operations in Bulgaria and Romania. This enabled simultaneous collection of information concerning both of the target countries and also the comparison of the markets. Another reason for the choice of the company was that it operates in the publishing sector which is an emerging sector with many possibilities in Bulgaria and Romania and provides an interesting research field not widely studied in this context.

The primary data was collected by means of interviews with key respondents from the company. Secondary data was collected by means of document analysis of statistical sources and an expert interview. The data collection of the primary data was collected by conducting telephone interviews with the business development director and regional director responsible for Bulgaria and Romania and two interview interviews with two other directors from the case company. The respondents were chosen because they have been involved in investment decisions and of the case company and operations in Bulgaria and Romania. They therefore have information about the investment motives of the company as well as the realities of operating in the countries.

Analysis was carried out by thematically categorising the data. The starting point of the analysis was formed by the themes of arising from the theoretical framework. Some themes also arise from the data itself. The research approach and data collection methods proved to be very useful in the analysis of the research problems. The analysis illuminated the field of the research problems and helped to create new information about the specific factors related to the investment decisions in this context.

The location factors and investment motives affecting the choice of the host countries for FDI were investigated by means of three theories forming the theoretical framework of the study. Dunning's eclectic paradigm, which explains the investment activities of TNCs by means of ownership specific, internalisation and location advantages, formed the first aspect of the theoretical framework. It was also used as the starting point for the analysis. The eclectic paradigm was selected in order to provide a more general view of the different advantages that form the background of the investments. The paradigm also enabled the investigation of the firm specific advantages as a part of the motivation for the investments.

The host country determinants affecting the investment opportunities of foreign investments of the case company in Bulgaria and Romania were investigated using the

theoretical framework of the doctoral thesis of Wilska. The host country determinants were supplemented by the foreign production motives of Dunning as the purpose was to acquire information about the motivation for the investments and the factors affecting the motives. The three theories proved to be suitable for the purposes of the study and formed a mutually complementing framework which brought up interesting aspects of the research object and was useful in the investigation of the research problems.

Table 15 presents the linkages between the theoretical framework which was used as a tool in the investigation of the research problems and the realities of different levels of the data analysis. The first column of the table presents the main results related to the theoretical aspects of the study. The following columns represent the company and sector levels of analysis. The last column includes a comparison of the publishing sectors of the two target countries.

Table 15 Linkages between theoretical framework and realities of the case company and the publishing sectors in Bulgaria and Romania

<i>THEORETICAL PREMISES:</i>	<i>CASE COMPANY LEVEL:</i>	<i>PUBLISHING SECTOR LEVEL:</i>	<i>COMPARISON OF BULGARIA ROMANIA:</i>
OLI paradigm: O: Licences L: Markets and Competition I: Close customer contact: local knowledge, quality Control FDI motives: Market-seeking (Efficiency-seeking, Strategic asset -seeking) Host country determinants: Markets (size and potential) Competition Linkages Distribution	Strengths: -Strong market position -Strong brands -Strategic partnerships -Local approach -Increasing future profits Disadvantages: -Distribution -High prices compared with competitors -Small revenues (circulation and advertising) - Increasing future competition	Opportunities: -Market potential -Unsaturated demand -Competitive situation -Economic development -Increasing, purchasing power of the populations Challenges: -Future saturation of the markets -Distribution -Bureaucracy and corruption -Circulation and advertising -Purchasing power -Increasing competition	Similarities: -Similar income levels, economic and political situation -Market development and future potential -EU accession Differences: -Romania: larger market and more competitive than Bulgaria -More corruption in Romania -Distribution more problematic in Bulgaria

The theoretical framework provided an important basis for the analysis of the empirical analysis. The most important findings from the point of view of the theoretical premises were the market-seeking motives of the case company's operations in Bulgaria and Romania and the size and potential of the markets and the competitive situation in the countries representing the most important host country determinants related to the investment motives and the choice of Bulgaria and Romania as targets for FDI. Other motives were related to efficiency and strategic assets which are also related to the linkages and internalisation advantages of the other theoretical parts.

Especially the host country determinant framework of Wilska proved to be useful in the investigation of the location sources of investment motives in this context. Figure 17 formed the basis of the analysis since the primary motive in this case was market-seeking. As Wilska pointed out the primary host country characteristic also in this case was the size and growth potential of the local markets. According to him the other determinants related to the markets depend on this most important factor. The results of this analysis give similar indications as the analysis of Wilska. Since the case company in this study does not engage in production in the host countries the production related determinants are not important to it and this aspect of Figure 17 is not useful in this case. The main field of business are trade and distribution related function and the production of the contents of the magazines which does not involve any real raw materials. The most important conclusion of the analysis is however similar, emphasising the importance of market size and potential. In this case however competition was also a very important factor and in Bulgaria it was probably as important as the market itself. This factor is emphasised in this context as the sector is still quite undeveloped resulting in less competition. The competition and market size and growth expectations are in other words the most important host country determinants in this context.

The two most important location advantages, markets and competition, and the importance of the market-seeking motives can be applied for both the case company level and the whole publishing sectors in this context. The importance of local approach and close customer contact related to linkages and internalisation advantages also characterises both of these levels of analysis. The most problematic location aspect, the infrastructure and distribution also affects both the case company and the whole sector.

The comparison of the publishing markets of Bulgaria and Romania revealed similar development levels in many respects. The most significant differences arise from the larger size of the Romanian markets and more difficult competitive situation in Romania. Distribution and infrastructure seem to create the most problems in both countries, but the situation is even more difficult in Bulgaria. In order to be able to

attract more FDI, the infrastructure and retail trade are important development targets for the governments of these countries. The problems with bureaucracy and corruption also demand attention on developing more effective procedures and legislation. Supporting economic development of the countries and increasing purchasing power of the population are also important aspects in the creation of opportunities for market-seeking investments.

5.1 Suggestions for further research

The research field of this thesis provides a lot of material for further research. This study described the location related investment motives from the company perspective and created new viewpoint that can be exploited in future research in this field and context. The investigation of the case company provided many interesting hypothesis that could be studied further in different studies.

The aim of the company to develop the distribution by cooperating with Rautakirja would be an interesting research object. The analysis with a similar theoretical framework could also be extended to other operational environments of the company such Russia and Ukraine. It would also be interesting to repeat the analysis carried out in this study in five years time and compare the results to the current situation.

This study can also be seen as a pilot case study and the results could be analysed further in a quantitative analysis on a larger population. The sector and the type of business activity have to, however, be considered in testing the results of this study on a wider analysis. It would also be interesting to compare the investment decisions of the case company with the factors important for its most important competitors and achieve a more versatile picture of the publishing markets of Bulgaria and Romania.

Many CEE and other transition economies provide interesting contexts for further research on investment decisions and related location determinants and motives. Publishing is also an emerging business in many developing countries and therefore provides a lot of material for future studies. This study could in other words be used as a model for similar case studies in different settings and compare the results with this study or the results of this analysis could be used as hypotheses that can be tested in a quantitative analysis on wider material.

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APPENDIX 1 FDI IN CENTRAL EASTERN EUROPE

CEE's share of global FDI inflows remained under 1 percent until 1990. The share increased rapidly in the first years of transition and exceeded 4 percent in 1995. In 2000 the share declined to 1,8 percent and in the following year it increased again to 3,7 percent. As some large countries such as Ukraine have attracted little FDI compared to their size, the share of global FDI in CEE is much smaller than the relative size of the region in terms of territory or population. (UNCTAD 2003a, 1-2.) Czech Republic, Hungary and Poland have been the most successful countries attracting FDI as can be seen in the comparison of cumulative FDI inflows and the population sizes of CEE countries in Table 16.

