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**ENTRY MODE FOR
A FINNISH BUSINESS DEVELOPMENT COMPANY
Case Latvia**

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ABSTRACT

Hermia Business Development is a Finnish consulting company that is interested in establishing some form of operation in Latvia. This thesis was carried out in order to provide information about the proper way of entering into the foreign market through selection of an entry mode.

Hermia Business Development is introduced as well as basis for entering a foreign market. The company is studied in order to find out what their status is and what their objectives and resources for internationalisation are.

Selection of entry mode is a part of internationalisation process. Characteristics of different entry modes are studied and internal and external factors, which affect the selection, are stated.

The affecting factors of the target market are studied in the target country section. This section provides a wide picture of the market situation and the features of the target country. Information was also acquired by interviewing local experts. Latvia is transferring from a socialistic society into democratic state and into the free market economy. It has become clear that the target market in Latvia is quite small, but it is developing. It can also be stated that there is now actors with the same concept as Hermia Business Development has in its home country.

The results of the interviews, the bibliography about the target market and the theory are combined and the features of the entry modes are evaluated based on these analysis. The selection of the most suitable entry mode is done based on the result of all gathered information.

Keywords: Internationalisation Entry Mode Latvia

Table of contents

1	INTRODUCTION	5
1.1	Background.....	5
1.2	The research problem	5
1.3	Methods.....	6
2	HERMIA BUSINESS DEVELOPMENT	8
2.1	Hermia Business Development: Basic information	8
2.2	History	8
2.3	Organization	9
2.3.1	Personnel	9
2.3.2	Ownership.....	9
2.3.3	Cooperation partners.....	9
2.3.4	International projects and memberships	10
2.4	Services provided by Hermia Business Development.....	10
2.4.1	Start-up services	10
2.4.2	Development services.....	11
2.4.3	Funding and exit services	13
2.5	Background of internationalisation	14
2.5.1	Reasons for internationalising	14
2.5.2	Vision and goals of internationalisation	14
2.5.3	Resources.....	15
3	INTERNATIONALISATION AND ENTRY MODES	16
3.1	Internationalisation as a concept	16
3.1.1	History of internationalisation	16
3.1.2	Reasons for internationalisation	16
3.1.3	Internationalisation Process	18
3.2	Entry modes	19
3.2.1	Export entry modes.....	20
3.2.2	Contractual entry modes	20
3.2.3	Investment Entry Modes.....	25
3.2.4	Factors influencing the entry mode decision	27
4	THE TARGET COUNTRY	32
4.1	Charasteristics of Latvia.....	32
4.1.1	Short History	32
4.1.2	Cultural environment.....	33
4.1.3	Business Climate	34
4.1.4	Restrictions and benefits.....	37
4.1.5	Funding of early stage companies	38
4.1.6	Finnish companies in Latvia	40

4.2	Education and research	41
4.2.1	Universities and research institutes.....	43
4.3	Regional actors	49
4.3.1	Technology parks	49
4.3.2	Relevant organisations.....	54
5	THE INTERVIEW: EXPERT OPINIONS.....	56
6	SELECTION OF THE ENTRY MODE	64
6.1	External factors	65
6.1.1	Target country market factors.....	65
6.1.2	Target country production factors.....	66
6.1.3	Target country environmental factors.....	66
6.1.4	Home country factors	68
6.2	Internal factors	69
6.2.1	Product factors.....	69
6.2.2	Resource and commitment factors.....	69
6.3	Rejection of inappropriate modes.....	69
6.4	Resources, risks and non-profit objectives.....	70
6.4.1	Resources.....	70
6.4.2	Risks	70
6.4.3	Non-profit objectives.....	71
7	CONCLUSIONS	73
	BIBLIOGRAPHY	75
	APPENDIX : THE QUESTIONNAIRE	78

1 Introduction

1.1 Background

Hermia Business Development is a Finnish business development company that commercialises technology based products and business innovations and develops technology based companies into growth companies. Hermia Business Development also governs a pre-seed fund called Hermia Ventures. The main reason for internationalisation for Hermia Business Development is the need to grow; the opportunities offered by the foreign markets and the possibility to strengthen one's competitive position creates interest towards internationalisation. As the market for business development services in Finland is limited, Hermia Business Development is planning to establish some form of activity in Riga, Latvia.

The interest of Finnish companies towards Latvia is increasing, this can also be seen from the amounts of foreign direct investment. Latvia is transferring from a socialistic society into democratic state and into free market economy. Latvian economy is growing on a high speed and is therefore a potential market for business development activities.

When a company is planning to establish activities in a foreign country, it creates an entry strategy. An entry strategy is a plan for internationalisation, which consists of several individual decisions; the choice of a target product and target market, the objectives and goals in the target market, the choice of an entry mode, the marketing plan and defining of the control system for monitoring performance in the target market.

The concentration in this thesis is the third decision: Selection of the entry mode. An international market entry mode is an institutional arrangement that enables a company to enter into a foreign country.

1.2 The research problem

The main objective of this thesis is to find out what is the most suitable entry mode for Hermia Business Development to establish activities in Riga, Latvia. The basic idea is to find out different entry mode options and factors that affect to the selection of the entry mode and then to study these factors from the target markets perspective and from the target company's perspective in order to find a suitable mode of entry.

The sub aims of this thesis are to:

- find out what are different entry mode options
- find out what are factors affecting to these options
- find out what is the situation of these factors concerning the target market and the target company

The main aim of this thesis is to:

- select an entry mode based on previous findings; the found results will be combined with the theory of the affecting factors and the right entry mode will be discovered in order for the company to establish operations in the target market.

1.3 Methods

This thesis will be done in three phases. In the first phase the theory of internationalisation and different entry mode options will be introduced as well as factors that affect to the selection of the entry mode. In order to find an objective point-of view to the theory, different authors' internationalisation theories will be used as sources. The common points from their theories will be emphasised. However, as different author have different ways of looking into the subject there is no one objective singular way of selecting a proper entry mode, instead the objectiveness is obtained through combining these different visions.

In the next phase, the factors that affect the selection are researched from the case's point-of-view. The market situation in Latvia is studied through several sources. Books are used to provide part of the information and internet sites are used to provide another part of the information. The idea is that by using several sources the best possible objectiveness can be reached.

Another way of researching the market is to do it through expert interviews. The idea of the interviews is to gather first hand information about the market and the cooperation possibilities in Latvia. The interviewees will be asked about their opinions about 10 subjects relating to Latvian market opportunities. The interview will be done based on forms. The criterion for the experts is that the experts must have extensive knowledge and experience of the field of business, extensive knowledge of Latvia and actors of the field of business in Latvia. However, the interviewees give their vision of the situation and therefore the information can not be considered as objective data, but instead as extra information and as a possibility to gain more insight of the target market.

It can be seen that the answers of the interviewees vary and their visions are not quite similar. However it is possible to find confirmations to the findings of the bibliographic research.

Another point is that as there are only two interviewees the information can not be considered very objective. By combining the information found through bibliography and the information found through interviews a more objective point-of-view can be reached.

After researching the theory of entry mode options and factors that affect to the selection from the case's point-of-view the information is matched. The factors that affect the selection are evaluated from the case's perspective. Besides this the information is also evaluated based in resources, risks and non-profit objectives. Finally the selection of the entry mode is done by evaluating all the information found previously combined with the theory of evaluation.

2 Hermia Business Development

2.1 Hermia Business Development: Basic information

Hermia Business Development Ltd is a private-public company whose aim is to assist customers to commercialise their technology based product and business innovations, and to develop technology based companies into growth companies. The main office of Hermia Business Development is located in Science Park Hermia, Tampere, Finland and it also has an office in Amsterdam.

