



TAMPERE POLYTECHNIC

BUSINESS SCHOOL

FINAL THESIS REPORT

FINNISH INVESTORS IN ESTONIA
The Future Prospects and Guidelines



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Degree Programme in International Business
September 2005
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TAMPERE 2005

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Degree Programme(s): Degree Programme in International Business

Title: The Finnish Investors in Estonia – The Future Prospects and Guidelines

Month and year: September 2005

Supervisor: Anasse Bouhlal **Pages: 41**

ABSTRACT

The aim of this thesis is to provide a realistic and up-to-date framework for Finnish enterprises which consider investing in Estonia. This paper handles both advantages and disadvantages, and opportunities and risks of investing in Estonia, especially from the point of view of Finnish enterprises. The object of the study is to make suggestions for potential Finnish investors about the investment and business environment of Estonia.

Thesis' focus is on the foreign direct investments as part of an internationalization process of an enterprise. First, the paper gives information about Estonia in a nutshell. Next, the paper explains the key concepts, types and forms of foreign direct investment. Then the thesis will handle in detail Estonia as an investment environment. Guideline for how to establish and operate a business will be provided, and the different factors of the Estonian business environment will be handled. A short section follows with information about the investment trends in Estonia, and current opportunities and risks of Finnish investors.

The last section of the thesis consists of study which was carried out to find out the practical experiences and opinions of Finnish companies about operating in Estonia. It is a qualitative study, carried out by email questionnaire to enterprises which had invested in, exported to, or imported from Estonia. Results of the study showed that enterprises have similar experiences about Estonia than what the experts have written about Estonia's pros and cons in their articles or books.

Keywords: foreign direct investment internationalization Estonia
investor

Table of Contents

1. INTRODUCTION	6
2. COUNTRY PROFILE: ESTONIA.....	7
2.1 ESTONIA IN A NUTSHELL	7
2.2 HISTORY	7
2.3 ECONOMY	8
2.4 EU MEMBERSHIP	9
2.4.1 Process	9
2.4.2 As an EU Member	9
2.4.3 Estonia's Contribution to the EU	9
3. FOREIGN DIRECT INVESTMENTS.....	11
3.1 DEFINITION AND MAIN CONCEPTS OF FDI.....	11
3.1.1 Prerequisites of FDI.....	11
3.1.2 FDI Determinants.....	12
3.1.3 Types of FDI.....	14
3.1.4 Different Forms of FDI.....	15
4. INVESTING IN ESTONIA	17
4.1 ESTABLISHING A COMPANY IN ESTONIA	17
4.1.1 Forms of Businesses	17
4.1.2 Procedures of Establishing a Company	18
4.2 MANAGING A COMPANY IN ESTONIA	19
4.3 INVESTMENT ENVIRONMENT IN ESTONIA	20
4.3.1 Access to Markets	20
4.3.2 Location.....	20
4.3.3 Labour	20
4.3.4 Costs	21
4.3.5 Taxation.....	22
4.3.6 Law	22
4.3.7 Technology and Innovations.....	23
4.3.8 Education, Research and Development.....	23
4.3.9 Competitiveness.....	24
4.4 FDI TRENDS IN ESTONIA	24
4.4.1 Who Invests in Estonia?	24
4.4.2 Attractive Industries	26
4.4.3 Investment promotion in Estonia.....	26
4.5 FINNISH INVESTORS IN ESTONIA	27
4.5.1 FDI Risks in Estonia.....	27
4.5.2 Opportunities for Finnish Investors	28
5. STUDY ABOUT FINNISH ENTERPRISES' EXPERIENCES	30
5.1 CHOOSING THE STUDY METHOD.....	30
5.2 CARRYING OUT THE STUDY	30
5.3 RESULTS OF THE STUDY	31

5.3.1 <i>Backgrounds of the Companies</i>	31
5.3.2 <i>Motives for Starting Doing Business in/with Estonia</i>	32
5.3.3 <i>Operating in Estonia</i>	32
5.3.4 <i>Opinions about Finnish Companies' Opportunities in Estonia</i>	33
5.4 ANALYSING THE STUDY.....	33
6. CONCLUSIONS	35
BIBLIOGRAPHY	37
APPENDICES	40
APPENDIX 1: QUESTIONNAIRE TO THE FINNISH ENTERPRISES	40
APPENDIX 2: THE COVERING LETTER.....	41

List of Abbreviations Used

CIA	—	Central Intelligence Agency
CPI	—	Corruption Perceptions Index
EEC	—	European Economic Community
EEK	—	Estonian Kroon
EMU	—	the European Economic and Monetary Union
EU	—	the European Union
FDI	—	foreign direct investment
GDP	—	gross domestic product
IMD	—	International Institute for Management and Development
NATO	—	North Atlantic Treaty Organization
OECD	—	the Organization for Economic Co-Operation and Development
R&D	—	research and development
UNESCAP	—	United Nations Economic and Social Commission for Asia and the Pacific
WTO	—	World Trade Organization

1. Introduction

Many Finnish companies have invested in Estonia during the last 5-10 years, and many are still going to. A question has risen if it will be profitable to invest in Estonia now when so many companies have already penetrated the markets on the other side of the Baltic Sea.

There is plenty of material and literature available about the investment environment in Estonia, and about the advantages of investing in that country, but it is quite difficult to find out the real disadvantages and problems that investors have faced in practice. Also, the information available in books is soon out-dated since change is rapid.

Accordingly, the purpose of this thesis is to provide useful framework for Finnish enterprises which consider investing in Estonia. The aim is to give a realistic and up-to-date overview of the advantages and disadvantages of investing in Estonia, especially from the point of view of Finnish companies. Also opportunities and risks are handled in the paper.

The thesis will focus on the foreign direct investments as part of an internationalization process of an enterprise. Internationalization has become almost a necessity in today's global business environment. Another important focus is on Finnish investors and their future.

First, the paper gives shortly information about Estonia; about its history, economy, and the European Union membership. Next, the paper explains the key concepts of foreign direct investment, its determinants, types and forms.

Then the thesis will handle in detail Estonia as an investment environment. How it is to establish and run a business in the country, and all the different aspects of the business environment. This section also includes information about the present investment trends in Estonia, and nowadays opportunities and risks of Finnish investors. The last part of the thesis deals with the study which was carried out to find out the practical experiences and opinions of Finnish companies about operating in Estonia.

The study was carried out as a qualitative study by email questionnaire to companies operating in Pirkanmaa area. Companies which had invested in, exported to or imported from Estonia were chosen as examinees. The purpose of the study was not to draw statistical analyses about the subject, but to gather experiences from the field and thus to serve the purpose of the whole thesis as a practical guide for future investors. Some good experiences and advises were gained from the study, and from those suggestions could be formed.

Hopefully this thesis provides interesting viewpoints for Finnish investors considering making an investment in Estonia, and answers to the question whether it would be worth taking the step towards internationalization in the form of foreign direct investment.