Table 16 The comparison of the distribution of total cumulative inward FDI in \$ Million and population in millions in selected CEE countries by the end of 2004 (CIA 2005; UNCTAD 2005)

<i>CEE country</i>	<i>FDI stock in \$ million</i>	<i>% of total FDI stock</i>	<i>Population in millions</i>	<i>% of total population</i>
Bulgaria	7569	2,1 %	7,5	2,5 %
Croatia	12989	3,6 %	4,5	1,5 %
Czech Republic	56415	15,5 %	0,2	3,4 %
Estonia	9530	2,6 %	1,3	0,4 %
Hungary	60328	16,6 %	10,0	3,4 %
Latvia	4493	1,2 %	2,3	0,8 %
Lithuania	6389	1,8 %	3,6	1,2 %
Poland	61427	16,9 %	38,6	12,9 %
Romania	18009	4,9 %	22,3	7,5 %
Russia	98444	27,0 %	143,4	48,0 %
Slovakia	14501	4,0 %	5,4	1,8 %
Slovenia	4962	1,4 %	2,0	0,7 %
Ukraine	9217	2,5 %	47,4	15,9 %
Total	364273	100,0 %	298,7	100,0 %

As can be concluded on the basis of Table 16, Czech Republic, Hungary and Poland have attracted relatively large sums of FDI compared with their population sizes, whereas for example Ukraine has had very modest inflows. Also Bulgaria and Romania, seem to have attracted a smaller proportion of FDI than the proportion of their population of CEE total.

The inflows of FDI to Central and Eastern Europe reached a new high point in 2002. There was a tendency among firms in several CEE countries to expand higher value-added activities by using the educated local labour force. This suggests that training and retraining are important in terms of improvements in employment. (UNCTAD 2003b, 59.)

The stability of FDI inflows to the area in recent years can be explained at least partly by the positive impact of the EU enlargement, which has affected both the accession and the non-accession countries. EU-accession of the countries will harmonise the FDI regimes with EU regulations. According to UNCTAD (2003b, 59) the countries in CEE that do not belong to the EU should update and modernise their FDI promotion in order to benefit from being the “new frontier” for efficiency-seeking type of FDI. (UNCTAD 2003b, 59.)

The performance of FDI in CEE has been relatively steady in recent years, which suggests that investors see it as a stable and promising region for FDI. This applies especially to improving the efficiency of operations by the division of labour across Europe, for example by keeping R&D in one country and manufacturing in other low-cost countries. Another feature of FDI in CEE has been a catch-up effect, which means that the ratio of FDI stocks compared with GDP has grown from half of the world average to nearly the average in the period of 1995-2002. (UNCTAD 2003b, 60.)

In 2003 however the FDI inflows to CEE declined, mostly due to the end of privatisation in Czech Republic and Slovakia. Outside these two economies the decline was small. The inflows of FDI to the eight new EU-members shrank in 2003, but the prospects for the future, in terms of FDI, are suspected to improve rapidly. (UNCTAD 2004, 69-70.)

The worldwide trend of increase in services has affected the FDI inflows in CEE and brought an increase in FDI to service-related sectors, which were largely neglected in centrally planned economies. The EU enlargement and the integration of the service markets have created pressures to upgrade services to the level of EU and to increase FDI inflows to higher value-added services. The CEE countries outside CIS have generally a substantial penetration of FDI in infrastructure services such as banking, telecommunications, water and electricity. Banking is also mostly controlled by foreign banks, which have penetrated both the business segment and retail markets. (UNCTAD 2004, 78.) The future of FDI in CEE is expected to remain positive as well as the growth of FDI inflows to the area. The location experts also predict that FDI inflows will rise in food, beverages and motor vehicles industries. In the case of services the prospects of construction, real estate, retail and wholesale trade and transport seem most positive. Production is still the most likely corporate function of foreign firms in CEE followed by logistics and supply services. (UNCTAD 2004, 79.)

APPENDIX 2 FDI IN BULGARIA AND ROMANIA

Bulgaria has been acknowledged for its pursuit of economic and financial reforms. Improved political stability on regional level has led to free trade agreements with neighbouring countries making Bulgaria a link to these markets for foreign investors. According to EBRD (2003a, 3) the development increases Bulgaria's role as a regional energy hub, since the country's energy intensity is one of the highest in the world. The European Bank for Reconstruction and Development also sees post privatisation projects and greenfield private sector projects in industry, tourism, agribusiness and natural resources as the main source of attracting new FDI for Bulgaria in the future. (EBRD 2003a, 3-4). The most important industrial products of Bulgaria are chemical substances and products, groceries, drinks, metals and machinery. Main export products include clothing, footwear, oil products and metals. (Spiridovitsh 2004b, 1-2.)

Romania on the other hand provides foreign direct investors with a large market with nearly 22 million inhabitants. In addition to this, private consumption and investments are increasing, which provide additional reasons for market-seeking FDI. Also the location by the Black Sea is beneficial considering the investments. (CIA 2004; Spiridovitsh 2004c, 1-2.) The most important industrial products of Romania are metals, textiles and groceries. The main export products of Romania include machinery, oil, gas, minerals, cotton and groceries. (Spiridovitsh 2004c, 1-2.)

Foreign investors' interest towards Bulgaria has clearly begun to increase. The majority of FDI inflows to Bulgaria have been invested in the financial sector, trade, electricity and telecommunications. The percentages have been presented in Figure 8.

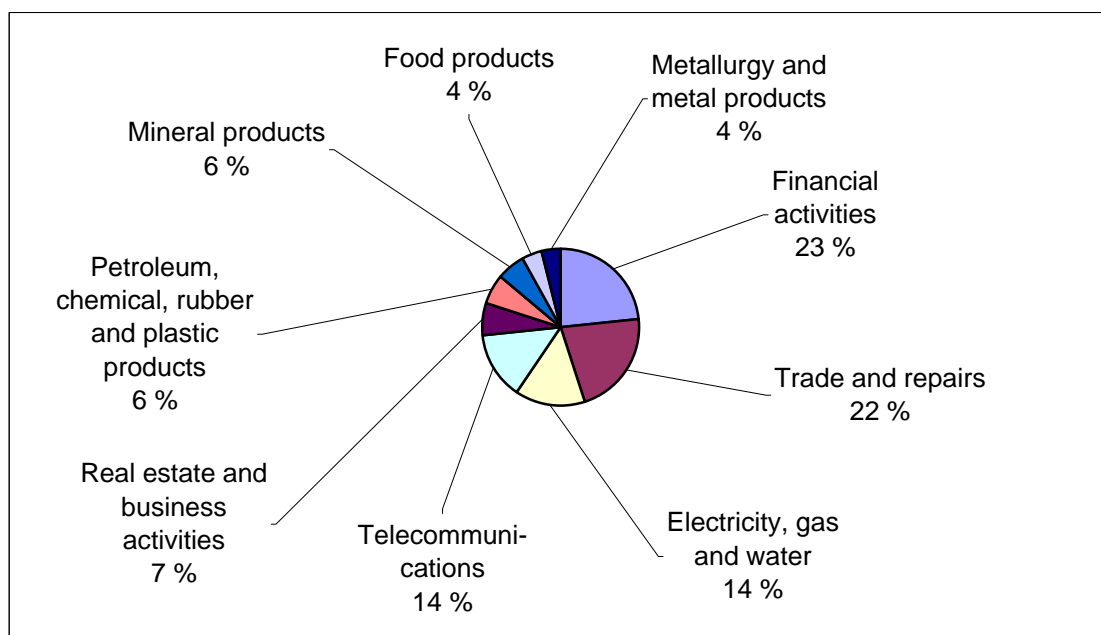


Figure 8 FDI distribution by sectors in Bulgaria (Bulgarian National Bank; InvestBulgaria Agency)

Also the food industry has been an interesting target for foreign investors. The sector received \$ 50 million FDI alone in 2003. Foreign retail chains have also had a positive effect on the activities of the wholesale and retail sectors. (Spiridovitch 2004b, 22-25.)

The most important foreign investors in 2003 were Lukoil (Russia), Lindner (German building trade) Socotab (Switzerland), Viohalco (Greece, steel), Festo (German, electronics), Miroglio (Italian, textiles) and Unilever (Netherlands). In the near future the key sectors for foreign investors will probably be for example the energy sector, electrical technique, electronics and tourism. (Spiridovitch 2004b, 18-19.)