Hermia Business Development offers business development services; consulting services for commercialising technology based products and business ideas and to licence technology and takes part in projects that support these functions.

Types of customers of Hermia Business Development vary a lot; there are inventors, researchers, students and growth potential owing technology companies. Hermia Business Development's turnover in year 2004 was 1 104 000 euros. Hermia Business Development has a strong international collaboration network that is needed in order to develop companies' international business activities, looking for cooperation partners and to support licensing.

By the year 2005 Hermia Business Development has evaluated 2300 business/product ideas, done 500 business plans, started 230 technology starts and had over 100 development contracts with different growth companies.

2.2 History

Hermia Business Development was established in 1992. First customers of the company were Tampere Technology Centre and Tampere University of Technology. First development projects for customer companies were started in 1995. Until 2001 company acted as a subcontractor for Tampere Technology Centre by producing business development services.

The process for separating business development activities from Tampere Technology Centre started in 2001. Hermia Business Development started making new customer contracts under its own name in November 2001. In 2002 the separation was final and the first private business development company in the started its operations. In the year 2004 Tampere Technology Centre changed its name in to Technology Centre Hermia due to a change in companies operations.

2.3 Organization

2.3.1 Personnel

Personnel of the company consist of business professionals, who are experienced and have extensive knowledge of different areas of business development.

At the moment, there are 14 employees in Hermia Business Development, most of them full-time and some of them part-time employees. One of the employees is situated in Amsterdam and the rest of them are in Tampere.

2.3.2 Ownership

When Hermia Business Development separated from Tampere Technology Centre it was no-longer owned by the city of Tampere. Hermia Business Development is a limited company where shareholders ownerships are divided as follows:

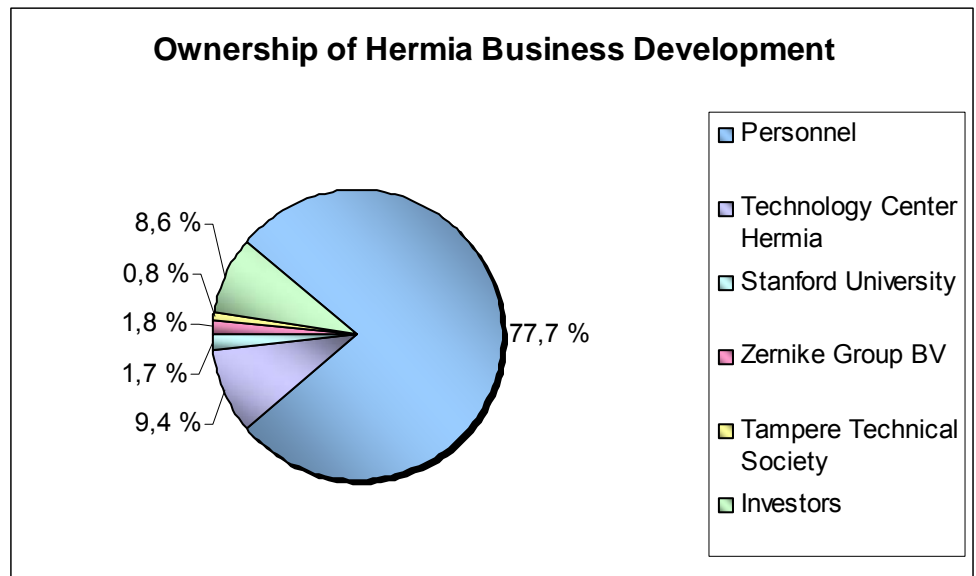


Figure 1 Ownership of Hermia Business Development

2.3.3 Cooperation partners

Cooperation network is an essential part of the service provision chain. Hermia Business Development has strong cooperation network throughout the world. Networking activities aim at forming a close network of strategic partners that is linked to operations with contracts, and a looser co-operation network, in which all parties benefit from one another. Co-operation network brings

together leading Finnish experts in the field of emerging high-tech companies.

Hermia Business Development does close cooperation with international business development company Zernike Group BV and with Stanford University, who are also Hermia Business Development's owners.

2.3.4 International projects and memberships

Hermia Business Development is involved in several national and international projects. There are various EU's development projects going on all the time that Hermia Business Development is taking part in. This is also important from the aspect of networking, developing and learning.

2.4 Services provided by Hermia Business Development

Hermia Business Development offers start-up services, development services and funding and exit services. Hermia Business Development prefers to offer as its first service a short-time project or consulting in order to see the commitment and affinity of goals. Only after a short-time project the customer company will be offered a longer time program or project.

2.4.1 Start-up services

Start-up services are targeted for private persons who are potential high-tech entrepreneurs. The objective of this service is to assist the customer in development of the emerging business. Start-up services act as a channel for other services. The idea of commercialising activities is not to make a big profit, but instead to secure customer flow into other services.

Evaluation of technology and business potential

Customers bring business ideas and inventions to Hermia Business Development, where they are evaluated. Evaluation is done, if needed, globally as well. Evaluation is done on the basis of an invention's commercialisation potential, determination of patentability and novelty value, evaluation of market potential and competitive advantages. Service also includes start-up consulting about how and when the company should be started.

Technology project planning

This service is targeted for customer at an early stage. This service assists customer with funding issues, building a business plan, doing market research and it also includes consulting.

Supporting tools for backup and administrative activities

Hermia Business Development provides electrical tools for administrating sales, funding, finances and growth.

Hermia Business Incubator

This is a program that is targeted for newly based companies. Program is tailor-made for each company. It supports company's beginning-stage development. Incubator support includes business consulting, funding and finding an estate for the company etc. Hermia Business incubator works in cooperation with Employment and Economic Development Centre of Pirkanmaa and with Tampere Science Parks Oy.

Hermia Business Training

Hermia Business Training is organised once a year and it has 8 training days during the year. The target group for Hermia Business Training is incubator companies and other business personnel that need training about the business processes. The training deals with business management topics from business plan creation to financial management and immaterial rights.

2.4.2 Development services

Development services are tailor-made for each company. A development contract is made with the company, which according to Hermia Business Development will help the customer company to develop its business activities and turnover.

Hermia Business Development commits to do a specific amount of work itself or/and buy expert expertise for the company's development need for 1-3 years. The work is done through acquiring contacts and customers and through development of business activities in order to develop the company and its sales process. In some cases Hermia Business Development is taking part in building the company's core team.

In development services the revenue model can be binding revenue to future success or taking a minority ownership in the customer company.

Development services include the following:

Business consulting

Separately offered development consulting can include company history clearing, current stage analysis, key person interview, expert consulting, administrative work and development proposal.

Technology transfer and networking

Technology transfer focuses on building cooperation between companies and licensing. In international technology transfer, Hermia Business development's partly owned companies and networks help with technology transfer and building cooperation network for the customer company.

One tool for researching European markets and finding cooperation partners is Innovation Relay Centre, better known as IRC. IRC was established in 1995 by the European Commission. IRC network consists of 71 centres that have been created in order to facilitate the transfer of innovative technologies to and from European companies or research departments. IRC network allows Hermia Business Development to interact with other centres that have knowledge of the technological and economic profile of their region.

Ventures programme

The aim of this Ventures Programme is to speedup the development of business activities and turnover of technology companies with growth potential. Ventures programme concentrates on developing the company to the right direction, for example making sure a product is on the market at the right time and inner guide lines of the company support growth. Program also assists with recruiting expertise and finding funding for the process. Ventures programme's companies have technology based business idea, product with internationalising possibilities, growth potential and management that is dedicated to growth.

Fenix Games Business Programme

This program is a development program for companies in the game industry. The program strengthens know-how and ways of operating in the game industry. The program is mainly carried out through seminars. The programme is administrated by National Technology Agency of Finland.