2. Country Profile: Estonia

2.1 Estonia in a Nutshell

Situated by the Baltic Sea, south from Finland between Russia and Latvia, 45 000 square kilometres of territory, Estonia has 1.4 million inhabitants. As an example, Estonia is bigger than Holland and Denmark. Sea islands are about tenth of Estonia's territory. 70% of Estonians live in towns and 30% in rural municipalities. (CIA 2005, Estonian Institute 2005)

The capital city of Estonia, Tallinn, has a population of 398 000. The other big cities of Estonia are the university city Tartu (population 101 140), the industrial city Narva (68 117), and Pärnu (45 040), which is a popular city in summer. Tallinn is very close to Finland's capital Helsinki, there is only 85 kilometres of Gulf of Finland between the cities. Next closest is Riga (307 km), and it is approximately 400 km to both St Petersburg and Stockholm. (CIA 2005, Estonian Institute 2005)

The official language is Estonian, which is related to Finnish and Hungarian. Also English, Finnish and Russian are widely spoken. The main religion is Lutheran. (CIA 2005, Estonian Institute 2005)

2.2 History

Estonia has been independent since 1918, after being governed by Denmark, Sweden, and Germany and last by Russian empire (1721-1918). Between 1918 and 1939, the Republic of Estonia was constituted by a national awakening. Life in Estonia changed quickly; people got used to having their own state, the standard of living was increasing and remarkable success was achieved in the Estonian language culture and educational system. (Estonian Institute 2005)

As a result of a secret protocol of the German-Soviet Non-Aggression Pact (namely the Hitler-Stalin or Molotov-Ribbentrop Pact) in 1939, the country was unwillingly made part of the Soviet Union, as were the other Baltic States too. In 1940, a new constitution with Soviet laws was formed. The biggest industrial and commercial enterprises, banks, larger houses etc. were nationalized by the Soviet Union. Land reforms existed, as well as nationalization and redistribution of land. (Estonian Institute 2005)

In 1939-1941, over 20 000 Estonians moved to Germany after the Berlin authorities had asked the Baltic Germans to "come back home". During the Second World War, Estonian men were either forced to serve in the Red Army, or volunteered to fight with the Finnish army against the Soviet Union. Estonians remained sympathetic with the Finns, and most of the population did

not support the ideologies of the Soviet Communism or the German Nazism. (Estonian Institute 2005)

After all the phases of Soviet Union, Estonia gained its independence again in 1991 by the demolition of the Soviet Union. (Estonian Institute 2005)

Estonia is now a democratic parliamentary republic, and its legislative power is Riigikogu (the Parliament). Riigikogu's 101 members are selected every 4 years. Head of the state is the President, who is selected every five years by the Riigikogu. Estonia has joined the North Atlantic Treaty Organization (NATO) and the European Union (EU) in 2004. (CIA 2005, Estonian Institute 2005)

2.3 Economy

The transition from socialist economy into market economy started in Estonia at the beginning of 1990's. Estonia's own currency, eesti kroon (EEK), was brought into use in June 1992. This monetary reform caused profound changes and reforms in the country's economy. To enable the reformations, it was vital to stabilize the currency. Except price of energy, special services and rents, all the other prices were liberalized by the government. New laws were established and privatization process was started to stimulate business. (European Communities 1995-2005)

An important factor in Estonia's transition process has been the country's attractiveness for foreign direct investments. The great amount of foreign direct investments has fastened and strengthened the process. Estonia's most important exports are machinery and electronics, wood and textile. Also tourism and transit trade are significant sources of income for Estonia's economy. The biggest trade partners for Estonia are Finland and Sweden in business sector and investments as well as in tourism. Germany has also a big role in Estonia's imports and exports. (European Communities 1995-2005)

At the moment, Estonia's economy is strong and the pace economical growth is one of the best in the EU. In 2004, Estonia's economy strengthened by 6,8 %. The growth rose for the most part from the recovery of telecommunications sector and the high level of private consumption and investment demand. In 2004, the gross national product (GDP) was EUR 8,9 billion, growing 6,2% from 2003. The amount of Estonia's public debt is relatively small and the state's budget is stable. The Prime Minister Andrus Ansip's government has assured that the balance in budget will be maintained for the next five years, or could be even show surplus. (Finpro 2005)

Although Estonia has taken remarkable steps towards changes and development, and the future of Estonia's economy is prominent, there are still many challenges ahead. Reducing the long-term unemployment rates and diminishing the polarisation are among the most difficult challenges in the future. (European Communities 1995-2005)

2.4 EU Membership

2.4.1 Process

The first direct relations with the European Union started in 1991 along the recognition of Estonia's independence and in November 28th 1995, Estonia made an application for accession to the EU. February 1st 1998 the Association Agreement with the EU came into force. In April 1998 Estonia started the negotiations for EU accession along with Cyprus, the Czech Republic, Hungary, and the Slovenian Republic.

During the EU accession negotiations Estonia showed clear willingness to meet the EU requirements and to achieve objectives to reach the EU membership. Both economic and social reforms were made in the country, and during this negotiation period Estonia got a good foretaste of being an EU member state.

In September 14th, 2003, a referendum was organized for the Estonian citizens about joining the EU. 66.9 % of votes supported the accession. In May 1st, 2004, Estonia joined the EU as an observer state. As an observer, Estonia can take part in the work of the EU Council and other institutions, but does not have the right to vote. (Estonian Ministry of Foreign Affairs 2003, KPMG 2003:57, Sorainen et al 2002:35)

2.4.2 As an EU Member

Since May 2004, Estonia has actively participated in the work of the EU institutions. Northern Dimension and the Wider Europe – Neighbourhood programmes are, for example, important affairs for Estonia. According to Estonian Ministry of Foreign Affairs (2005), one of Estonia's agendas in the EU is to “develop the security and defence policy of Europe, and also to weaken the transatlantic connection or cause unnecessary duplication.”

Estonia also wants to emphasize the importance of efficiency, transparency and equality within the EU. This means that the present system of the EU should be developed towards more efficient and simple, transparent, and equal for all the member states no matter the size of the states. (Estonian Ministry of Foreign Affairs 2005)

2.4.3 Estonia's Contribution to the EU

Already during the accession negotiation period Estonia proved to have plenty to offer for the European Union. Amongst others, the EU recognized the uniqueness of oil shale as an energy source in Estonia. Also, Estonia has

valuable experience on major economic and political reforms which can be shared with other states. This information sharing has already been done with Ukraine and Georgia. (Estonian Ministry of Foreign Affairs 2005)

Estonia will certainly also help the EU fasten its economic growth and increase its competitiveness. Estonia's target is to build a stronger knowledge society and support both innovation and life-long learning. These modern policies should be developed from the environmental point of view.

Estonia's aim as an EU member state is to create an effective system of the e-Europe action plan which includes for example e-government, e-law, and e-democracy. As one of the pioneers in this field, Estonia has experiences and know-how to share in the EU. (Estonian Ministry of Foreign Affairs 2005)

3. Foreign Direct Investments

3.1 Definition and Main Concepts of FDI

Foreign direct investment (FDI) is one of the most important activities of internationalization process of an enterprise. Although debated, nowadays it has become commonly accepted that it is crucial for an enterprise to make FDI if its object is to get global.

Simply defined, when an enterprise operates outside domestic borders it is making foreign direct investments. (Rugman et al 2001:6) FDI can easily be mixed with foreign investment which is completely different transaction. Foreign investment involves foreign stock purchases but does not involve management participation as FDI does. Foreign investment, or often called foreign portfolio investment, can be short-term investment which can be easily be cancelled whereas FDI demands long-term commitment and permanent interest in the host entity. FDI comprises of capital flows and in general derives to transfer of technology skills, know-how, access to export markets etc. (United Nations Economic and Social Commission for Asia and the Pacific 2003:3)

The Organization for Economic Co-Operation and Development (OECD) defines foreign direct investor as “an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise” (1999). A foreign direct investor operates in its non-resident country.

3.1.1 Prerequisites of FDI

When a foreign direct investor owns minimum 10 per cent of the shares or voting power of an enterprise, the enterprise can be defined as a foreign direct investment company. On the other hand, in some countries this 10 per cent rule is interpreted flexibly. There are also some circumstances in which an enterprise clearly seems to meet the requirements of being defined as foreign direct investment company but in fact does not meet those requirements. For example, different kinds of cross-boarder services providing operational know-how or consultation do not meet the requirements of foreign direct investment. (OECD 1999)

According to OECD it is required that an enterprise has to make a long-term commitment when making foreign direct investments.

3.1.2 FDI Determinants

Why should a foreign investor invest in particular country? What issues should the foreign investor take into account when considering FDI? According to United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) (2003:5), there are some common factors and conditions that determine why an investor would want to invest in one or more particular countries. These determinants vary as economic conditions and structures vary in different countries. New researches and studies are also published continuously, suggesting new insights and theories about these determinants. Furthermore it is important to first understand the size, nature and direction of investment flows before the FDI determinants can be fully used for any recommendations, as UNESCAP points out.