The most significant investor countries in Bulgaria have been Greece, Austria, Netherlands, Germany and Italy. The percentages of the main direct investor countries can also be seen in Figure 9.

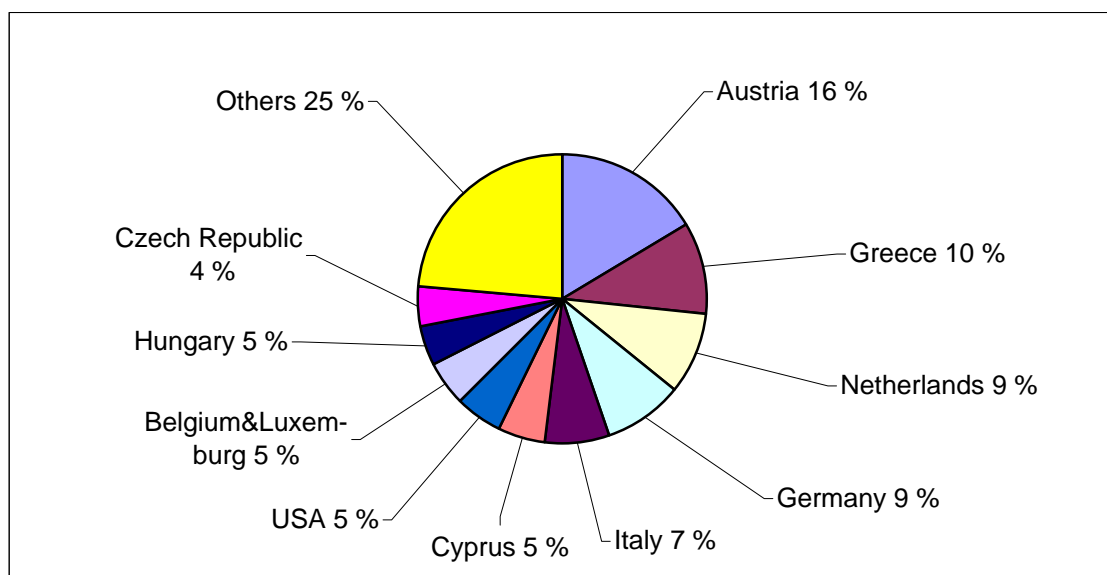


Figure 9 Percentages of cumulative FDI inflows in Bulgaria (InvestBulgaria Agency; Bulgarian National Bank)

Figure 9 shows that most of the foreign investments originate from Europe and, most of the important investor countries also belong to the EU.

The investment development in Romania is quite similar with that in Bulgaria. As mentioned above, although the FDI inflows have been increasing in recent years. (Spiridovitsh 2004c, 15.) The most important reasons for the small amount of FDI inflows have been the political instability of the country in 1990s, bureaucracy, corruption and the undeveloped legislation. The privatisation in Romania has not attracted foreign companies, because of the indebtedness of most of the companies available for foreign investors. There would have been a need for enormous amounts of investments in order to make them profitable. (Spiridovitsh 2004c, 15.)

Altogether 100 281 companies with foreign investments were registered in the commercial register of Romania by the end of April 2004. The investors have been especially interested in the retail and wholesale business, industry and services. The majority of FDI has been directed to service sector and not to the development of the industrial sector, which has initiated critique. (Spiridovitsh 2004c, 16.) The percentages of FDI inflows to different sectors in can be seen in Figure 10.

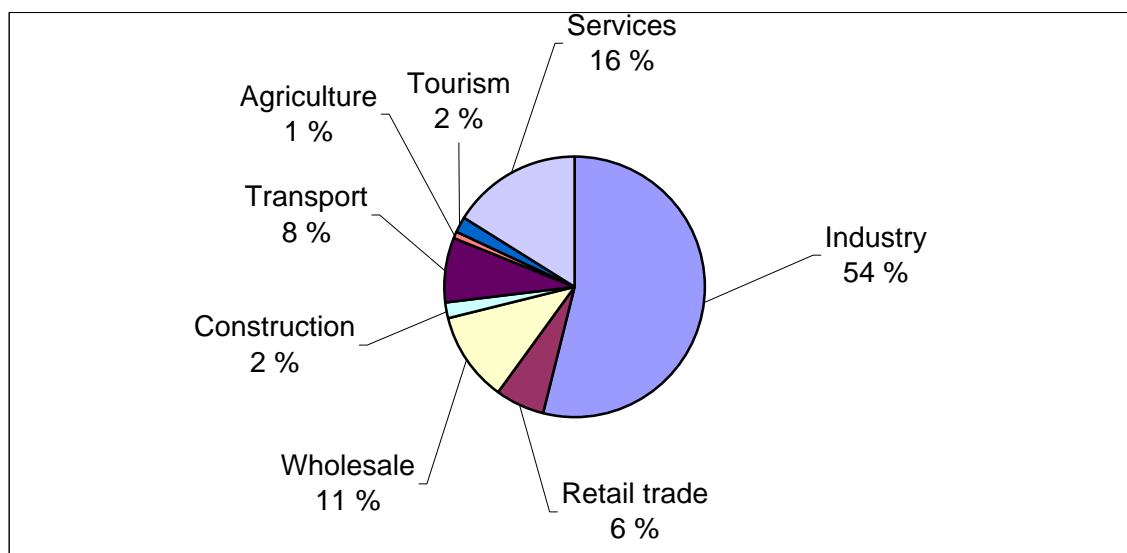


Figure 10 FDI distribution by sectors in Romania (Romanian Agency for Foreign Investments; Romanian Embassy in Finland)

Figure 10 shows that industry, retail, wholesale and services are the most important sectors attracting FDI. According to EIU (2003c) FDI has been concentrated especially in the automobile and automotive components industry, banking and finance, food-processing, tobacco and brewing, retail stores, telecommunications, oil and gas and construction materials. In the production sector the most interesting target for FDI has been the car industry. For example Renault (France), Daewoo (South Korea), Siemens and Daimler Benz (Germany) have invested in the development of it. Foreign investors have also invested in the telecommunications industry, in which France Télécom, Siemens, TIW Canada, Air Touch (USA) and Ericsson are among the most important ones. (Spiridovitsh 2004c, 16.)

According to EIU ViewsWire (2003c) over half of the foreign investments in Romania originate from the EU countries and the largest investor countries in 2001 were Netherlands, Germany, Austria, Italy, Cyprus and the US. Spiridovitsh (2004c, 15) has presented a quite similar distribution from 2004, which can be seen in Figure 11.

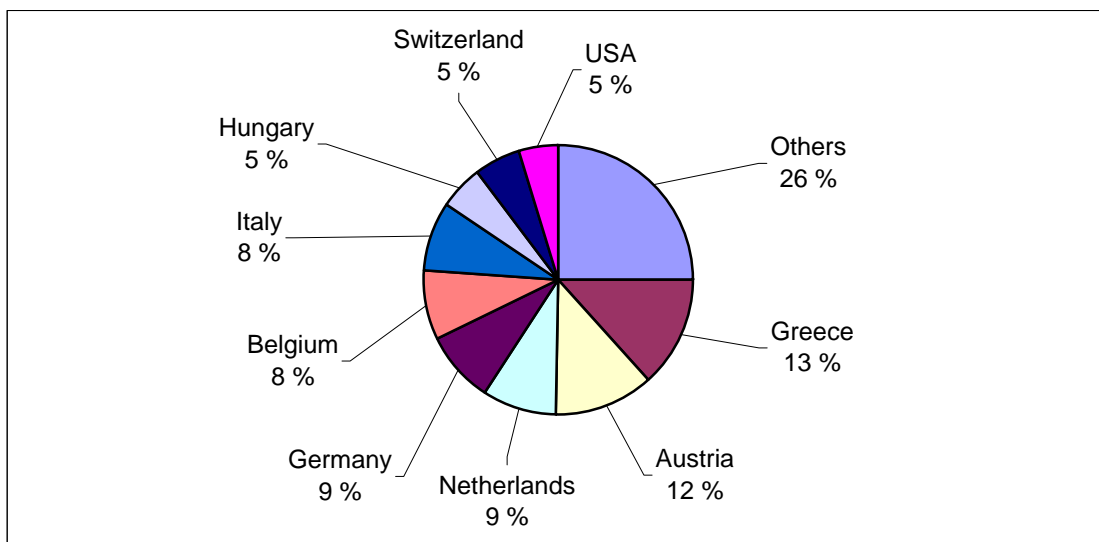


Figure 11 The shares of investor countries in Romania 30.4. 2004 (percentages of registered companies) (Spiridovitsh 2004c, 15)

The division of investor countries provided by Figure 11 follows the same pattern as in the case of Bulgaria. FDI seems to be originating mainly from geographically relatively close countries which was also the in the case of Bulgaria. European countries as the dominant investors as well as USA. The relatively large share of Cyprus among the investor countries can be explained by the Russian investments directed via Cyprus. Cyprus also had a 5 % share of the Bulgarian FDI, which can be assumed to relate to the same phenomenon.