2.4.3 Funding and exit services

Funding and exit services are an important part of Hermia Business Developments services. Quite often gathering together funding and resources is one of the most important goals of early stage companies.

Hermia Business Development offers its expertise in gathering private and public funding, starting from the making of funding documents like business plans, calculations and applications into taking part in funding negotiations and possibly even requiring partial funding from the seed fund governed by Hermia Business Development. Besides gathering funding, Hermia Business Development also offers service in the following stages of the funding like giving up its ownership in the company and making and exit plan.

Sweat equity

One form of investing is sweat equity. Hermia Business Development will invest expert work in to the company through business plan assistance, cooperation network, business operations start-up, team building and funding arrangements. As a return Hermia Business Development will own about 5-15 percent of the company's shares. There are 2-5 this kind of investment cases in a year.

Capital investments

In the beginning of 2005 a pre-seed fund company called Hermia Ventures Ltd. was established. Hermia Business Development governs Hermia Ventures and present possible investment targets to it. The target group is beginning stage technology companies. Hermia Ventures invests 30 000-50 000 euros, as apart of a wider funding package. There are 2-5 this kind on company investments in a year.

2.5 Background of internationalisation

2.5.1 Reasons for internationalising

For Hermia Business Development the reason for internationalisation is the need to grow. There have been changes in the services of Hermia Business Development. One major project has ended and it creates a niche that needs to be filled.

Another affecting factor is the size of home markets; there is only a limited amount of growth companies in Finland.

Customers of Hermia Business Development have a need to internationalise, which creates a need for Hermia Business Development to internationalise as well. The role of expert organisations in internationalisation process is becoming more important. Matching companies is becoming more and more important feature of business development services and Hermia Business Development wants to respond to this need. The company also wishes to intensify their international network. So far, Hermia Business Development has had only separate projects with Baltic countries but now there is a need for more stable activity.

Another reason is the interest to expand funding services. A market niche has been born between early-stage capital investors and entrepreneurs for so called venture to capital actors. Capital investors' first phase investments in technology companies have grown. The aim of the investors is to support beginning-stage companies in developing their business activities in order to make the, appealing for other capital investors. Wide and high-quality deal flow is a requirement for having successful operations in Finland. This is why there is a need to gather deal flow from other regions, besides Finland as well. In order to be aware of these companies, one has to be on contact with them, which is another reason for offering business development services like business consulting.

2.5.2 Vision and goals of internationalisation

The goal of Hermia Business Development is to become profitable and internationally known early-stage development company, whose main market is in the Baltic Sea region but whose networks cover all essential target markets for its customers.

The vision is to develop an operation model that is a combination of private business development service and venture operations and then implement this model into international markets. Internationalisation will also expand the company's international network.

Internationalisation project is compatible with the growth plans of the company. The idea is to implement the operation model into the Baltic area; first to a one location as a pilot case and possibly later on into other locations as well. The chosen location is Riga, Latvia.

The activities included in this model will most likely be: Taking part in EU-projects, doing internationalisation plans and other business consulting like sales and marketing consulting. Besides this, a private seed-fund would be a part of the model.

Goals of internationalisation:

- Increasing turnover
- Having a pilot case in Latvia
- Creation of an international network and brand through common operational concept
- Gaining internationalisation experience in order to minimize risks

2.5.3 Resources

Several people from the personnel of Hermia Business Development will take part in the internationalisation process. However, Hermia Business Development's personnel is not familiar with the business environment in Latvia and they do not speak Latvian. The operations in the home country are taking personnels working time. The personnel that would work in Latvia, would therefore have to be acquired from somewhere else.

3 Internationalisation and entry modes

3.1 Internationalisation as a concept

According to Luostarinen and Welch (Luostarinen Welsch 1988:249) internationalisation is a process, during which company's involvement in international activities grows gradually. Traditionally internationalisation is understood as activities directed away from the home country. In the future, two-way internationalising will probably be emphasised. Internationalised companies start to bring products made abroad back to their home country (Hurmerinta, Peltomäki 1991:18). In this thesis we will concentrate on traditional internationalisation e.g. activities directed away from the home country.

Internationalisation process can also be seen as chronological process. During the chronological process company changes its operations from the scope of national markets into international markets (Rantavuo 1991:3).

3.1.1 History of internationalisation

It was only in the 1980's when direct foreign investments in Finland rose to a notable level. If we use the point in time when daughter companies have been established as an indicator of this, we see that Swedish have been decades ahead of Finnish companies. (Immanen 1986:1)

Forms of internationalisation are changing. In the 1980's marketing and production was internationalised and in the 1990's it expanded into transportation, subcontracting and funding. In 2000 also headquarters and research activities are turning into global activities. Internationalisation is reaching smaller and smaller companies. (TEK – tekniikan akateemiset Nro 8/2003 Ilmestymispäivä 16.11.2003:19)

3.1.2 Reasons for internationalisation

Companies prefer not to move into new branches of business, but instead stay on the one they know and expand geographically. The most important reason for internationalisation for the company is to expand markets and to keep growing. The small size, openness and distant locations of our home markets create pressure for the company to internationalise. In order to secure

competitive advantage and growth, companies have expanded their operations abroad (Immanen 1986: 2). Äijö (2001:15) says that all reasons of internationalisation can be clarified into one reason: securing growth and profit.

According to Root (1994:1), manufacturing and service companies may enter international markets for several reasons. Some go abroad because markets at home are stagnant or foreign markets are growing faster. Others may simply follow their domestic customers who are going international – a common reason among service companies. Still, other firms in go abroad to match international market entry of a domestic rival or to counter firms penetrating domestic market. Or companies may go abroad in search of greater sales volume.

Karhu (2001:18) states that the reasons for internationalisation can be either tempting factors called pull factors or push factors or both combined.

Pull factors:

- The opportunities offered by the wideness of foreign markets
- The possibility to strengthen one's competitive position
- The possibility to compensate seasonal variation
- Demand for products from abroad
- The possibility of gaining funding and contributions
- Aim to improve company image

Push factors:

- Smallness of home markets
- Weak demand at home markets
- Openness for international competition
- Internationalisation of competitors
- Aim to secure production input
- Aim to avoid home country's bureaucracy and limitations

For Hermia Business Development factors affecting internationalisation are both push and pull factors. Pull factors are the opportunities offered by the wideness of foreign markets and the possibility to strengthen one's competitive position. The smallness of home market is also an affecting push factor.

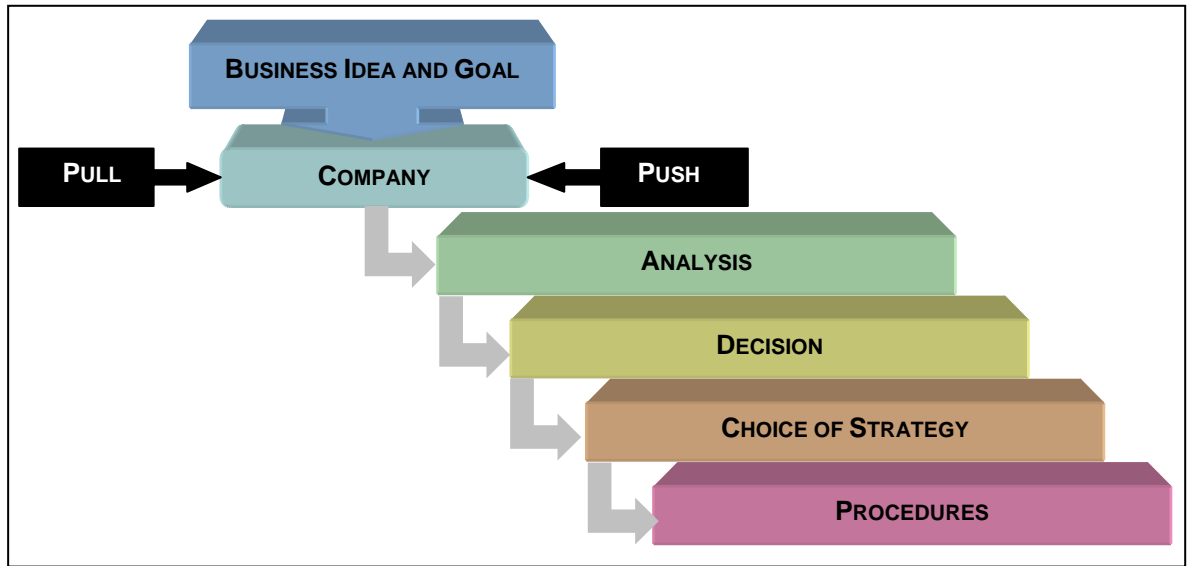


Figure 2 Background factors of Internationalisation (Karhu 2002:19)