Inward FDI determinants can be categorized into two categories: *firm and industry specific determinants* and *host country specific determinants*. Firm or industry specific determinants which attract the enterprise to make FDI could be e.g. management skills, products, technology and know-how, market size and power, marketing and organizational knowledge, R&D. Host country specific determinants refer to mainly location assets such as development level of the country. Foreign investor would want to invest in countries with “the best facilities for the least cost”. (UNESCAP 2003:6)

When determining country’s competitive advantages from both host country’s perspective (inward FDI), and home country’s perspective (outward FDI) one can use Michael Porter’s analytical competitiveness model. The model includes following conditions: *factor conditions; demand conditions; related and supporting industries; and firm strategy, structure and rivalry as FDI determinants*¹.

Factor Conditions

Factor conditions refer to country’s ability to compete in certain industry with production factors like human resources (skills, qualification level, labour cost, commitment) material resources (physical and natural resources, climate, location), knowledge resources, capital resources, infrastructure, etc. Factor conditions also include factors like quality of research, universities, deregulation of labour markets, or liquidity of national stock markets. Different countries have different factor conditions, and they can be changed and developed. (UNESCAP 2003:6)

Demand Conditions

Demand conditions refer to the level and type of demand of products and services in certain country or industry. According to UNESCAP, it is important to take account both quality and quantity of demand. Countries’ competitive advantages improve as local enterprises are able to interpret the local demand

¹ Michael E. Porter. “The Competitive Advantage of Nations”. Free Press. 1998.

better than the foreign enterprises. Local companies usually get the information about buyer demand earlier than foreign competitors do.

Demand conditions are likely to influence on factor conditions, for example on knowledge and product development. If a country has large amount of demanding consumers, or for example specialized universities attractive for foreign students, it is likely to gain competitive advantage too. UNESCAP emphasizes that it is important in this context “the way by which a nation’s domestic demand internationalizes and pulls a nation’s products and services abroad” (2003:6).

Related and Supporting Industries

This determinant refers to whether there exists or does not exist supplier industries and supporting industries in the country. Nowadays foreign investors increasingly demand services from supporting industries and are more willing to invest in such countries that have these supporting industries than for countries where the industries do not exist. (UNESCAP 2003:7)

Not only the investing enterprises benefit of the *related and supporting industries*, also the host country’s economy will benefit. Supplying and supporting industries usually increase the level of innovation and globalization in industries. Industries can benefit from co-ordination in the value chain, and can also profit from complementary products. Recklies gives an example:

A typical example is the shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as leather working machinery, design, etc. (2001:2)

For the most part, related and supporting industries occur as subcontracting agreements. Thus, both foreign investing enterprise and local host enterprise profit from the relationship. (UNESCAP 2003:7, Recklies 2001:2)

Firm Strategy, Structure and Rivalry

Firm strategy, structure and rivalry as FDI determinant refers to the manner enterprises are established, managed and organized, and to the nature of competition within that industry. This determinant is more related to the whole business culture in a certain country, whereas the first FDI determinant, factor conditions, is related to certain individual enterprise. Furthermore, cultural factors are significant in this context. Different cultures have different advantages, and some cultures are in a better position to gain FDI than others. (Recklies 2001:2)

Factors under this determinant are, for instance, management structures, strategies, values, objectives, working ethics, etc. it is important to understand that for example family-owned businesses behave totally differently than public businesses and their structures of ownership and control are two extremes. (Recklies 2001:2)

According to Porter, higher the level of domestic competition and search for competitive advantage in a certain industry, higher is the possibility to engage in FDI within that country. In other words, enterprises that face fierce competition, are more likely to “extend their battlefield abroad” (UNESCAP 2003:7) and attract FDI. In addition, high level of rivalry usually generates innovation, know-how, establishment of highly-appreciated universities and R&D organizations with highly-educated work force. (UNESCAP 2003:7, Recklies 2001:2)

To sum up, all these four FDI determinants considered, it is very important for a country to invest in even development of these determinants to gain national competitive advantage. Nation’s government is in key role in this development. Government should promote and not hinder FDI in order to establish a stable political environment and aim to laws and regulations which attract FDI. Especially bilateral investment treaties, membership of international dispute settlement agreements, and liberal trading regimes like WTO attract foreign investors.

From the foreign investor’s point of view, it is significant to examine all four determinants equally before making any decisions about possible investment. It is preferable to consider a host country of which culture, norms, values and languages are close to the ones of the investing enterprise. For example, Finland is very similar to Estonia on these factors.

3.1.3 Types of FDI

There are four main types FDI. These types represent the possible motives for an investor to decide whether to make FDI.

Natural Resource Seeking FDI

Natural resource seeking FDI refers to FDI made because of favourable location assets. These location assets might be natural resources, transportation infrastructure, attractive institutional or legal environment, etc. (Rugman et al 2001: 158-159)

Market Seeking FDI

Foreign investor could make investments for market purposes. If an enterprise’s aim would be to increase its market size or purchasing power, to improve the tradability of its product or service, it would be making *market seeking FDI*. Market seeking FDI can be very complex to realize because of several reasons. An example of the complexity is that an exporter which makes a market seeking FDI and has new innovative product may become soon an importer of the same product which has been standardized. (Rugman et al 2001: 158-159)

Efficiency Seeking FDI

Efficiency seeking FDI, the third type of FDI, usually refers to rationalization and specialization of an enterprise. In many cases, efficiency seeking FDI increases trade, knowledge and goods flows at the company level. This type of FDI is even more complex than market seeking FDI. According to Rugman (1990), it is vital to understand the different roles within the enterprise when it comes to efficiency seeking FDI. The enterprise must determine whether it wants to be “globally rationalized”, comprising of various businesses with their own activities, utilizing the location assets of each subsidiary. When an enterprise is being rationalized like that, it is likely to increase intra-firm trade and international production. (Rugman et al 2001: 158-159)

Strategic Asset Seeking FDI

The fourth type of FDI is *strategic asset seeking FDI*. This means that foreign investor gains security for its already existing assets and profits from new synergies deriving from common ownership with new plants, acquisitions or joint ventures. An investor could be pursuing such strategic assets as quality and cost of human resources, trade costs, quality of suppliers, or firm-specific assets. (Rugman et al 2001: 158-159)

3.1.4 Different Forms of FDI

Greenfield Investment

Generally speaking, *greenfield investment* is the most preferable mode of investments from the host country’s point of view. Greenfield investment usually involves setting up an entirely new plant and refers to “fresh and new equity capital investments and flows from abroad”, as UNESCAP puts it (2003:4). Greenfield FDI leads to a net addition to the host country’s capital stock.

Mergers and Acquisitions

On the contrary to greenfield investments, *mergers and acquisitions* are not the most preferable modes of FDI for the host country. Acquisition FDI represents a change in the ownership of already existing production facilities in the host country, and usually does not contribute development in the long run for the host country. For the most part, mergers and acquisitions should be considered only when there is need for privatizing a loss-making public enterprise or if a merger is equal for both domestic and foreign company. (UNESCAP 2003:4)

Reinvested Earnings

Reinvested earnings do not involve fresh capital flows, but result addition in the host country’s capital stock and assets and represent commitment to the country. Reinvestment earnings are made by existing foreign investors in the area that is not in their profits. (UNESCAP 2003:4)

Intra-Company Loans

Capital flow from the investing enterprise to a subsidiary, which has to be repaid with interest, represents *intra-company loans*. Intra-company loans tend to lead to an increase in capital outflow. This mode of FDI is not popular, but it might be preferable for the host country in case it directs the foreign investor to success in his/her business and accordingly contributes to the host country's economy. (UNESCAP 2003:4)

Non-Equity Forms

Non-equity forms of FDI refer to for instance licensing, subcontracting and franchising. They do not involve capital flows, but do contribute to the host country's capital stock. (UNESCAP 2003:4)

4. Investing in Estonia

4.1 Establishing a Company in Estonia

4.1.1 Forms of Businesses

Estonia has had a new Commercial Code effective starting from February 15th, 1995. The Commercial Code defines five different business forms: *sole proprietorship* (füüsilisest isikust ettevõtja, FIE), *general partnership* (täisühing, TÜ), *limited partnership* (usaldusühing, UÜ), *private limited company* (osaühing, OÜ), and *public limited company* (aktsiaselts, AS). (Enterprise Estonia 2005)

Sole Proprietorship (füüsilisest isikust ettevõtja)

Anyone can establish a sole proprietorship, and may be entered in the Commercial Register. A sole proprietor has to be registered as a tax payer under the Value Added Tax Act. (Enterprise Estonia 2005:1) According to Pedak (2003), sole proprietorship is second in the list of most popular business forms in Estonia.