APPENDIX 3

FINNISH-BULGARIAN ECONOMIC RELATIONS

The trade flows between Finland and Bulgaria have been very modest compared with the more important trading partners of Finland. The development of the trade relations from 1994 to 2004 has been illustrated in Figure 12.

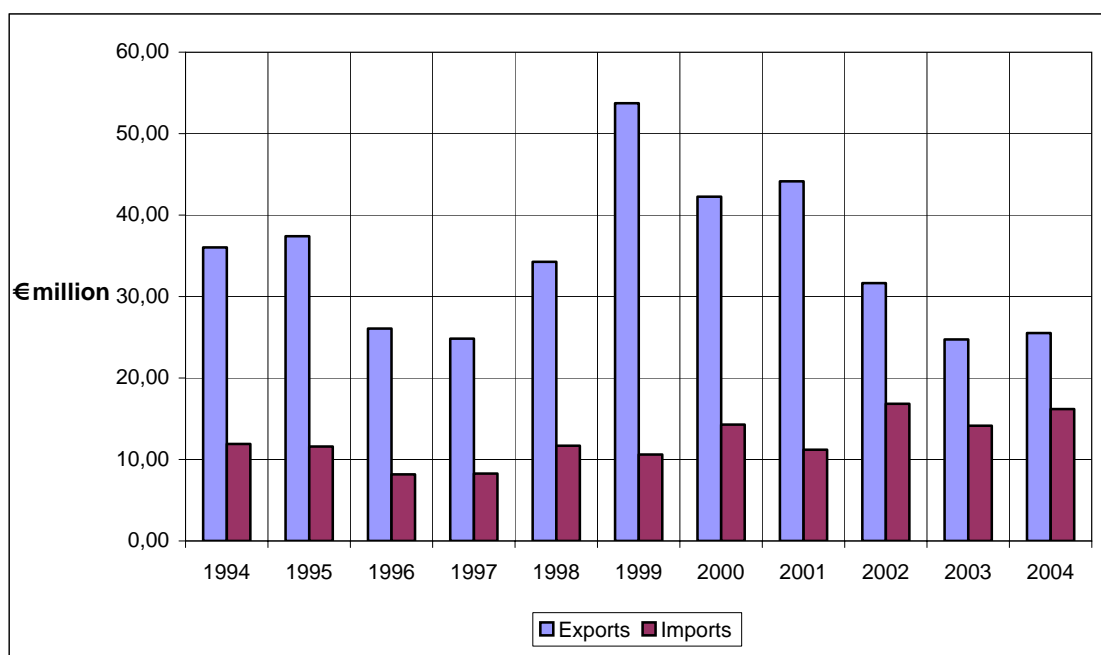


Figure 12 Finnish-Bulgarian trade 1994-2004 (National Board of Customs Finland 2005a)

In 2004 Finnish exports to Bulgaria grew by €1,1 million, but the value of the exports were still only €25,5 million. The percentual increase of the imports from Bulgaria 2004 was also considerable, but the total amount was a very modest €16,2 million.

The sectoral distribution of the imported goods reveals that clothes have the highest share of the imports from Bulgaria. This is not very surprising since clothes are also an important exported good in the total exports of Bulgaria. The amounts of most important sectors in terms of imports to Finland have been listed in Table 17.

Table 17 10 most important goods imported from Bulgaria to Finland in 2004, € Million (National Board of Customs Finland 2005a)

Clothes	6,9	42 %
Other electric machines and apparatus	1,7	10 %
Oil seeds, oil-bearing nuts and piths	1,6	10 %
Special machinery for different sectors	0,9	6 %
Iron and steel	0,6	4 %
Beverages	0,5	3 %
Other ready-made goods	0,5	3 %
Furniture	0,5	3 %
Textile products, excluding clothes	0,5	3 %
Footwear	0,4	2 %
Others	2,2	13 %
Total	16,2	100 %

The importance of clothes becomes even more evident when investigating the percentages of different sectors. They form 42 per cent of the imported goods from Bulgaria. Machinery is also an important sector in terms of imports.

Other important sectors in terms of imports seem to be food, iron and steel. The composition of imports from Bulgaria to Finland consists mainly of labour intensive sectors having the advantage of relatively cheap workforce in Bulgaria.

As for the exports from Finland to Bulgaria the most important in 2004 were paper and card board as can be seen in Table 18 presenting 10 most important exported goods.

Table 18 10 most important goods exported from Finland to Bulgaria in 2004, € Million (National Board of Customs Finland 2005a)

Paper and cardboard and goods produced of them	9,5	37 %
Special machinery for different sectors	2,4	9 %
Industrial machinery and apparatus for general use	2,1	8 %
Other electric machines and apparatus	1,3	5 %
Telephone-, radio-,TV- etc. apparatus	1,2	5 %
Iron and steel	1,1	4 %
Appliances, instruments etc.	0,9	4 %
Power engines and motors	0,8	3 %
Beverages	0,7	3 %
Plastic, unprepared	0,5	2 %
Others	4,9	19 %
Total	25,5	100 %

Other important export sectors are several kinds of machinery and electronics. As well as the imports and exports the FDI inflows from Finland to Bulgaria have also been very modest. Bank of Finland does not even publish the amounts FDI inflows

from Finland to Bulgaria nor the FDI stock, because of confidentiality reasons. This is due to the there being only about a dozen companies engaging in FDI activities in the country as well as the small amounts of the investments. Bulgarian National Bank has however published the Finnish FDI inflows to Bulgaria from the last four years and these have presented in Figure 13.

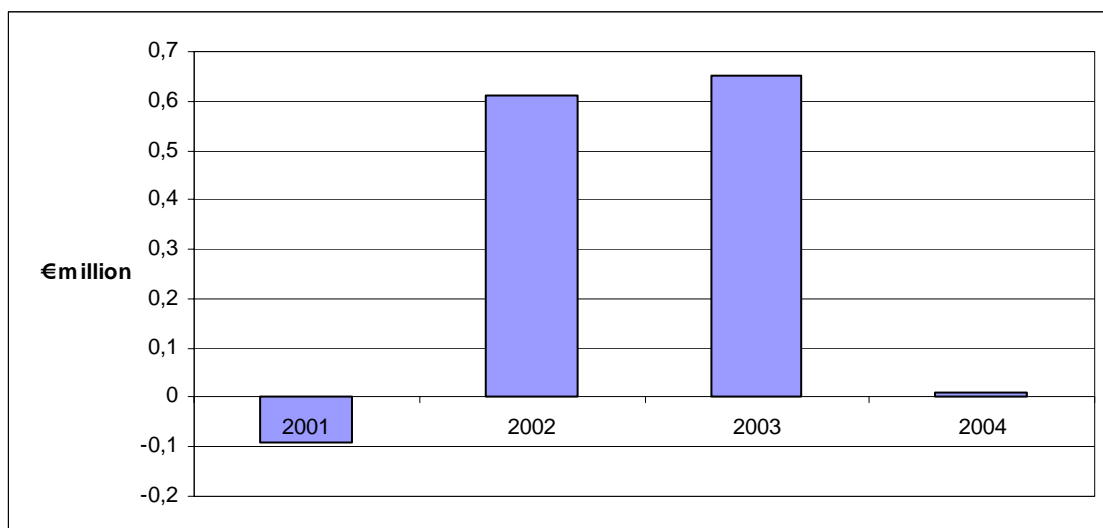


Figure 13 Finnish FDI inflows to Bulgaria 2001-2004 (Bulgarian National Bank 2005)

As Figure 13 shows the annual FDI inflows from Finland to Bulgaria have been less than €1 million which reveals the small scale of the investments. Table 19 on the other hand offers a comparison of the Finnish FDI inflows to Bulgaria with the total Finnish FDI flows and the total inflows to Bulgaria.