Gaining earnings is not usually the number one goal for internationalising for European companies, but instead the motivation is in growing market share and securing profitability on business operations (Immanen 1986:5). In our case, the reason for internationalisation is also the need to grow. According to Immanen (1986:3) growth through internationalisation also improves company's market position in its home country. This is true for Hermia Business Development as the company strengthens its position at home by being able to respond to their customers' needs more effectively. According to Root (1994:1) companies only become committed to international markets when they no longer believe that they can attain their strategic objectives by remaining in their home country.

3.1.3 Internationalisation Process

When a company is planning to become international, it should create an entry strategy. An entry strategy is a plan that consists of several individual decisions: 1. the choice of a target product and target market, 2. the objectives and goals in the target market, 3. the choice of an entry mode, 4. the marketing plan and 5. the control system for monitoring the performance in the target market (Root 1994:3). The aim of the entry strategy is to adjust company's resources, goals and market situation in order to achieve the best result (Immanen 1986:10).

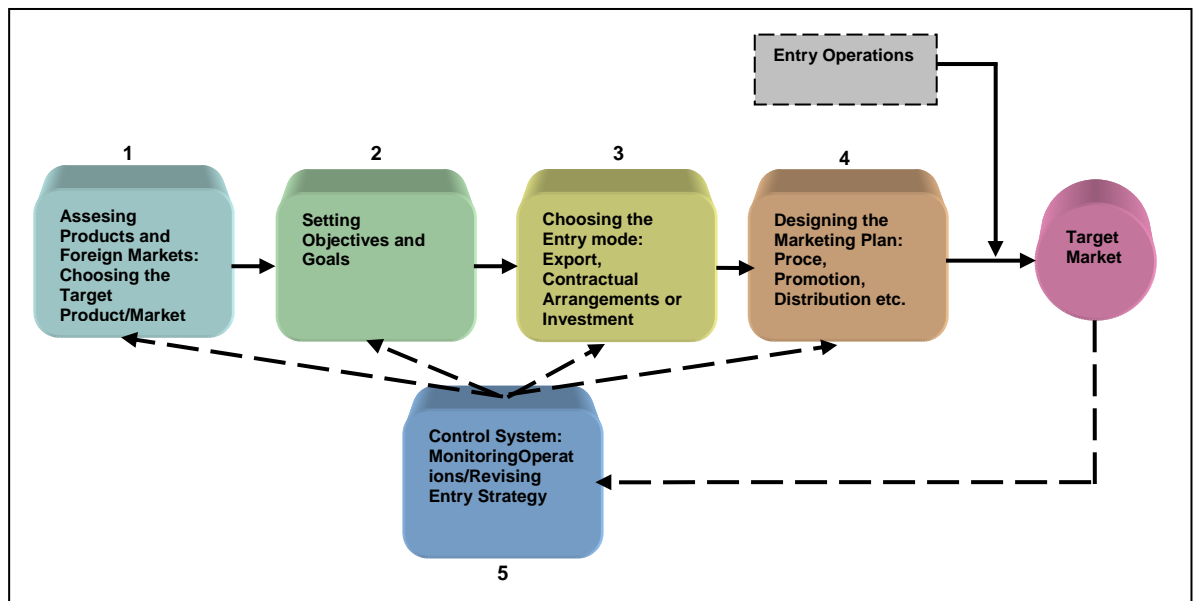


Figure 3 The elements of an international market entry strategy (Root 1994:4)

The concentration in this thesis is in box number 3; Choosing the entry mode. An international market entry mode is an institutional arrangement that enables a company to enter into a foreign country (Root 1994:5). In the next section different forms of entry modes and the factors affecting the decision of choosing and entry mode will be introduced.

3.2 Entry modes

There are three types of entry modes. Export entry modes deal with importing and exporting physical products from a country to another. Contractual entry modes are long-term non-equity alliances between the company that wants to internationalise and the company in the target country. Investment entry modes are about acquiring ownership in a company that is located in the target country. (Root 1994:6-7).

According to Karhu (2001:6-7) there are seven contractual modes: Project exporting, management contracts, licensing, franchising, contract manufacturing, company cooperation and counter purchase and three Investment entry modes; joint venture, foreign unit, portfolio investing.

3.2.1 Export entry modes

Export entry modes are different from contractual entry modes and investment entry modes in a way that they are directly related to manufacturing. If a company's product is actually a service, then the company must find a way to practise the service in the target country as services can not be produced in one country and be exported to another. In order to do exporting or importing the company is required to have physical products (Root 1994:7, 14).

As Hermia Business Development does not have physical products, none of the export entry modes can be the form of internationalisation, and will not therefore be discussed in this thesis.

3.2.2 Contractual entry modes

Project exporting

An export project is a one-time-only type of project that has an economical dimension and that is determined by time, place, quality and estimated costs. The project is managed by an organisation, which can be established together with other parties, that has the resources and input to implement the project. The fact that export project is a one-time project separates it from continuous goods and service exporting. (Karhu 2001:139)

There can be several different companies as sellers in project exporting. Most commonly one of them takes the responsibility of carrying through the project. The advantage of project exporting is the possibility of combining expertise and capacity of different companies working in different areas. (Immanen 1986:29)

Project exporting is most common in building constructing and production technical industries. Export projects can be either partial projects or turnkey projects. In partial project only a part of the parts needed for the whole project are handed over. In turnkey projects the responsibility starts from planning and ends when the product is delivered as a whole. (Karhu 2001:140)

Implementing wide and long-time turnkey projects requires versatile know-how and extensive financial and operation resources from the company. In reality implementing turnkey projects is only possible for big companies. (Karhu 2001: 143)

Project exporting is an entry mode that is used by manufacturers of goods, not services.

Management contracts

In a management contract the export company offers to govern the company for a compensation from the foreign contract party (Immanen 1986:29). Contract may also, instead of the whole company, only concern a separate project or a partial sector of business activities. Management contract entry mode differs from licensing in a way that the personnel of the seller organisation move to the buyer organisation and management operations usually take place in buyer organisation's premises (Karhu 2001:162).

The management contract is however limited to certain procedures. Usually the management contract allows the company to manage its day-to-day operations, but the contract does not give the company the authority to make new capital investments, assume long-term debt, decide on dividend policy, initiate basic management or policy changes, or alter ownership arrangements (Root 1994:114).

The motives for the buyer company for management contract can be for example the need to internationalise with limited resources, the aim to quickly establish own operations even though own know how is inadequate and there isn't enough time or resources to acquire know-how by doing. (Karhu 2001:166)

According to Root, a management contract can provide low-risk entry into a foreign target market, but income is limited to fees for a fixed duration of time. Management contracts can be seen as unsatisfactory as they won't allow the company to build a permanent a market position. Another thing is, that this form of entry can require time consuming negotiations and the commitment of inadequate management talent. However when combining management contract with other arrangements, such as joint ventures, licensing, franchising or project exporting, it can be seen as a better package for both parties (Root 1994:115, Karhu 2001:163).