General Partnership (täisühing)

When two or more partners establish a business under common business name, they have established a general partnership. They are solitarily liable for the business's operations and will obey the partnership agreement. General partnership does not require minimum capital and it is upon the partnership agreement whether the partners will contribute monetarily or non-monetarily. (Enterprise Estonia 2005:1)

Business name, area of activity, and amount of contributions will be agreed by the partners. The partnership can be called off by a common agreement of the partners, by court judgement, by expiring of the agreement, or by achieving of a target. (Enterprise Estonia 2005:1)

Limited Partnership (usaldusühing)

When two or more partners establish a business under common business name, and at least one of them (general partner) is liable for the obligations of the business, they have established a limited partnership. The other/rest of the partners is/are liable for the obligations only to the extent of his/her contribution. This person is called limited partner. The limited partner is not authorized to manage or represent the partnership unless otherwise agreed. (Enterprise Estonia 2005:1-2)

Private Limited Company (osaühing)

According to Pedak (2003), private limited company is the most popular form of business in Estonia. Private limited company's share capital has been

divided into private limited company shares. A private limited company is liable for its operations, whereas a shareholder is not. (Enterprise Estonia 2005:2)

Minimum 40 000 EEK (around EUR 2 556) of share capital is required, and the minimum value of a share is 100 EEK. Shares can be moved from one shareholder to another without limitations. It is possible to pledge, mortgage, or divide a share. Accounting of a private limited company will be arranged by the Management Board, and the company has to have an auditor also if the share capital is bigger than 400 000 EEK. Management Board is the operational body of a private limited company. (Enterprise Estonia 2005:2)

Public Limited Company (aktsiaselts)

The third popular form of business in Estonia is public limited company. (Pedak 2003) In this form of business, a share capital is divided into public limited company shares, and the value of the share capital must be at least 400 000 EEK. One or more legal or natural persons can establish a public limited company. (Enterprise Estonia 2005:2)

The shares of a public limited company will be registered and entered in the Estonian Central Register of Securities. The minimum nominal value of a share is EEK 10, and it cannot be divided. There are no limitations about the quantity of shares which a shareholder can possess. Shares can also be transferred without limitations. The operational body of a public limited company consists of general meetings, which are held by shareholders, the Management Board, and the Supervisory Board. This meeting also defines how many auditors will be operating in the company. (Enterprise Estonia 2005:2)

4.1.2 Procedures of Establishing a Company

4.1.2.1 Memorandum of Association

Before a company can be entered into the Commercial Register, the establishers must make a Memorandum of Association. The Memorandum has to be signed by all founders and notarised in Estonia or at the Estonian diplomatic representation. The founders will have to open a bank account for the company, and the minimum share capital has to be paid into that account before registration. Here is what the Memorandum of Association must include as Enterprise Estonia (2005:3) lists it:

- the business name, location, address and the area of activity;
- the names and residencies of the founders;
- the proposed amount of share capital;
- the nominal value and number of shares;

- the amount to be paid for the shares, and the time, place and procedure of payment;
- the names, personal identification codes and places of residence of members of the Management Board, Supervisory Board, procurator (if appointed), and auditors;
- the assumed amount of foundation expenses and the procedure for payment.

4.1.2.2 Registration Process

The Management Board will draft a petition application for the registration of the company. All members of the Management Board must sign the application. This thesis will not go into details of the application, as founder of a company must find this information in detail when registering the company into the Commercial Register. (Enterprise Estonia 2005:5)

If the founder is a foreign company, as is the case usually when making FDI, an official certificate about the existence of the business has to be obtained. The certificate has to be legalized and all documents must be delivered to the Commercial Register in Estonian or with an appended notarised translation. For the most part, the registration of a company will take 2-3 weeks. (Enterprise Estonia 2005:5)

When a foreign investor wants to e.g. enter its branch in Estonia and not to establish a new company, the registration process is much alike with the registration of a new business. (Enterprise Estonia 2005:5)

4.2 Managing a Company in Estonia

The highest authority in a company is the general meetings, which should be arranged at least once a year. The general meeting undersigns the annual reports, distributes profits, chooses the Supervisory Board and the auditors, amends the Article of Association, increases or decreases the share capital and decides about the possible dissolution of the company. Decisions can be carried out by a simple majority vote, but when closing down the business or changing the share capital, there has to be a majority of 2/3. (Enterprise Estonia 2005:2)

The executive body of an enterprise is the Management Board. It represents and manages the business, and reports to the Supervisory Board quarterly about the company's operations and economics. Minimum half of the members of the Management Board must be residents of the European Union, EEC, or Switzerland. (Enterprise Estonia 2005: 2-3)

The Supervisory Board is responsible for planning the business strategy, arranging the management and controlling the Management Board. A person cannot be member in both the Supervisory Board and the Management Board at the same time. (Enterprise Estonia 2005:2-3)

4.3 Investment Environment in Estonia

Why would a foreign investor choose to invest in Estonia? Estonia's liberal foreign trade policy, good location by the Baltic Sea, and promising economic growth are good incentives for foreign investors to consider Estonia, and many investors have already taken this opportunity.

4.3.1 Access to Markets

The Baltic Sea region provides a favourable geographical location, and acts as a significant corridor. According to Viirg (2004:1), Port of Tallinn "boasts one of the largest cargo volumes and acts as a good base for developing distribution and logistics network between East and West as well as North and South". The region has been in busy use since the Hanseatic times in 1600's. (Enterprise Estonia 2004, Viirg 2004)

The Baltic Region consists now of 10 countries, and has in total 90 million inhabitants. Thereupon it is extremely multicultural and diversified area including both countries with expanding economies such as Baltic States and Poland, and developed nations such as Scandinavia and Germany. The Baltic Region as a business area is the Europe's fastest growing region. Both trading between region's countries and the number of FDI's has been increasing steadily. The economic growth of Estonia has well attracted foreign investors. (Enterprise Estonia 2004)

4.3.2 Location

Estonia's location in the Baltic Sea region is central and has extremely good transportation connections. Infrastructure especially in the Tallinn area is very good. Lying between the Baltic Sea and Russia, Estonia offers a good route to Russia and Middle-East. Estonia has made numerous Free Trade Agreements with different countries and it has been a member of the World Trade Organization (WTO) since November 1999. (Enterprise Estonia 2004, Spiridovitsh 2005)

The Baltic Sea Region is very vivid and active area. For one thing, the BSR INTERREG III B programme which is part of the European Community Initiative INTERREG III, constantly works with promotion and development of the Baltic Sea Region from transportation and logistics aspects as from many other aspects too. (Baltic Sea Region 2005)

4.3.3 Labour

For the time being, there is highly skilled and educated work force available still with relatively low costs in Estonia. The labour in the area of Tallinn is not very low in costs anymore, but the rest of the Estonia is very competitive in this sense. There is also some lack of e.g. professional lawyers and accountants. (Spiridovitsh 2005)