Table 19 FDI inflows in Bulgaria, €Million (Bulgarian National Bank 2005; Bank of Finland 2005a; The Vienna Institute for International Economic Studies 2005)

Year	2001	2002	2003	2004
Total FDI inflows to Bulgaria	903,00	980,00	1254,00	1500,00
Finnish FDI inflows to Bulgaria	-0,09	0,61	0,65	0,01
Total Finnish FDI inflows abroad	9354,00	8099,00	-2294,00

As can be concluded on the basis of Table 19 Finnish FDI inflows are extremely small in comparison with the total inflows coming to Bulgaria and also form a very small percentage of the total FDI inflows made by Finnish companies. This can partly

be explained by the distance of these countries as well as the small overall sizes of the countries.

APPENDIX 4

FINNISH-ROMANIAN ECONOMIC RELATIONS

Finnish Romanian trade is also small, but the figures are still somewhat larger than in the case of Bulgaria. Figure 14 presents the exports and imports statistics from the last ten years.

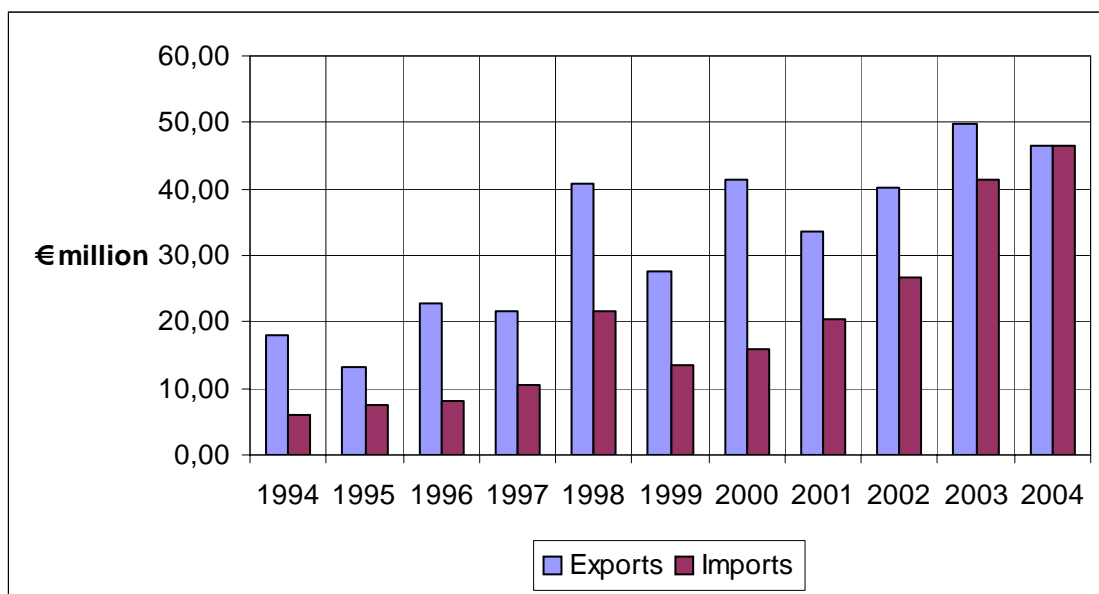


Figure 14 Finnish-Romanian trade 1994-2004 (National Board of Customs Finland 2005b)

As can be concluded on the basis of Figure 14 imports from Romania have increased quite steadily since the end of 1990s, but the development of exports from Finland has varied more. In 2004 the exports and imports were almost at an equal level, since the exports decreased and imports increased.

As for the sectors, clothes are also the important imported commodity from Romania as can be seen in Table 20.

Table 20 10 most important goods imported from Romania to Finland in 2004, € Million (National Board of Customs Finland 2005b)

Clothes	12,8	27 %
Telephone-, radio-,TV- etc. apparatus	9,9	21 %
Other electric machines and apparatus	5,4	12 %
Ores and scrap	3,8	8 %
Footwear	3,1	7 %
Furniture	2,4	5 %
Rubber products	2,4	5 %
Base metal goods	1,8	4 %
Industrial machinery and apparatus for general use	1,0	2 %
Mineral goods	0,7	1 %
Others	3,3	7 %
Total	46,6	100 %

The structure of the imports reminds Bulgarian imports quite a lot. In addition to the most important imported commodity clothes other important importing sectors include electronics and other ready made goods. Clothes have the largest share with 27% followed by telephone, radio and TV apparatus. Together these two form almost half of the imports from Romania.

The exporting sectors are also quite similar to the ones Bulgarian ones. These can be seen in Table 21.

Table 21 10 most important goods exported from Finland to Romania in 2004, € Million (National Board of Customs Finland 2005b)

Paper and cardboard and goods produced of them	9,2	20 %
Telephone-, radio-,TV- etc. apparatus	8,4	18 %
Other electric machines and apparatus	4,4	9 %
Power engines and motors	4,2	9 %
Industrial machinery and apparatus for general use	3,2	7 %
Special machinery for different sectors	2,6	6 %
Iron and steel	2,0	4 %
Base metal goods	1,9	4 %
Appliances, instruments etc.	1,5	3 %
Machines for metal industry	1,1	2 %
Others	8,1	17 %
Total	46,6	100 %

Paper and cardboard sector seems to dominate the exportation together with telephone, radio and TV apparatus. The percentual distribution shows that in addition to paper sector different kinds of machinery and apparatus form a substantial part of the exports to Romania similarly as in Bulgaria.

The similarities with Bulgaria also apply to the amounts of Finnish FDI in Romania which have also been very modest. They are however slightly higher than the investment made to Bulgaria. The FDI inflows have been presented in Figure 15.

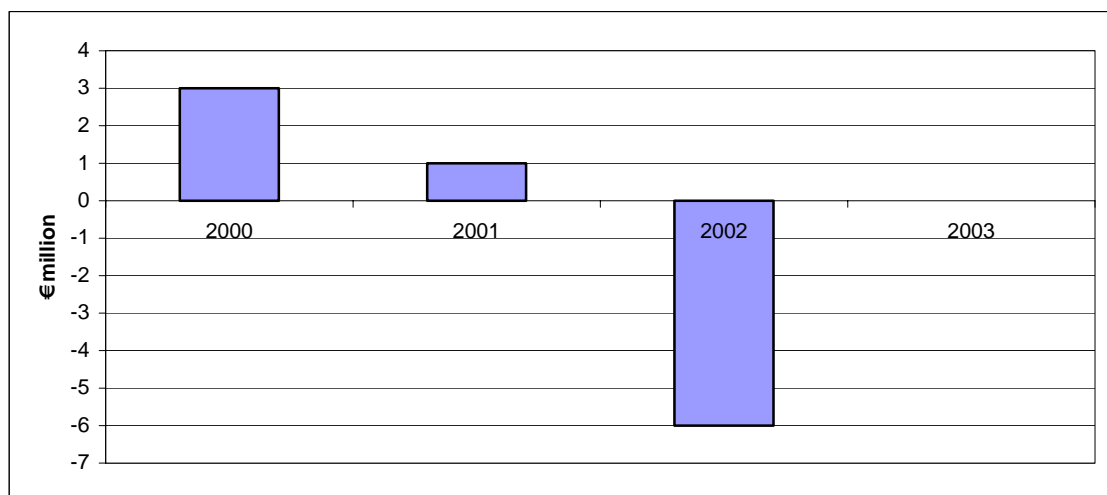


Figure 15 Finnish FDI flows to Romania 2000-2003 (Bank of Finland 2005)

The development of the investments has varied from around €3 million in 2000 to –6 in 2002. Altogether they have not formed an important part of the total investments flows as Table 22 shows.