Licensing

Licensing concerns a product or a method and selling of production and marketing rights of them. When using licensing as an entry mode, the exporter sells the right to manufacture or sell its products or services, on a certain market area, to the other party. Often the right is protected by a patent or some other intellectual property right. Based on the agreement, the exporter receives a onetime fee, a royalty or both. Licensing agreement's

content is usually quite complex, wide and periodic (Immanen 1986:23).

Besides the intellectual property rights, the licensing contract might also include turning-in unprotected know-how. In this case the licensor commits to give all the information that it has of a certain operation to the licensee. Licensing arrangements can vary a lot. In a typical licensing arrangement the core is patents and know-how, which can be completed by trademarks, models, copyrights and marketing and management know-how. In some more rare cases the core of licensing is marketing and it forms of the trademark and marketing know-how (Karhu 2001: 172-173)

Licensing contract are divided into three main types of licensing; product licensing, method licensing and representation licensing. The idea of product licensing is to agree on usage, manufacturing or marketing right of the whole product, a partial product, a component or a product improvement. The method licensing agreement turns in the right to use a certain manufacturing method or a part of it and also possibly the right to use model protection. Representation licensing agreement is usually done within two companies that are concentrated on project deliveries, in this case the contract will relate to for example projecting systems, sharing manufacturing and marketing procedures (Karhu 2001:173).

Licensing has several advantages. According to Root (1994:86) the most obvious one of them is avoiding import barriers. Another advantage is to make wanted profit quickly without big investments. Licensing also saves marketing and distribution costs, that are left for the licensee. Licensing also enables the licensor to get insight of licensee's market knowledge, business relations and cost advantages. Licensing can also cover the licensor company from economical variations happening in the target country's market. Licensing can also make it possible to gain income from those market areas that are outside the company's market areas, are located too distant or are communally unstable. Licensing is a noteworthy selection of a mode if exporting or establishing a production or sales unit is restricted to because of certain limitations. (Immanen 1986:23-24)

A company can not use licensing as an entry model unless in possess certain type of intellectual property right or the name of the company is of enough interest to the other party. A disadvantage of licensing is that the company's income from royalties is not as much as would be gained when manufacturing and marketing the product themselves. Another problem is that when the licensing agreement that after the licensing period the licensee can become company's competitor in the target country or on a third country's market (Immanen 1986:24, Root 1994: 87).

Franchising

Franchising is a form of licensing. In franchising, a company licenses its business system to another independent company or a person. The agreement authorizes the franchisee to do business under the franchisor's name, use a certain marketing style and marketing method as well as trademarks. (Root 1994: 109, Immanen 1986:25). The idea of the franchising chain is that all parties use the model in the same way. Because of the uniformity, the customer of the franchising chain may feel that he or she is dealing with one company that simply operates in several locations, when in fact the customer is dealing with economically and juridical independent companies that have even have different owners (Karhu 2001:193-194). Franchising agreement usually includes training and offers management services, as the operations are done in accordance with the franchisor's directions. Franchising has especially spread to areas, where certain selling style, name and the quality of service are crucial (Immanen 1986:25).

Franchising chains have different customs on how the payments are arranged. Usually when a company joins the franchising chain it pays a one-time joining fee. As the operation goes on, the franchisee pays continues service fees that usually are based on the sales volume of the franchisee company (Karhu 2001:194).

According to Root (1994:110) when franchising is chosen as an entry mode the main advantages are; the fast expansion to a foreign market with low capital expenditures, standardized marketing, motivated franchisees and taking of low political risk. The main disadvantages however are quite the same as in licensing, biggest one of them being the smallness of the gained profit. Also the lack of control and the creation of possible competitors are important disadvantages. The governmental restrictions towards franchising should also be taken into account.

Internationalisation through franchising can be seen as a good option if the company wants to expand, but it does not want to invest into the country, its products cannot be exported and the business system can be easily transferred (Root 1994:110).

Contract manufacturing

Contract manufacturing agreement is an agreement between the exporter and the manufacturer. The manufacturer manufactures exporter company's products that are labelled or named

according to the exporter company. For this the manufacturer receives payment. The exporter markets its products into its home country, the manufacturing country or into some other country. (Immanen 1986:25)

Contract manufacturing is a good choice of an entry mode when the foreign company has the ability to manufacture the products with lower expenses than the exporting company is able to. This offers the company an advantage to improve its competitiveness. As the exporting company's resources are tight into manufacturing it is able to concentrate on the core processes (Karhu 2001:213). Contract manufacturing also requires only small financial commitment and enables a quick entry to the target market. Contract manufacturing allows the company to have control over marketing of the product (Root 1994:113).

The problem with contract manufacturing is finding a suitable manufacturer, when considering the technical level, volume level and the level of quality. Contract manufacturing also includes the risk of creating a competitor (Root 1994:113).

Company Cooperation

Company cooperation can take any form of international business operations. Company cooperation is about business operations taking place in a company network. Company cooperation has a growing value from strategic and operational point-of-view (Karhu 2001:217).

Company cooperation agreements can for example refer to common distribution, common purchases, common marketing, exchange of product ideas, exchange of commercial knowledge and management knowledge (Immanen 1986:26). In other words company cooperation is networking, and networking can be done in different levels. Company cooperation agreement can also be applied to acquiring information by for example establishing a common information acquisition unit. (Karhu 2001:219).

Cooperation agreements can be done as such, or they can complement some other form of entry. They are for example quite common to be done together with joint venture agreements or licensing agreements (Immanen 1986:26).

Counterpurchase

Counterpurchase is a more complicated purchase transaction than a basic purchase. Counterpurchase includes exporting, importing and financial arrangements. The core of

counterpurchasing is that not only are goods traded for money, but goods are traded for goods as well. Usually counterpurchase happens so, that for the sold good the company receives goods, services or financial payments or a combination of these.

There are 5 different types of counter purchases: Barter; which is a trade of goods. Compensation agreement; one party selling production technology receives goods manufactured with this technology by the other party. Clearing; through a clearing account barter system both parties' debts for each other are counted to the account. Offset; a long term arrangement including for example subcontracting, common production and licensing (Karhu 2001: 229-232)

3.2.3 Investment Entry Modes

Joint Venture

Joint venture as an entry mode means that two or more parties start an organisation that is based on cooperation agreement or partnership agreement. At least one of these parties must be from another country than the rest and the location of the company must be outside of at least one party's home country (Karhu 2001:241).

There are two types of joint ventures. One type is non-equity joint venture, or in other words consortium. This type of joint venture is implemented in specific projects or they are otherwise limited. They are most commonly used carrying out projects like building-planning and R&D projects, where the task are done among the consortium and the results are used among the parties of the consortium or within the joint venture. The need for this type of joint venture might be in inadequacy of own resources or the unwillingness to tight so much resources in one project or the aim to include a competitor (Karhu 2001: 243-245).

Most commonly however a joint venture is seen as a partnership agreement joint venture that can be an equity joint venture or a concentrative joint venture. It is usually determined to be a limited or a joint-stock company that was started for a specific purpose (Karhu 2001:247). This type takes place when companies share the ownership of a joint company in the target country. The international company agrees to share capital and resources with a local company for a common operation. Depending on the equity share Joint venture can be majority, minority or 50-50 venture (Root 1994:146). The time continuation in this type of joint venture is not limited, but instead it is expected to continue along.

The main advantage of this kind of joint venture is that sharing risk makes it possible for the company to expand faster, compared to a solely owned daughter company. The advantages can be seen as a greater market share as well as in cost efficiency. By combining companies' know-how and resources a more efficient entity can be created than companies would be able to create on their own (Karhu 2001:248-249). Also, for a smaller company a joint venture can offer the possibility to have special knowledge or to use resources more effectively (Immanen 1986:28).