Estonians have a strong need and will to prove their skills and keep up in the hard global competition, although the nation has already proved in many ways to be a sort of survivor. Therefore the work ethics are high and the work force is willing to work hard and effectively. As a result, productivity grows. (Spiridovitsh 2005)

Still, the highly-educated and skilled work force is cheap compared to many other EU countries' labour costs. However, the cost of labour is going up fast as the statistics show. In 2004, average monthly salary in Estonia was EUR 390, but during the first quarter of 2005 it was EUR 474. Analysts say, that companies that have been saving in labour costs, will be now changing their tactics because of the pressure for higher employee salaries. Also employees are now more active in search for jobs with higher salaries. (Enterprise Estonia 2004, Spiridovitsh 2005)

The unemployment rate has been quite low compared to other Central and Eastern Europe because of the strong economic growth. During the first quarter of 2005, the unemployment rate was 9,5 %, and the situation has been improving especially in service sector such as hotel and restaurant business, real estate business, and transportation sector. In industrial and agricultural sector the unemployment rate has been increasing. (Spiridovitsh 2005)

4.3.4 Costs

The attractiveness of Estonia from foreign investor perspective is mainly based on low production and export costs. Approximately 50% of Estonia's GDP and exports comes from companies that are either partially or totally owned by foreign enterprises. Also the location decreases the costs. The country is quite close to the central of the EU, but still the costs of establishing and operating a business are lower than in most EU countries. (Enterprise Estonia 2004)

Energy, communications, and transportation costs are especially lower in Estonia than in certain other Baltic States. The same applies to buying and renting real estate. A big attraction to foreign investors is the low cost of labour. Although the high level of education, the cost of labour is much lower than in e.g. Scandinavia and Germany. As Estonia has joined the EU, these costs are to get higher, but still there is a remarkable gap between costs in Estonia and costs in e.g. Finland that makes a difference to a foreign investor. (Enterprise Estonia 2004)

4.3.5 Taxation

One of the most important motivations for investing in Estonia is low taxes. Estonia's simple tax policy is planned especially to support enterprises and to maximize profits, and is one of the most liberal taxation systems in the world. Foreign investors have mainly the same rights as the Estonian enterprises when it comes to taxation. (Enterprise Estonia 2004, Spiridovitch 2005)

Income tax law in Estonia came into force on 1st of January 2000, and was renewed in the beginning of 2005, when the income was decreased from 26% to 24%. The income tax law prescribes the taxation of individuals and enterprises. The corporate income taxation in Estonia follows the principle of not taxing the profits, but the distributions such as dividends and other profit distributions; fringe benefits; gifts, donations and representation expenses; and expenses and payments not related to business (Spiridovitch 2005). In brief, the enterprise will not be taxed with income tax as long as the profits will stay in that company or will be re-invested. (Enterprise Estonia 2004, Spiridovitch 2005)

One of the main goals of Estonian Government is to lower the taxes even more from the present level. The aim is to decrease the income tax to 20% by the year 2007. (Spiridovitch 2005)

4.3.6 Law

Estonia's law has gone through many reforms, but at the moment it is very simple and modern. It is based on Continental European civil law model and is much influenced by German legislation and also other EU countries. The law is not based on common law, but codifications which determine how different issues are to be solved. There are private and public laws. Private law includes civil and commercial laws; public law includes international, constitutional, administrative, criminal, financial, and procedural laws. (Enterprise Estonia 2004, Pedak 2003)

Generally speaking foreign investors have same rights and obligations as the local actors, and there are no restrictions for foreign investors about establishing an enterprise. Foreign companies have the right for repatriation of profits and the right to own land. Foreign investments are covered by internal law and international agreements, e.g. treaties with several countries protect the investments. There are also various agreements on double taxation. (Enterprise Estonia 2004, Pedak 2003)

4.3.7 Technology and Innovations

The Scandinavian know-how in technology and innovations have influenced strongly in Estonia. There has been a big leap towards e-world. Estonia has made major investments in telecommunication network and at the moment Estonia is the second developed country (after Germany) in Central and Eastern Europe what it comes to mobile phone usage. There are 74 mobile phones per 100 inhabitants in Estonia. (Enterprise Estonia 2004, KPMG 2003:58)

Also the Internet usage is exceptionally high. 52% of the population uses Internet in some way. Internet usage has been vigorously promoted to the population by the Government, and e.g. every school in Estonia now has Internet access (KPMG 2003:7). Direct connections to Sweden and Finland make sure the Internet communication infrastructure works impeccably. Also the security and data-recording methods are highly developed. (Enterprise Estonia 2004, KPMG 2003:58)

The e-Estonia program has already been introduced in Estonia in 2000, when the Government of Estonia started arranging paperless meetings. They were the first government in the world to do that. Since, e-Estonia has spread to the every day life of Estonian citizens. Estonian schools follow this program, internet banking has become more and more popular, and Estonian companies are using e-billing. E-Estonia's future looks bright for there are many plans to be carried out during the next years, for example e-elections and e-citizenship. (Ministry of Foreign Affairs about Modern Estonia 2005)

4.3.8 Education, Research and Development

Although a small nation, there are in total 10 universities and 25 higher education colleges in Estonia. This is a lot compared to the size of the population and obviously Estonians value education and research. Lot of public funds have been invested in R&D, and this investment has paid off; many of the Estonian higher education and scientific institutions have reached a high-appreciated status. Scientific areas like molecular biology, genetic science, materials research, environmental science and marine science are especially advanced in Estonia at the moment. These branches of science are in great hype and a prominent sector for a foreign investor to invest in. (Enterprise Estonia 2004)

Most of the graduating students in Estonia have high language skills. Ability to speak English, Russian, Finnish, and German has become almost a requirement for graduating students looking for a job. The high and even increasing level of education and R&D provides a good opportunity for a foreign investor to establish a new business or a branch. (Enterprise Estonia 2004)

The Estonian Genome Foundation is now planning a project called *Estonian Genome Project*, which aims to having a database with health and genetic data of every citizen of the country. This database would help to have more exact diagnoses from doctors, to get better treatment, and to understand better the genetic background of a person and accordingly forecast possible genetic illnesses. A pilot project for the Estonian Genome Project has already been started with 10 000 samples from gene donors. (KPMG 2003:7)

4.3.9 Competitiveness

In the World Competitiveness Scoreboard 2005 by International Institute for Management Development (IMD) Estonia has been ranked as 26th among 60 countries. The World Competitiveness Scoreboard measures competitiveness by four main factors: economic performance, government efficiency, business efficiency, and infrastructure. Some western European came after Estonia in the list, e.g. France and Spain. Also Hungary and Czech Republic did less well as Estonia. (IMD International 2005)

The World Economic Forum listed Estonia as first among the most competitive new member state of the EU in its survey called "The Lisbon Review" which assessed the policies and reforms in Europe from the point of view of *the Lisbon Agenda*². (Schwab et al 2004:9)

Estonia is also competitive what it comes to the business environment. The World Bank ranked Estonia as 16th in its world countries' business climate survey. According to the survey, the country provides simple and favourable business environment taking account the tax policy and labour market regulations. (World Bank 2005)

4.4 FDI Trends in Estonia

4.4.1 Who Invests in Estonia?

In 2004, the total amount of inward foreign direct investments into Estonia was EUR 6.99 billion. By way of comparison, in 2003 the amount was EUR 5.1 billion. Estonia is the most attractive country in Central and Eastern Europe what it comes to the amount of inward investments per capita. In 1995-1996, most of the foreign direct investments derived from the privatization process, at the moment the number of cross-border acquisitions and greenfield

² Starting from March 2000, the EU Heads of States and Governments agreed to make the EU "the most competitive and dynamic knowledge-driven economy by 2010". This agenda is called The Lisbon Agenda. Source: The European Union. "Glossary". 2005. http://europa.eu.int/scadplus/glossary/competitiveness_en.htm

investments is growing. Today's structure of direct investment flows can be seen in Table 1. (Enterprise Estonia 2005)