Table 22 FDI inflows in Romania, €Million (Bank of Finland 2005; The Vienna Institute for International Economic Studies 2005)

Year	2000	2001	2002	2003
Total FDI inflows to Romania	1147	1294	1212	1946
Finnish FDI inflows to Romania	3	1	-6	0
Total Finnish FDI inflows abroad	26082	9354	8099	-2294

The development in the last two years has not been very positive, although in 2003 the total FDI inflows from Finland were negative. The development of Finnish FDI stock on the other hand has been presented in Figure 16.

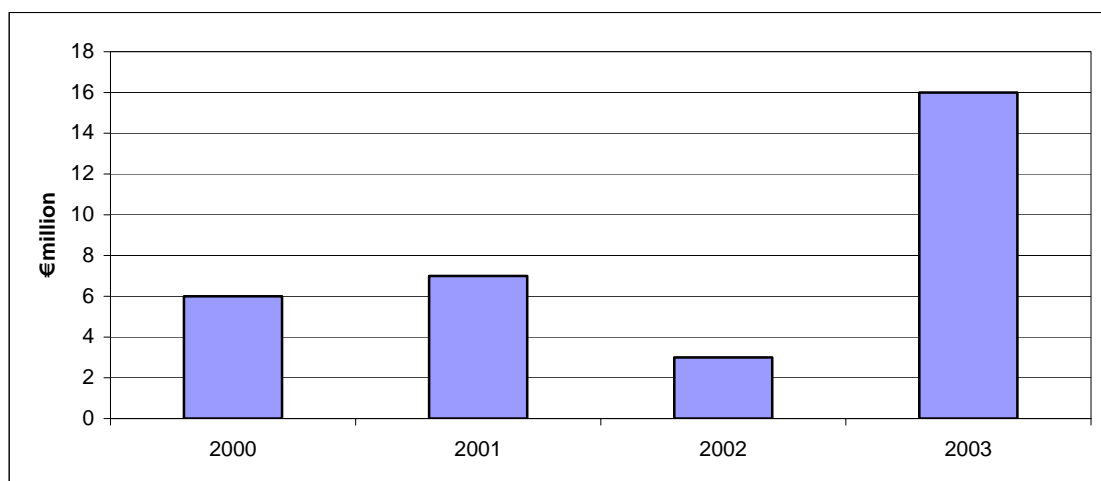


Figure 16 Finnish FDI stock in Romania 2000-2003 (Bank of Finland 2005)

The development of the Finnish FDI stock in Romania has been more positive in 2003 as it reached €16 million. The comparison with the total amounts of Finnish FDI stock can be seen in Table 23.

Table 23 Finnish FDI stock in Romania 2000-2003, €Million (Bank of Finland 2005; The Vienna Institute for International Economic Studies 2005)

YEAR	2000	2001	2002	2003
Total FDI inward stock in Romania	6966	8656	8656	10445
Finnish FDI stock in Romania	6	7	3	16
Total Finnish FDI stock	56001	59259	60955	60275

Romania forms only a fraction of the total Finnish FDI stock and has not been among the most favoured investment targets of the Finnish companies. Part of the investment flows are however not visible in the statistics since Finnish companies also investment to Romania and Bulgaria through their subsidiaries in other countries. These investments do not appear in the official statistics, although they are of Finnish origin. The amount of Finnish companies having operations in Bulgaria and Romania is therefore slightly higher than could be concluded on the basis of the FDI statistics. Even so many Finnish companies very few in these countries, but some the ones that have set up operations in Bulgaria and Romania have succeeded well and can also expect positive future development.

**APPENDIX 5 A COLLECTION OF LOCATION STUDIES RELATED
TO FDI (adapted from Wilska 2002, 213-216)**

<p><i>Dunning 1993</i> <i>Location specific variables:</i> -Special distribution of natural and created resource endowments and markets -Input prices, quality and productivity -International transport and communication costs -Investment incentives and disincentives -Artificial barriers to trade in goods and services -Societal and infrastructure provisions -Cross-country ideological, language, cultural, business, political etc. differences Economics of centralisation of R&D production and marketing -Economic system and policies of government: the institutional framework for resource allocation</p>	<p><i>Larimo 1993</i> <i>Factors explaining the choice of location of FDI</i> -technology (the stage of technology in the life cycle and the nature of technological edge) -demand (The stage of the product in the life cycle and the location of the main markets) -competitive situation (the attempt to safeguard market shares and competitive position in the main markets) -factor endowment (factor proportions between different countries) -institutional factors (government incentives for investment and measures restricting imports) -Physical, cultural and economic distance</p>
<p><i>Root 1987</i> <i>Host country factors influencing entry mode</i> -General political stability -Government policies towards foreign investment -Other government policies and legal factors -Macroeconomic environment -International payments -Markets factors -Production/supply factors -Labour factors -Capital sourcing factors -Tax factors</p>	<p><i>Tyyri 1994</i> <i>Most important criteria in the most recent IMS</i> -Market potential -Competitive situation -Market price level -Geographical distance/logistics -Availability of distribution -Buyers' quality requirements -Economic situation -Trade barriers and political risks -Market familiarity -Resource requirements -Number of inquiries received -Others</p>

<p><i>Khamash 1998</i> <i>Location factors</i> -Size of the market -Investment laws and regulations -Bureaucracy in the registration procedures for the foreign companies -Availability of labour and labour laws -Infrastructure -Macroeconomic situation -Taxation -Security and political stability -Social and cultural characteristics -Availability of investment information</p>	<p><i>Ulgado 1996</i> <i>Location attributes</i> -Local and labour attitudes -Community environment -Incentives -Land and transportation services -International concerns -Synergy logistics -Input logistics -Capital concerns -Market logistics -Skilled human resource availability -Tax rates</p>
<p><i>Tatoglu-Glaister 1998</i> <i>Location factors</i> -Market size -Growth rate of the economy -Political stability -Economic stability -Level of infrastructure -Availability of qualified local personnel -Government policy towards FDI -Availability of incentives -International transport and communication costs -Repatriation of profits Availability of good quality inputs -Availability of low cost inputs -Availability of tax advantages -Geographical proximity -Degree of unionisation -Purchasing power of customers -Level of industry competition -Access to neighbouring markets</p>	<p><i>Dunning – Kundu 1995</i> <i>Location advantages</i> -Size and growth rate of the economy -Size and nature of the city in the host country -Opportunities for tourism -General infrastructure -Psychic and physical proximity -Host government policy towards foreign investment -Political, social and economic stability -Availability of good quality and low cost inputs</p>