However, Joint venture just as any form of entry mode has its disadvantages as well. There might be problems with dividing costs between the parties, division of work, estimates of the required new investments and all kind of cooperation; after all it is rare that the cooperating parties' interests would be quite the same. (Immanen 1986:28). This is why the selection of partner is essentially important. According to Root (1994:149) once the company has decided that joint venture will be their entry mode of internationalisation they must perform an evaluation process; they must draw up a joint venture profile that will describe the characters of the candidate, then they must identify the possible candidates and after that start the negotiations.

Foreign unit

Starting up a foreign unit is the entry mode that requires most economical and operational resources. There are two types of units. There is so called representative office, whose task is to support and assist the parent company's operations. The unit is legally an inseparable part of the parent company. The other form of a foreign unit is a subsidiary company also known as daughter company. A subsidiary company is a registered in the country where it is positioned, it has its own bookkeeping and it is under the regulations of the country where it is located. The task for the foreign unit can be for example procurement, distribution, sales, service, research and development, technology transfer, financing operations or assembling (Karhu 2001:253-254).

According to Immanen a foreign unit can: Grow the company, assist in avoiding customs duties and limitations, utilise different advantages offered by trade and customs organisations, take advantage of the financial benefits of the target country and achieve a central position (Immanen 1986:32).

There are three different ways of internationalising through a foreign unit. One way is acquisition, which means buying an already existing company. The transaction can be a simple

purchase that in return the seller receives money, bonds, stocks or other property. Or it can be a merger, where the two companies are merged together. The other way is to start a totally new company in other words doing a greenfield investment. This means starting a new company to the target market that will start operating as the company's daughter company. Because of these major movements, a foreign unit entry mode is the most demanding entry mode of all. It requires sizable investments and the company takes all of the risk. There might also be problems with requiring workforce and forecasting demand potential. (Karhu 2001:278, 269-270), Because of the size of the investments this form of entry suites best to larger companies.

Portfolio Investing

Portfolio investment is in foreign shares, mutual fund units, bonds or money market paper. If the investor's ownership share or voting volume in a foreign company is 10% or more, the investment is classified for statistical purposes as direct investment. (http://www.bof.fi/eng/5_tilastot/5.2_Tilastojulkaisut/Arvopaperisijoitukset/lmf2004en.pdf)

Portfolio investing as a form in internationalisation means investing in one or several foreign targets. Investing can be done from the home country of through a foreign unit. The core goal of international portfolio investing is to gain the best possible profit for the investments (Karhu 2001:284).

Investing can be done from a home country, especially by taking advantage of the internet and companies providing investment services. Starting up a foreign unit that does investment operations is a realistic choice only for big companies. SMEs do not usually have the enough operational resources for administrating international investments. Another point is that having local assistance in target country will cause costs. There are also economical limitations for SMEs to do international portfolio investing (Karhu 2001:292,294).

3.2.4 Factors influencing the entry mode decision

There are two different types of factors that affect to the selection of an entry mode. There are external factors that deal with market, production and environment issues in the target country and in the home country. Internal factors are about the company's ability to respond to external factors (Root 1994:8, 13).

In order to be able to know what to research, one must be aware of these affecting forces. Figure 4 below describes there factors.

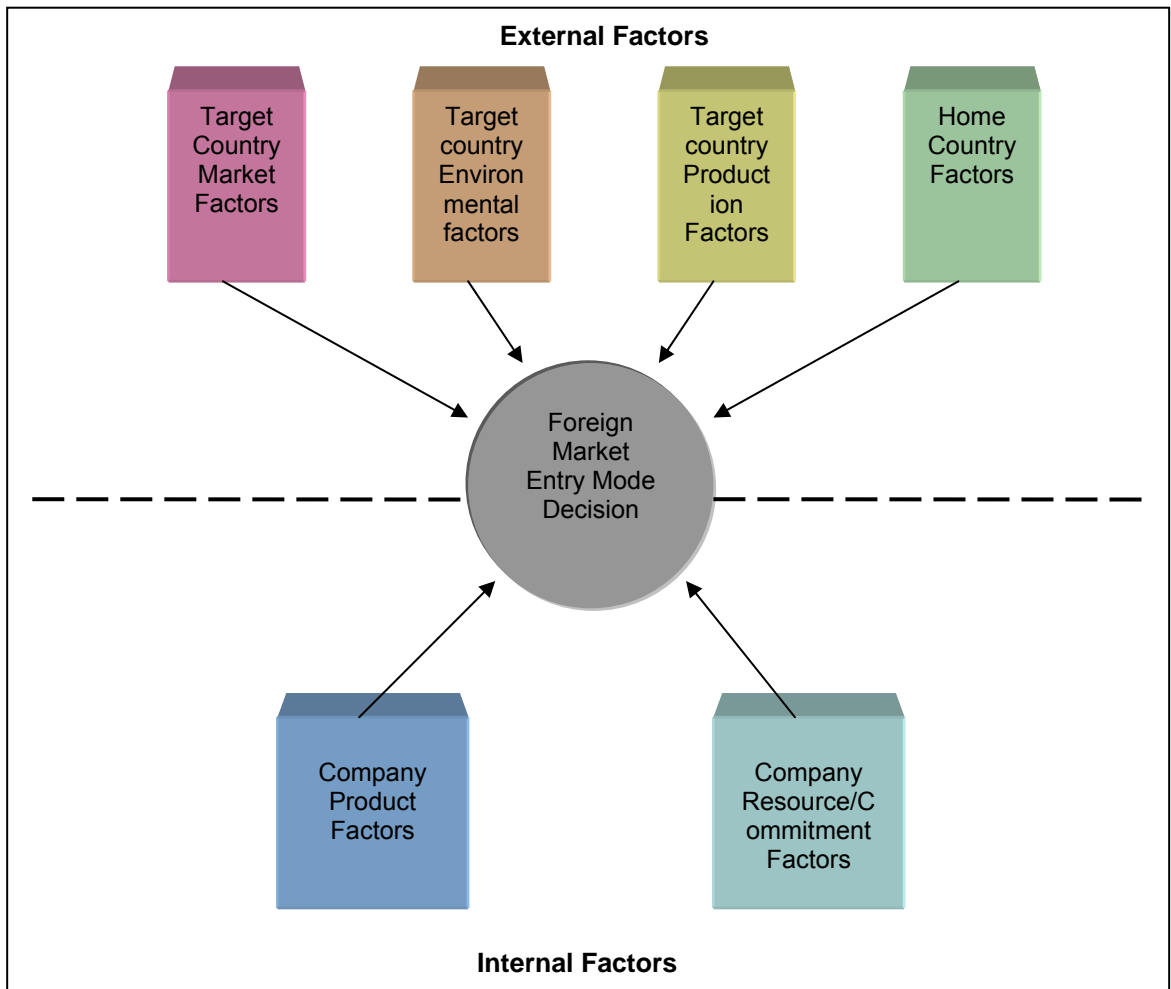


Figure 4 Factors in the entry mode decision (Root 1994:9)

3.2.4.1 External Factors

Target country market factors

The size of the target country's market is one factor. The amount of demand is based on to the amount of potential customers and their ability and willingness to buy a company's products. If the market demand is low, it is usually more inexpensive to internationalise through exporting then investments. However, having a unit abroad can offer a possibility of creating demand. Besides this, it enables the company to effectively receive information from the market and makes future decision making easier. Investment modes can also gain substantial competitive advantage (Karhu 2001:27-28).