Table 1 Structure of direct investment flows (EUR m) (Eesti Pank 2005)

	2002	2003	2004
Direct investment in Estonia	306.8	822.2	838.0
Equity capital (liabilities to direct investors)	52.5	340.6	296.5
Inflow	214.8	573.1	676.5
Outflow	-162.3	-232.5	-380.1
Reinvested earnings	215.4	409.5	573.0
Decrease	-320.1	-425.3	-452.0
Increase	535.5	835.0	1,025.0
Other direct investment capital	39.0	72.0	-31.4

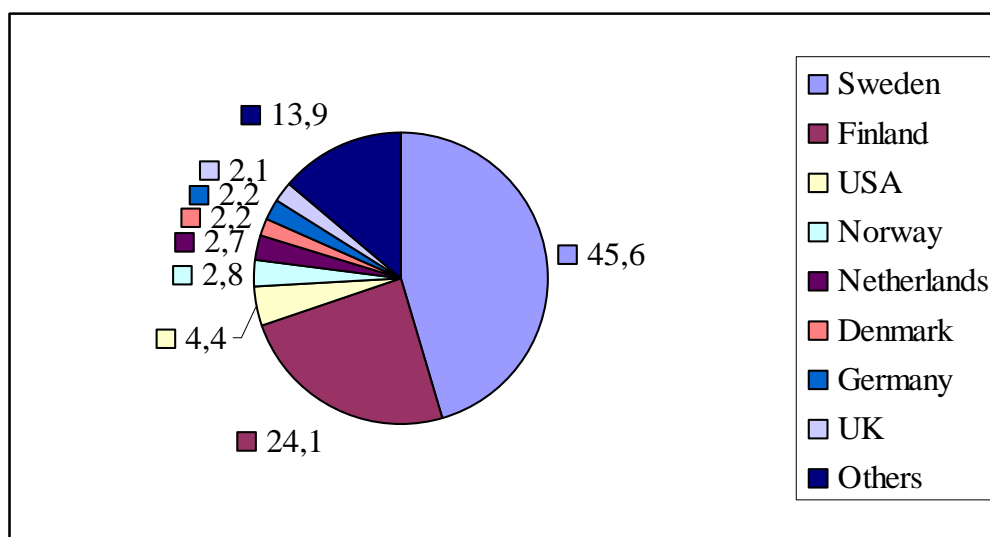
33.3 % of the foreign direct investments were made within the financial sector in 2004. Other popular investment sectors were real estate, renting, business activities and manufacturing. Also wholesale and retail trade attract foreign direct investors in Estonia. Tallinn is dominating with the attraction of foreign investors. 4/5 of the direct investments were made in Tallinn area. (Enterprise Estonia 2005, Tallinn.ee 2004)

The Scandinavians are the most active in investing in Estonia. Since the 90's Finland has been the most important investor besides Sweden. As can be seen in Table 2, Swedish investors made 45.6 % of the total FDI, Finnish investors 24.1%, and investors from USA 4.4 %. Norwegian's share was 2.8 %. (Enterprise Estonia 2005, Finpro 2005)

According to the Commercial Register of Estonia (February 2005), the 10 biggest foreign shareholders in Estonian companies are as follows:

- | | |
|-------------------------------------|------------------------|
| 1. Eesti Telekom AS | telecommunications |
| 2. Eesti Ühispank AS | banking |
| 3. Hansapank AS | banking |
| 4. Kunda Nordic Tsement AS | production of cement |
| 5. Shell Eesti AS | sales of fuels |
| 6. Sampo Pank AS | banking |
| 7. Baltex 2000 AS | production of textiles |
| 8. Horizon Tselluloosi ja Paberi AS | paper products |
| 9. Balti Spoon AS | production of veneer |
| 10. Pro Kapital Grupp AS | real estate |

Table 2 FDI in Estonia by country in 2004 (%) (Eesti Pank 2005)



4.4.2 Attractive Industries

Already numerous foreign investors have taken the opportunity to grow their market to Estonia and have found out that it offers an attractive investment environment with lots of opportunities. At the moment, the most pulling and advantageous fields to invest in are: wood processing, chemical industry, engineering industry, construction industry, construction materials, electronics, transportation and logistics, biotechnology, call centres, and food industry. (Enterprise Estonia 2004)

Swedish enterprises have mostly invested in banking and insurance sector. That is the main reason why Sweden has bigger share of Estonia's total inward investments than Finland. Finnish companies have made the biggest investments in the sectors of production and retail. (Enterprise Estonia 2004)

4.4.3 Investment promotion in Estonia

Estonia has put lot of effort on marketing the country and attracting the foreign investors. In 2000, Estonia's Ministry of Economy founded an institution under the name Enterprise Estonia. The aim of Enterprise Estonia is to increase the country's competitiveness, risen the enterprise environment and business life, and thus to improve the wellbeing of the society. Enterprise Estonia e.g. provides information for foreign enterprises entering the Estonian markets supports foreign investors and offers opportunities. (Enterprise Estonia 2004)

Enterprise Estonia focuses its investment promotion on three main fields that it finds the most promising in the future. These three fields are: *manufacturing* (machinery and automation, electronics and plastic components, wood processing), *services and logistics* (service centres, tourism, and industrial real estate), and *innovative products* (information and communications technology, biotechnology, material technologies). (Enterprise Estonia 2004)

4.5 Finnish Investors in Estonia

In general, Finnish investors have been content about their investments. The economy is free, and has a good forecast, and thus the investors look forward to the future with confidence. 2000 Finnish companies have registered in Estonia, of which approximately 800 are operating actively. There was no special boom in the investments among Finnish companies after Estonia's accession to the EU because many enterprises had already established their business in Estonia. Estonia and Finland have made two important contracts from the perspective of foreign investors. In 1992, an Investment Protection Agreement between Finland and Estonia was signed, and in 1993 the countries made a Double Taxation Agreement. (Finpro 2005)

The most significant Finnish investor in Estonia has been Elcoteq. Elcoteq Network Corporation is an electronics manufacturing services company, and started its first pilot project in Tallinn already 1992. Elcoteq is an important employer in Estonia and in 2003, exported 14% of all Estonia's exports. Other notable Finnish investors in Estonia are TeliaSonera (Eesti Telekom), HK Ruokatalo (Rakveren lihakombinaatti), Sampo-pankki, Olvi Oy, Fazer, Fortum and Stora Enso. In the retail sector the biggest Finnish investors are Kesko and SOK. (Elcoteq Network Corporation 2005, Finpro 2005)

4.5.1 FDI Risks in Estonia

Although Estonia has come a long way in development, there are still some risks when making investments in Estonia. The Baltic area manager of Finpro, Jorma von Hertzen (Spiridovitch 2005) lists the biggest threats when making investments in Estonia. First, the level of wages is growing faster than the inflation, especially in Tallinn where most of the Finnish investors invest in.