<p>Root – Ahmed 1978 <i>Determinants of FDI in manufacturing</i></p> <ul style="list-style-type: none"> -GDP and growth -imports and exports / GDP -International liquidity -Purchasing power of the currency -Local credit -Trade, transport and communications -Energy production -Economic integration -Manufacturing / GDP -Raw material exports / GDP - Education -Availability of technical and professional labour -Modernisation -Strength of labour movement -Extent of urbanisation -Political stability & nationalism -Administrative efficiency -Foreign aid & colonial affiliation -Role of government in the economy -Corporate taxation and tax incentives -Attitude towards joint ventures -Local content requirements -Limitations on foreign personnel 	<p>Tu – Schive 1995 <i>Determinants of FDI</i></p> <ul style="list-style-type: none"> -Political stability -Social order and security -Adequate technology level -Rapid economic growth -Good quality of labour -Industrial linkages -Government attitudes towards FDI -Trade liberalisation -Low labour costs -Foreign exchange liberalisation -Tax incentives for FDI -Stability of domestic currency -Cultural familiarity -Public infrastructure -Geographical location -Other successful examples of FDI -Good quality of R&D personnel -God planning of EPZs
<p>Wheeler – Moody 1992 <i>Country assessment factors</i></p> <ul style="list-style-type: none"> -Labour cost Level of corporate taxation -Market size -Infrastructure quality -Degree of industrialisation -Level of FDI -Relationships with the West and neighbours -Political and social stability -Degree of openness of the economy 	<p>Dunning 1996 <i>Geographical sources of competitiveness</i></p> <ul style="list-style-type: none"> -Natural resources -Unskilled labour -Skilled and professional labour -Innovatory capacity -Organisational capacity -Managerial expertise -Relational skills -Consumer demand -Inter-firm competition and rivalry -Linkages with foreign or domestic firms and institutions

<p><i>Esser et al. 1996</i> <i>Determinants of competitiveness</i> -Macroeconomic policies -Competition policy -Commercial policy -Infrastructure policy -Education and technology level -Environmental policy -Regional policy -Selective import and export policy -Management and other firm related factors -Socio-cultural factors and value systems -Patterns of political, judicial and economic organisation -Strategic and political capacity</p>	<p><i>Porter 1990</i> <i>Determinants of competitiveness</i> -Factor conditions -Demand conditions -Related and supporting industries -Competition -Firm strategies and structures -Socio-cultural factors and value systems</p>
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APPENDIX 6

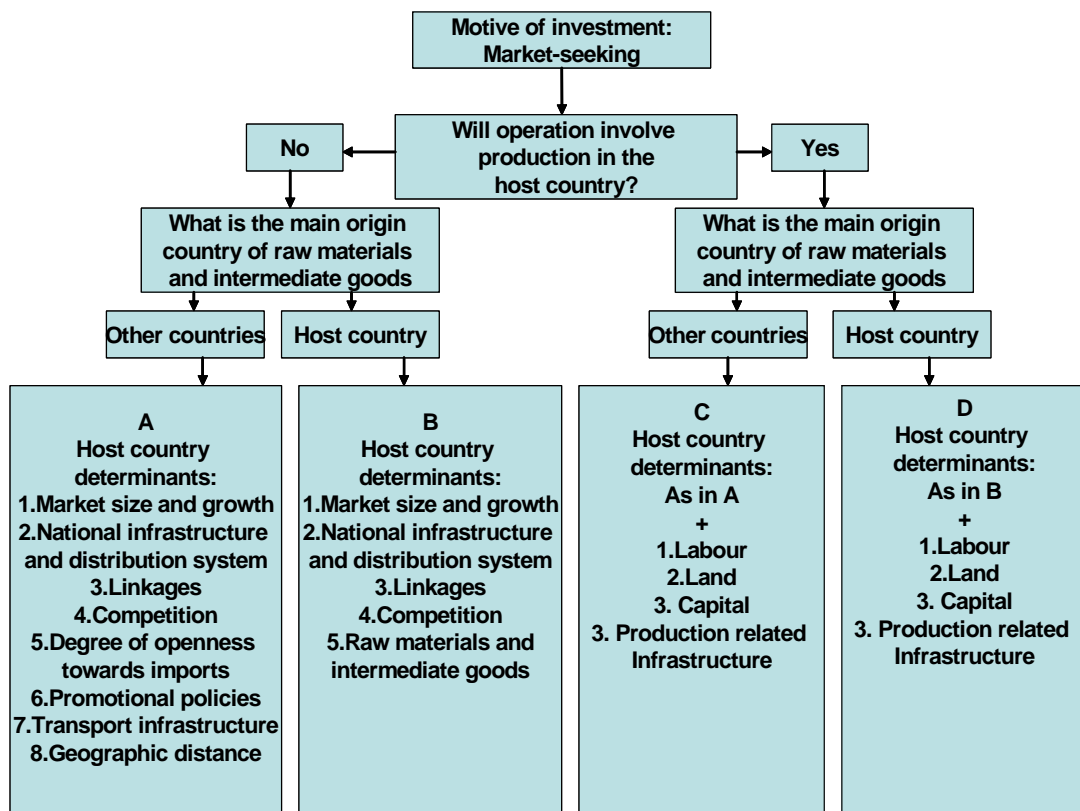
HOST COUNTRY DETERMINANTS RELATED TO
DIFFERENT INVESTMENT MOTIVES

Figure 17 Host country determinants related to market-seeking motives (adapted from Wilska 2002, 188)

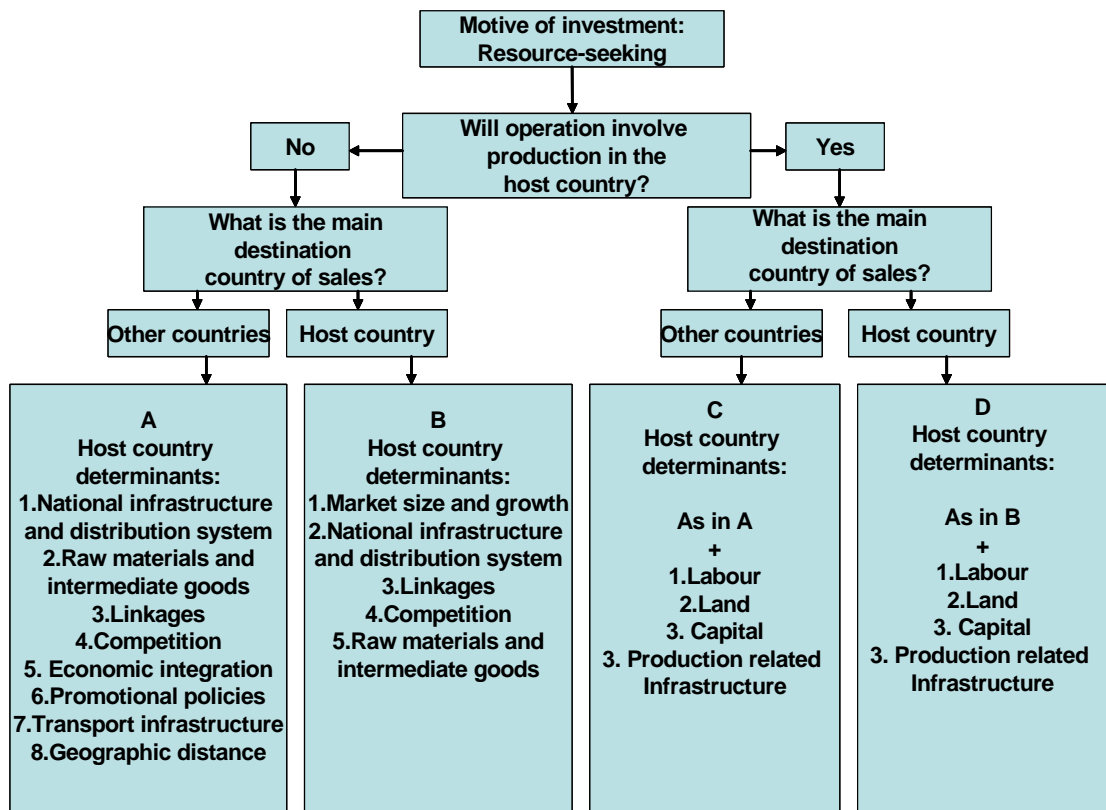


Figure 18 Host country determinants related to resource-seeking motives
(adapted from Wilska 2002, 189)