Market factor is the competitive structure of the target market. A market can be atomistic (many nondominant competitors, oligopolistic (a few dominant competitors) or monopolistic (a single competitor). Oligopolistic and monopolistic markets require

investment entry modes. An atomistic market can be also entered through export entry modes (Root 1994:8-9). The basic idea is that if the competition is tough, investment entry modes such as joint ventures or foreign units are the best way of competing (Karhu 2001:28).

The last market factor is marketing infrastructure. This means that are there possible local agents of distributors in the target country that the company could do operations with. If there aren't any then the market can be only reached through foreign unit entry mode (Root 1994:9).

Target country production factors

Target country production factors deal with the production of the product such as the quality, quantity and cost of raw materials, labour, energy, transportation, port facilities and communications. If the production costs are low in the target country, they encourage some form of local production instead of exporting modes (Root 1994:10). As these factors are directly related with production of goods, they are not an influencing factor for Hermia Business Development because Hermia Business Development offers services not physical products.

Target country environmental factors

Environmental factors include government policies and regulations, geographical factors, economical factors and sociocultural factors. Government policies and regulations are important factors when selecting an entry mode. If the country has restrictive import policies such as high tariffs, it discourages export modes and favours other modes. Then again if the country has a strict equity investment policy it discourages equity investments. However, country can also attract foreign investments with certain incentives (Root 1994:10).

Geographical factors also influence the decision. If the geographical distance between the countries is wide, it affects the transportation cost, which then increases the cost of the product and will decrease the product's competitiveness (Root 1994:10).

Economical factors have several aspects. One of them is the absolute level of performance, which determines the size of the market. It can be measured with the gross national product of the target country. The level of dynamics of the target market affect as well: The rate of investment, the growth rate of gross national product and personal income and employment. Dynamic economies encourage modes with equity investment, even if the

size of the market is low at the moment (Root 1994:10-11). Another economical aspect is taxation. If the taxation is lower it attracts foreign investments (Karhu 2001:30).

Sociocultural aspect of the environmental factors is about the cultural distance between the home country and the target country. If there is a big difference between the cultures, the proper entry modes can be export modes, licensing, franchising and company cooperation. However these affect on the company's commitment. Foreign investments are also possible, but they require a lot of attention in integrating the cultures (Karhu 2001:32).

Home country factors

The size of the market in the home country is one factor. If the home market is small, companies are more interested becoming international. The competitive structure of the home market also affects; companies in oligopolistic market structure tend to internationalise through entry modes and companies in atomistic through export and contractual entry modes. If the competitors go international it often increases the need of the company to become international as well. High production costs in the home market favour entry modes that have to do with foreign manufacturing. Also governmental regulations in the home country affect. If the government offers incentives for exporting, contractual modes are favourable (Root 1994:12-13).

3.2.4.2 Internal factors

Product factors

Product factors are about the characteristic of the company's product. How the product is differentiated affects its pricing and therefore to the entry mode decision. If a product is highly differentiated an export entry mode is a good solution, if however it has low differentiation contract manufacturing or local investment is a better choice. Also the amount of demand of pre and-post purchase services affects. If the required amount is high, local production or a subsidiary is a good choice. However, if the company's product is a service it cannot be exported and must therefore be performed in the target country. This can be done through contractual entry modes like franchising or setting up a company such as subsidiary or a joint venture in the target country (Root 1994:13-14).

Resource and commitment factors

Resource and commitment factors consist of economical and operational resources. If the company's resources are adequate for internationalisation it has more entry modes to choose from. If the resources are limited the company should concentrate on those modes that require less commitment. High-commitment companies, despite the size of the company, are more likely to choose one of the equity entry modes. (Root 1994:14).

4 The Target Country

4.1 Characteristics of Latvia

Latvia is one of the three Baltic countries that gained independence after the collapse of the soviet empire. The country of Latvia is developing on a fast speed into free market economy and becoming closer to the Western-European countries. Below are some facts about Latvia:

Area:	64,589 sq km
Border countries:	Belarus 141 km, Estonia 339 km, Lithuania 453 km, Russia 217 km
Natural resources:	peat, limestone, dolomite, amber, hydropower, wood, arable land
Population:	2,290,237 (July 2005)
Languages:	Latvian (official) 58.2%, Russian 37.5%, Lithuanian and other 4.3%
Religions:	Lutheran, Roman Catholic, Russian Orthodox
GDP:	10, 96 billion EUR (2004)
GDP Growth rate:	8,5 (2004)
GDP per capita	4215 EUR (2003)
Labour Force:	1, 17 million
Unemployment:	8,6% (2004)
Acc. FDI:	2,8 billion EUR (2003)
Acc. FDI per capita:	1 186 EUR (2003)

(<http://www.cia.gov/cia/publications/factbook/geos/lg.html>)

(<http://www.finpro.fi/fi->

[FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Maaprofilii.htm](http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Maaprofilii.htm))

(Latvian Business Guide 2004:7,14)

4.1.1 Short History

The city of Riga was established in 1201. In the year 1270 crusaders established the Liivimaa state to the region where Latvia and Estonia exist today. In 1282 Riga became an important Hansacity in the Baltic Sea region. In the war between Poland and Sweden (1558-1583) Liivimaa was divided between them. In the beginning of 16th century Latvia became part of Soviet Union Empire. Latvia declared its independence in 1918 and the independence was acknowledged by the League Of Nations in 1921. In 1940 Latvia became part of Soviet Union again in 1940 through the Molotov-Ribbentrop-agreement. German armies occupied the nation from 1941 to 1944. Of the 70,000 Jews living

in Latvia during World War II, 95% were massacred. In 1944, Russia again took control of Latvia.

Latvia was one of the most economically well-off and industrialized parts of the Soviet Union. When a coup against Soviet president Mikhail Gorbachev failed in 1991, the Baltic nations saw an opportunity to free themselves from Soviet domination and, following the actions of Lithuania and Estonia, Latvia declared its independence on Aug. 21, 1991. European and most other nations quickly recognized their independence, and on Sept. 2, 1991, President Bush announced full diplomatic recognition for Latvia, Estonia, and Lithuania. The Soviet Union recognized Latvia's independence on Sept. 6, and UN membership followed on Sept. 17, 1991. In 1992 Latvia joined IMF. In 1994 Latvia Signed NATO Friendship and Cooperation agreement and the free trade agreement with EU. In 1998 Latvia became a member of WTO. In December 1999 Latvia was accepted was accepted into EU membership negotiations. In 2004 Latvia became a member of NATO and it joined European Union.

(<http://www.infoplease.com/ipa/A0107706.html>)

(<http://www.finpro.fi/fi->

[FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Maaprofiili.htm](http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Maaprofiili.htm))

4.1.2 Cultural environment

Latvia has been the battlefield of many wars and result to that many features from different cultures have left their mark. The population in Latvia is 58.2% Latvian, 29.2% Russian, 4.0% Belarusian, 2.6% Ukrainian, 2.5% Polish, 1.4% Lithuanian, 0.5% Jewish and 1.6% other nationalities (<http://www.li.lv/en/?id=3>).

History with Soviet Union is more visible in Latvia than it is in other Baltic countries. The reason for this is the amount of people with Russian origin in Riga. (Helsingin kauppakorkeakoulu: Suomalaisten yritysten kansainvälistyminen Baltiassa ja investoitikokemukset Virossa 2005:7)

The cultural unity between Finland and Latvia is not as tight as between Finland and Estonia. Since the times of Hansa, Latvia has been more closer with mid-Europe than with northern Europe. Another factor is, that there is not unity with languages, as there is with Estonia. (Helsingin kauppakorkeakoulu: Suomalaisten yritysten kansainvälistyminen Baltiassa ja Investoitikokemukset virossa 2005:7)

It is important to pay attention to the development process happening in Latvia. Transfer from socialistic society into democratic state and free market economy. There are changes everywhere; peoples attitudes towards themselves, to other people, to their work. New kind of society relationships are forming as well as development of schooling system, social care, defense, infrastructure, library network and everything that has to do with everyday life (Suomen lähialueet: Latvia raportti 1999: 42-43).