Second, black economy and corruption can still be found in Estonia. Corruption can be found especially in the public sector. Corruption could be considered both as pro and con for Estonia. In any case corruption is a threat, but the fact that corruption is vanishing in Estonia could be also considered as an advantage. In the TI Corruption Perceptions Index (CPI) 2004, Estonia was ranked as 31st (1st being Finland). The CPI is a survey that ranks countries in terms of experts' perceptions of corruption and includes research results from 146 different countries and is published yearly by the Transparency

International. In 2003, Estonia was ranked 33rd in the CPI, what indicates that there is development in the fight against corruption. Third, von Hertzen lists the accelerating increase in prices as a risk for investors investing in Estonia. As Estonia has joined the EU, the prices have started going up too. (Spiridovitsh 2005, Transparency International 2004)

According to Pedak (2003:21) Finnish investors should also pay extra attention when signing contracts in Estonia. It is important for Estonians to be open with business, but still the foreign investor should be aware of possible dishonesty. Double checking and using services of lawyers is advisable when making contracts. There are still some loopholes in the legislation, and the Finnish investors should not forget that Estonia's legislation differs greatly from Finland's, although it fulfils the EU requirements. Many Finnish investors have the illusion that Estonia equals Finland in legislation. (Pedak 2003, Spiridovitsh 2005)

Although Estonia's overall country risk is lower compared to other countries with transition economies, credit risk should be considered as well. Credit rating agency Standard & Poor's rated Estonia as A in November 2004, after for a long period of A-. Now Estonia's credit rate is second highest in Eastern Europe. Only Slovenia (AA-) has better credit rating than Estonia. The credit rate was upgraded in November 2004 because Estonia has had a big economic growth, and is likely to join the European Economic and Monetary Union (EMU) in 2007. (Tallinn.ee 2004)

The Soviet Union can be still sensed in Estonians' behaviour in some extent, though not as well as in e.g. Latvia or Lithuania. Especially middle-aged and older people have still attitudes that carry from the way of thinking of the Soviet Union, and therefore there might be e.g. some resistance for change. Low productivity level and effectiveness can be risks in Estonia. (Spiridovitsh 2005)

4.5.2 Opportunities for Finnish Investors

According to Finpro (2005), there are certain fields that could provide strong potential for Finnish enterprises. Service sector is still in the development stage, and has lot of possible investment opportunities. Estonians will be demanding services that can already be found in Finland, but not yet in Estonia. Thus there is a great possibility to penetrate into new emerging market in the service sector. Also, a rapid growth among the field of production and manufacturing is bringing along new projects with plenty of possible investment targets. As the health care sector is being privatised in Estonia, the sector will need new equipment and technology. This should be seen as an opportunity among Finnish companies which are producing this health care equipment.

Other sectors in which Finnish enterprises clearly would have a competitive advantage are environmental sector which is under a strong public funding, construction projects within leisure and business sector, and infrastructure projects which are under the EU funds. (Finpro 2005)

5. Study about Finnish Enterprises' experiences

In order to give some guideline and recommendations for Finnish enterprises that are in consideration of investing in Estonia, practical experiences and examples were needed. I decided to gather some opinions from companies that already operated or had some experience about the country. Accordingly it would be possible to compare the previously presented factors of investing in Estonia with the real experiences of investors.

5.1 Choosing the Study Method

The purpose of this study was to find out the practical advantages and disadvantages Finnish companies had faced when operating in Estonia. I also wanted to hear opinions about the experiences in Estonia, and some realistic views about the Finnish investors' future in the country. Accordingly, I chose to make interviews as part of qualitative study.

Generally speaking, the purpose of a qualitative study is to reflect real life. Carrying out a qualitative study consists of "procurement of comprehensive information, and of material gathering in natural, real situations", as Hirsjärvi et al (2004:155) puts it. In qualitative study, the viewpoints and opinions of examinees are in key role. (Hirsjärvi et al 2004:152, 155)

There are several ways to carry out a qualitative study, e.g. by theme interviews, group interviews, observation methods, analysing different documents like diaries or official records, and analysing visual materials like films. In qualitative study, the target group is not selected randomly, but taking a purposeful selection of examinees. (Hirsjärvi et al 2004:155; Moisala 2001)

According to Alasuutari (2001:38), in qualitative research, the collected material is often examined as a whole, and statistical probabilities are not considered essential. Many times the quantity of examinees is not large and thus statistical conclusions cannot be drawn. To sum up, qualitative study answers to question "why" and aims at understanding different issues. (Hirsjärvi et al 2004:155; Moisala 2001)

5.2 Carrying out the Study

The study was carried out during September 2005 as an email questionnaire. There were 13 questions in total, and all of them were open in order to give the examinees an opportunity to express their opinions and point views freely. The questionnaire can be seen in the Appendix 1, and the covering letter is presented in the Appendix 2.

The questions were sent to 59 examinees in different enterprises selected from the list of enterprises in Pirkanmaa area doing business with Estonia. The list was provided by Tampere Chamber of Commerce and Industry, and in total it included 117 enterprises that had done business somehow or another with Estonia. There was no list available, that would have included companies that had invested in Estonia, and so by browsing the websites of companies on this list of 117 enterprises, 59 noteworthy enterprises were selected.

The selection of companies was made according to what kind of business the company had done with Estonia, and whether there was anything mentioned about investments in Estonia. According to the websites visited, at least 15 enterprises from the list had made direct investments in Estonia. For the most part, questions were sent to either managerial personnel or directors in companies, depending on the size of the company. If there was a person in charge of investments or e.g. an area sales manager for Baltic States in that company, questions were directed to them.

5.3 Results of the Study

Only 4 examinees responded to the questions. Also some examinees replied to the email, but were not able to answer questions either because they did not have experience about doing business in Estonia, or felt like they had too little experience. The examinees' attitude towards questions was positive, and although small answering percentage, the received replies were satisfactory and contained some good opinions and practical examples. Next, the material gained from the answers will be explained in detail. The following chapters concern information about the respondents' companies.

5.3.1 Backgrounds of the Companies

The first two questions concerned about the background of the companies, in what field were they operating in, and the size of the personnel. The next two questions handled the type of operation in Estonia, and the time of operation in Estonia.

All of the companies operated in the field of industry or production of goods. The size of the companies varied from 5 to 600 in the quantity of personnel. One company operated partly in Estonia, in other words had made a direct investment in Estonia. Other companies exported to Estonia or worked through a local agent in the country. The companies had already quite a long experience about doing business in Estonia; the shortest time of doing business in Estonia was 5 years, and the longest 14 years.

5.3.2 Motives for Starting Doing Business in/with Estonia

Questions number 5, 6, and 7 asked about the motives and achieved goals of the internationalization process in Estonia.

For some respondents it was difficult to determine the key reasons for starting the business or exporting in/to Estonia. From this it could be concluded that those enterprises might not have had any plans for the internationalization, or then the respondents were not aware of those plans. Those who were able to define the motives for the internationalization answered that the reason for going to Estonia was potential new market area or the low level of costs. Even Estonia's joining in NATO was mentioned as one motive.

Also the goals of the companies relating to the internationalization were unclear for some respondents. Apparently some companies had not defined the goals or targets. Some mentioned "getting new contacts" or "penetrating new markets" as the goal. What it comes to the question number 7, half of the companies had achieved the set goals, half had not.

5.3.3 Operating in Estonia

Questions number 8, 9, 10, and 11 included questions about operating in Estonia, and whether the respondents had experienced any negative and positive aspects when operating in Estonia.

Most respondents felt operating in Estonia easy and the business environment there alike with the Finnish one. Some justified operating in Estonia being easy because of the close location to Finland, and the historical past the countries share. It was mentioned that operating in the country becomes easier and easier every year as the pace of change is fast. It was also mentioned that operating with Estonians is easy and flexible, but if there are Russians involved, risk for "blunder" increases. According to one respondent being successful and getting operation functional requires good contacts and partners in Estonia and enough knowledge about the business culture.

Half of the respondents could not specify anything negative about operating in Estonia. Another half thought operating in Estonia is very short-sighted. Also the great number of chicaneries and swindlers had unpleasantly surprised one respondent.

Positive sides in Estonia, according to the respondents, were new contacts and the remarkably low level of costs. It was also mentioned that doing business in a new and different business culture had brought along new insights for more effective operation.

Question number 11 asked about the most challenging/problematic issues the companies have faced in Estonia. Also in this part, short-sightedness of the

possible partners and contacts in was experienced as a challenge. According to one respondent it was difficult to find a partner that would make a long-term commitment. Also the language was seen as problematic, as was finding the “right” partners and contacts. It was also mentioned that “an old Russian mentality” still exists, and thus makes operating problematic to some extent.