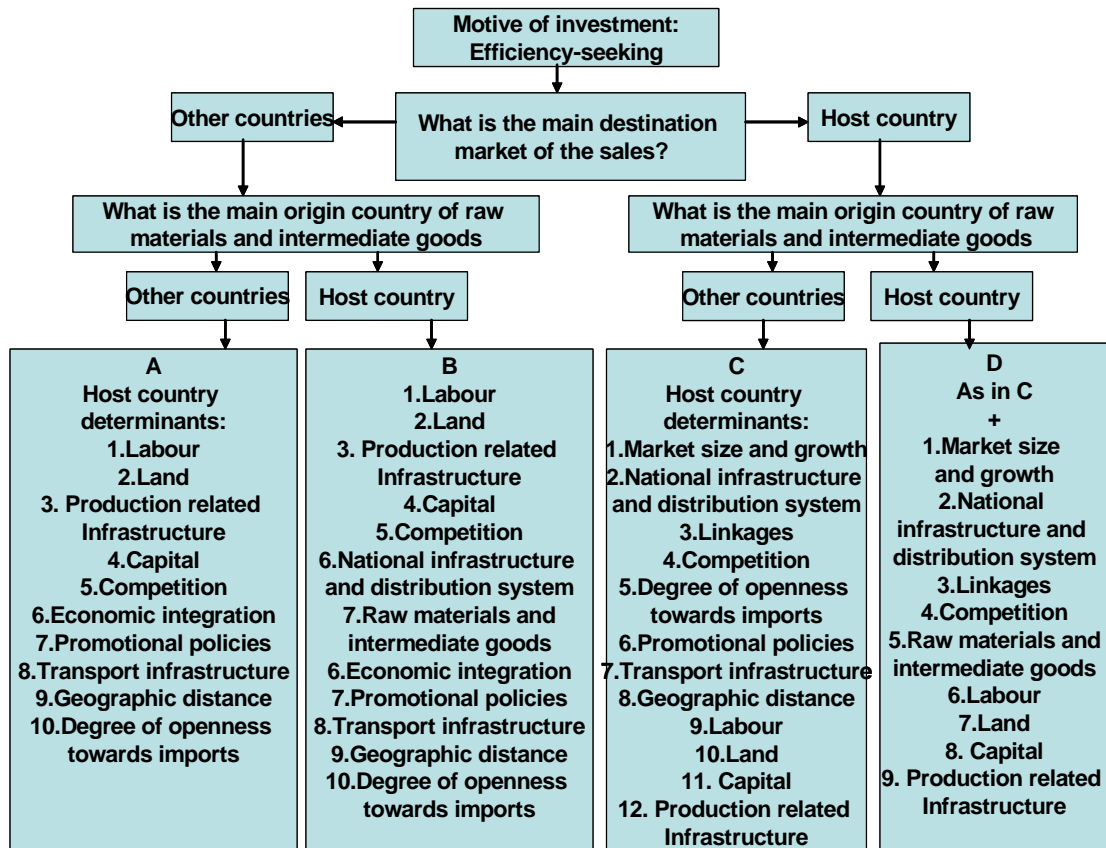


Figure 19 Host country determinants related to efficiency-seeking motives
(adapted from Wilska 2002, 190)

APPENDIX 7 THEMES USED IN THE INTERVIEWS

The first list provides the themes were used in the expert interview with Elitza Gerova from Finpro (interview 10.5.2005, 2 p.m.). The aim was to gather background information for the thesis.

Interview questions framework: background interview

- I. The investment environment in Bulgaria and Romania
 - A. Positive and negative sides of these countries from a foreign investor's point of view
 - B. The sectors providing the best business potential for Finnish companies
- II. The infrastructure and distribution systems
 - A. Energy, water and communication infrastructure
 - B. International transport infrastructure
 - C. Major infrastructure projects related to for example harbours and energy financed by EBRD etc.
- III. The cost of labour and level of education
- IV. Raw materials (cost and availability)
- V. The costs and availability of land
- VI. Capital
- VII. Competition in different sectors
- VIII. Openness towards foreign trade, (Tariffs etc.)
 - A. The effect of the integration to the EU
 - B. Trade relationships with the neighbouring countries?
- IX. Openness towards foreign investments (taxes and incentives)
 - A. Special economic zones
- X. Macroeconomic environment
- XI. Political and social environment
 - A. Bureaucracy
- XII. Cultural differences between Finland and Bulgaria/Romania
- XIII. The motives of the Finnish investors
 - A. The reasons for the small amounts of Finnish investments and Finnish companies in Bulgaria and Romania
 - B. The obstacles affecting the Finnish investments
 - C. Establishing a business in Bulgaria and Romania
 - D. The future development of Finnish investments to Bulgaria and Romania

The second list includes the themes used in the interview with business development director Hans Dreijklufft from Sanoma Magazines International B.V. (telephone interview, 30th June 2005, 11 a.m.).

Interview questions framework: case company interview 1

- I. Operations of Sanoma Magazines International B.V.
 - a. History
 - b. Operations in Bulgaria and Romania
 - c. Size of the investments, financial importance
 - d. Background and role of the interviewee in the company
- II. Markets and market entry in Bulgaria and Romania
 - a. The process of entering the markets
 - b. The reasons for choosing these countries as targets for investments
 - c. Bulgaria and Romania as investment environments (positive and negative sides)
 - d. Markets for the company in Bulgaria and Romania
 - e. Products
 - f. Target groups
 - g. Infrastructure and distribution system
 - h. Wage and education levels
 - i. Raw materials
 - j. Availability and cost of land
 - k. Financing opportunities
 - l. Openness for foreign investments (taxation, incentives)
 - m. Social environment (bureaucracy, corruption)
 - n. Cultural factors
- III. Competition in Bulgaria and Romania
 - a. Competitive situation in the publishing sector
 - b. The most important competitors
 - c. Competitive position of the company
 - d. Competitive assets of Sanoma Magazines International
- IV. Comparison of the markets and competition in Bulgaria and Romania
 - a. Similarities and differences
- V. Future of the operations in Bulgaria and Romania
 - a. Future potential of the investments
 - b. The effect of the forthcoming EU membership
 - c. Gateways to neighbouring countries

The third list includes the themes used in the interview with Els Loesberg, the CEO of cluster South East Europe from Sanoma Magazines International B.V. (telephone interview, 8th August 2005, 3 p.m.).

Interview questions framework: case company interview 2

- I. Description of the company's operations
 - a. Organisation of printing and distribution of the magazines in Bulgaria and Romania
 - b. Organisation of the operations within the countries: cities and rural areas
 - c. The advantages of having a direct presence in these countries
 - d. Size and importance of the investments and companies in Bulgaria and Romania
- II. Markets and market entry in Bulgaria and Romania
 - a. The reasons for choosing these countries as targets for investments and operational environments
 - b. Bulgaria and Romania as investment environments (positive and negative sides)
 - c. Markets for the company in Bulgaria and Romania
 - d. Advertising activities and their importance
 - e. Infrastructure and distribution system
 - f. Wage and education levels
 - g. Raw materials
 - h. Availability and cost of land
 - i. Financing opportunities
 - j. Openness for foreign investments (taxation, incentives)
 - k. Social environment (bureaucracy, corruption)
 - l. Have you encountered problems with bureaucracy, corruption?
 - m. Cultural factors
- III. Competition
 - a. Competitive situation in the sector
 - b. Competitive position of the company
 - c. Competitive assets of Sanoma Magazines International
- IV. Comparison of the markets and competition in Bulgaria and Romania
 - a. Similarities and differences
- V. Future of the operations in Bulgaria and Romania
 - a. The effect of the forthcoming EU membership
 - b. Future potential of the investments

The fourth list includes the themes used in the interviews with both Peter Jansen and Dimitar Drumev, the managing director of Sanoma Bliask Bulgaria. Jansen answered contributed for Romania's part and Drumev for Bulgaria.

Interview questions framework: case company interview 3

I. Sanoma Magazines International's operations in Bulgaria/Romania:

A. The organisation of printing of in these Bulgaria/Romania

II. Business environment

A. Reasons choose Bulgaria/Romania as operational environment and target country for investments

B. The importance of Bulgaria/Romania as operational area for Sanoma Magazines International

C. Comparison of the markets and competitive situation of the publishing sectors in Bulgaria and Romania: the most important similarities and differences

D. The future of Sanoma Magazines International in Bulgaria/Romania