5.3.4 Opinions about Finnish Companies’ Opportunities in Estonia

The last two questions concerned about the operating in Estonia compared to Finland, and about the opportunities of Finnish companies in Estonia.

When comparing operating in Estonia to operating in Finland, the low level of costs rose again as the most positive key factor in the respondents’ answers. Also taxation in Estonia was experienced being more beneficial than Finland’s taxation. Estonians’ open attitude and freedom from prejudice towards new practices and methods was also mentioned as a positive issue.

For the most part, Finnish companies’ and investors’ future was seen bright and promising according to the respondents. But it was clearly indicated that success requires lot of work, and depends on the operating field or industry. The respondents’ viewpoint was that it should not be taken granted that every Finnish company succeeds in Estonia.

Kindred language and geographical closeness was seen as an asset. According to one respondent the fast growing costs should be taken into account when planning an operation in Estonia. Although the costs are still low compared to costs in Finland, they are about to go up.

5.4 Analysing the Study

Generally, a study can be estimated by two factors. A study should be analysed both for its *validity* and *reliability*. Validity means the results of the study can be generalized, and reliability means the study can be repeated and the information sources are trustworthy. If a study is reliable, same results could be gained if someone else carried out the same study. With a qualitative study these two factors of estimation are not as necessary as in quantitative study. As previously indicated, in qualitative study generalization might not be a possible objective of the study. There is still a need for objective observation and accurate working methods in qualitative study. (Moisala 2001)

Validity

In this study of Finnish companies’ experiences about Estonia, no generalization can be made. Generalization was not an objective of the study and as the number of respondents was such small, there is no need to draw general conclusions. The objective of the study was to gather opinions and practical experiences from the respondents, thus for that part the objective was

met. But since the respondent rate was such low, the purpose of the study was not totally met. (Moisala 2001)

Reliability

Concerning the reliability, the study could be repeated, and I think the results would be the same. The information sources were liable, but certainly if there were more respondents, more opinions and point views could be collected. The collected material was handled and analysed carefully, and too much interpretation was avoided. (Moisala 2001)

The questionnaire handled only about the subject of the study, and no unnecessary questions or questions outside the subject were made. Moreover, some questions could have been formatted more accurately in order to enable all the respondents understand them perfectly. More questions could have been drafted. But because the purpose was to keep the questionnaire as short and simple as possible in order to take only little time from the respondents to answer, no more questions were added. (Moisala 2001)

6. Conclusions

To conclude, I am going to handle the most important factors which should be taken into account when planning an investment in Estonia. The most significant factors which I have chosen here, have been brought up according to both the results from the study, and according to the previously presented opinions by different specialists, e.g. Pedak, Spiridovitsh and von Hertzen.

Summarizing the major positive issues about Estonia's business environment and culture from the Finnish investors' point of view, and the biggest motives for foreign investors, I will focus on the following factors: low level of costs, taxation, location, and Estonia's competitiveness as an investment target. These factors will also be critically analysed in order to get a realistic picture about them.

As could be seen from the results of the study, low level of costs and prices was mentioned several times in the respondents' answers. Also according to many sources used earlier, Estonia's FDI attraction is for the most part based on the low establishment, operating, production, exports, and labour costs. Although the costs are low at the moment, change has already started, and it is likely that the costs will not remain low in long term. This should be taken into serious consideration when an investor makes long term plans for the investment.

Taxation is as important driving force for foreign investors as the costs are. Estonia's taxation is famous for its simplicity and liberality, and in the future the taxation terms are still about to ease. Finnish investors should carefully pay attention to and find out as much as possible about the taxation of Estonia in order to gain the biggest benefits. It would be advisable to use consultants' services when dealing with taxation issues.

Estonia's closeness to Finland is a great asset to the Finnish investors. By closeness I mean both geographical closeness and cultural kinship. Estonia lies very close to Finland, and thus logistical processes should not be difficult. Estonia also provides excellent transportation network.

The respondents of the study had experienced that the business environment in Estonia is much alike with Finnish business environment. Generally, Estonian society is open towards foreign investments, and their attitude towards change and development is positive. The working and business culture reminds of Finnish ones, but it should be taken into account that differences exist. An investor should never forget that Estonia is not Finland, although it seems like that, and the language can also cause big misunderstandings.

Estonia's position in what it comes to the country's competitiveness has been ranked high. It is proven that Estonia is one of the best countries in which to do

business. Things are changing fast as the country is developing in many ways, and technological boom is on. Still, for a Finnish investor there are realistic risks in Estonia. To avoid these risks, next there is going to be a summary of the most important ones of them, and some suggestions to avoid those them.

Possibility to face crime and dishonesty in Estonia is a real threat. This was brought up both in the respondents' answers in the study, and in the material handled earlier in the text. Corruption is still part of every day business life in Estonia. To minimize the risk of being cheated, an investor should aim for long term contracts with partners, and try to foresee if some partner is not willing to commit for a long term partnership. Contracts should always be in written form, and checked by a lawyer. Of course even contract might prevent crime, but it provides protection to some extent.

A big risk is created, if an investment is made without proper planning and preparation. It is essential for a Finnish investor to inquire information from reliable sources about the possible issues which might emerge with the establishing of a business, and when operating in Estonia. If possible, and investor should be in contact with some investors that already have experience about Estonia, and utilize their knowledge. An investor should also have lot of knowledge and insights for the development of Estonia, and foresee the changes the country is going to face.

As a conclusion, there are clearly many pros in making a foreign direct investment in Estonia. Each of the pros has their adverse factors too, and those need to be considered carefully. To put it shortly, investing in Estonia can be profitable as long as the markets exist, risks are minimized, and the utilization of assets is maximized. As the respondents of the study implicated, the future for Finnish investors looks successful, but the success does not come easily.

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Appendices

Appendix 1: Questionnaire to the Finnish Enterprises

KYSELY YRITYKSEN KOKEMUKSISTA VIROSSA TOIMIMISESTA

YRITYKSEN TAUSTATIEDOT

1. Yrityksen toimiala ja yritysmuoto
2. Yrityksen henkilöstömäärä

YRITYKSEN TOIMINTA VIROSSA

3. Miten yritys toimii Virossa?
4. Miten kauan yritys on toiminut Virossa?
5. Miksi aloititte toiminnan Virossa?
6. Mikä oli yrityksenne tavoite aloitettaessa toiminta Virossa?
7. Onko haluttu tavoite saavutettu?
8. Minkälaiseksi koette toimimisen Virossa?
9. Onko toimiminen Virossa tuonut mukanaan jotakin negatiivista? Mitä?
10. Onko toimiminen Virossa tuonut mukanaan jotakin positiivista? Mitä?
11. Mitä koette erityisen ongelmalliseksi/haastavaksi Virossa toimiessa?
12. Mitä positiivisia puolia Virossa toimimisessa on verrattuna Suomeen?
13. Minkälaisiksi arvioisitte suomalaisten toimijien tulevaisuuden mahdollisuudet Virossa?

KIITOS VASTAUKSISTA!

Appendix 2: The Covering Letter

Hyvä Vastaanottaja,

Olen Tampereen Ammattikorkeakoulun opiskelija liiketalouden BBA- linjalta ja teen päättötyötäni suomalaisten investoijien mahdollisuuksista Virossa.

Kuulisin mielelläni Teidän kokemuksianne Virossa toimimisesta. Mikäli yrityksenne toimii Viron viennin tai tuonnin parissa, tai on tehnyt suoria investointeja Viroon, pyytäisin Teitä vastaamaan alle liittämiini kysymyksiin 17.9. mennessä. Kysymyksiä on yhteensä 13, joten vastaamiseen ei kulu paljon aikaa. Vastaukset voitte lisätä kysymysten perään ja palauttaa minulle sähköpostitse. Mikäli ette pysty vastaamaan johonkin kysymykseen, voitte jättää kohdan tyhjäksi.

Kiitos avustanne!

Ystävällisin terveisin,

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