Mentalities of Latvians and Northern Europeans are quite similar and they both base their lives to similar type of values (Suomen Lähialueet; Latvia Raportti 1999: 42)

One thing that brings the cities of Tampere and Riga closer together is the easiness of travelling. On 31.10.2004 a cheap-airline Ryanair opened a new route between Tampere and Riga. The route has been popular and it has successfully exceeded its goals of passenger amounts. This enables fast, easy and cheap access from one city to another.

(<http://www.ryanair.com/site/FI/news.php?yr=05&month=nov&story=pro-fi-021105>)

4.1.3 Business Climate

Economical situation

During the first years of independence (1991-1992) GDP decreased strongly, but in 1993 it already started slightly growing. The economic growth was slow during years 1995 (Latvian Baking crisis) and 1999 (Russian economic crisis), but after that the growth has been 6,5-8 percentage a year. The growth has been quite strong, considering that demand in EU area in the beginning of the century was weak and the state of the world economy was uncertain.

According to the Latvian Central Bank, in year 2004 gross domestic product grew 8,5 percentage from the previous year. The growth was the highest in the whole EU area. Most economic sectors reached high growth rates. Economic growth has continued strong in the first half of 2005, although it has slowed down slightly. In the first quarter of 2005 the GDP had grown 7,4 percentage from the level of GDP in the first quarter of the previous year. Most economic growth came from retail and building sectors. In the second quarter of 2005 retail slightly slowed down, but industrial production grew stronger than expected. As Latvian industry mainly produces for importing, the growth of industry is a good sign considering the development of importing.

In the following years the growth of GDP is expected to slightly slow down from the level of 2004 but to still keep pace in 6,5 percentage yearly growth. As the growth of employment slows down and the growth of wage level slows down, the private consumption will evidently also slow down. Then again, investments in EU-projects are still growing strongly and creating a base for the growth of up coming years. Import will grow especially to IVY-countries and other Baltic states and compensates weaker growth in the EU markets. On the other hand, import will keep on growing strong.

(<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Talous.htm>)

Industry

The main industries in Latvia include: buses, vans, street and railroad cars, synthetic fibres, agricultural machinery, fertilizers, washing machines, radios, electronics, pharmaceuticals, processed foods and textiles which are all dependent on imports for energy and raw materials.

The amount of exports in 2004 was 3,2 billion euros. The export commodities are wood and wood products, machinery and equipment, metals, textiles, foodstuffs. Major export partners are UK 12.8%, Germany 12%, Sweden 10%, Lithuania 9.1%, Estonia 8%, Russia 6.4%, Denmark 5.4%

The amount of imports in 2004 was 5,4 billion euros. Import commodities include machinery and equipment, chemicals, fuels and vehicles. The major import partners are Germany 13.9%, Lithuania 12.2%, Russia 8.7%, Estonia 7%, Finland 6.3%, Sweden 6.1%, Poland 5.4%, Belarus 4.8%

(<http://www.cia.gov/cia/publications/factbook/geos/lg.html>)

(<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Ulkomaankauppa.htm>)

Strengths and weaknesses of the Latvian Market

Positive characteristics

- Closeness to Finland
- Intensive growth of the economy
- Lowest labour costs in EU
- Functioning infrastructure
- Educated workforce, interest towards foreign employers

- Finland has a visible position in Latvia

Negative characteristics

- Trade shortfall is still growing
- Dependent on import energy
- Level of production and level logistical efficiency are low
- Common price level is growing and affecting salary development
-

According to Finpro, Finnish companies have potential especially in the following fields in Latvia:

- IT is a strongly developing sector in several fields
- Development figures in building and material trade will be big in the future as well
- EU funded project will govern infra- and environmental sector in following years
- Mechanical wood refining is at the beginning of its development
- Wealthier inhabitants concentrate on external visibility
- Health sector is becoming private, procurement of the equipment is on the way
- Finnish travelling is increasing

(<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Liiketoiminta.htm>)

Labour force

The labour force in Latvia is well educated and professional. In Riga and other major cities acquiring work force in some fields, might even prove to be problematic. Also finding administrative staff and marketing staff with high level of experience and professionalism might be hard, but the amount of Latvians acquiring their education abroad is growing all the time. Outside Riga, it is easier to acquire work force. In the year 2004 work force included were over million Latvians.

Table 1: Labour force by sectors in 2004 (Central Statistical Bureau of Latvia, 2004, <http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Talous.htm>)

Sector	Share %
Industry	16,1
Retail, hotel and restaurant sector	14,9
Agriculture and wood processing, fishing	13,0
Logistics, transportation, telecommunications	9,4
Building sectors	8,5
Other service sectors	38,1

Wages are rising, especially for the high educated young work force. Even so, labour costs are low compared to western countries. In the last quarter of 2004, the average gross wage was 230 latis (about 327,26 euros) and the net wage 164 latis (about 233,35 euros). After taxation the net wage for 15,7 percentage of the work force was 73 latis a month, for one fourth of the work force the wage was 73, 01-100 latis, for one fifth it was 100,01-150,00 latis, for 16,2 percentage of the work force it was 150, 01-200,00 latis and for 9,5 percentage it was 200,01-300 latis. Because of the low wage level, several people have two jobs.

By the end of 2004 the amount of unemployed people was 8,5 percentage of the work force and by the end of March 2005 it was 8,6 percentage. The amount of unemployment varies greatly by areas; in the countryside the number is lowest. Unemployment is more common among the Russian minority than among Latvians. The most unemployment appears in Eastern part of Latvia, such as the areas of Rezeknen, Ludzan, Balvin, Daugavpilsin, Preilin and Kraslavan

(<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Talous.htm>)

4.1.4 Restrictions and benefits

The position and rights of foreign investors are defined by Latvian law from year 1991. According to the law domestic and foreign investors are treated the same way, although there are some restrictions regarding foreign investments.

Acquiring major stock ownership in a company, whose shares are worth over 1 million US dollars must be accepted by the ministry council. There isn't any defined industry that foreign investments would be forbidden from, but foreign investors can not be major owners of companies operating in the following sectors: Defence industry, weapons, explosives, bonds, paper money, coins, stamps and media. There are also some restrictions concerning thinning out forests.

Receiving foreign investments is important for the development of the economy, which is why the government has accepted certain advantages in order to appeal to foreign investors. One advantage is that companies who implement state supported investment projects receive 40 percent tax discount of the worth of the whole investment. Another advantage is that high-tech companies receive 30 percent tax discount and SMEs 20 percent tax discount.

Latvia also has the following special economic areas and free trade harbours: Ventspils Freeport, Riga Freeport, Liepaja Special Economic Zone and Rezekne Special Economic Zone.

Foreign investments in Latvia are coordinated by the Latvian Investment and Development Agency that for example assists in guiding foreign investments with business possibilities and partnerships.

(<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Ulkomaankauppa.htm>)

4.1.5 Funding of early stage companies

As Hermia Business Development is planning to seed fund as part of its service portfolio, it is important to research the early-stage companies' funding market in Latvia.

Bank funding

Some of Latvia's largest banks offer lending programmes for newly established companies. Hansabanka offers an opportunity loan that requires real estate as security for the loan. The amount of the loan can reach up to 30 000 Latis. Hipoteku un Zemes Banka offers a credit program that does not require such large security. Also Latvijas Unibanka offers an entrepreneur loan with lower requirements. Some other banks may also grant a loan, but it is not specially targeted for entrepreneurs. Some banks have specific industries into which they will not finance. These include

agriculture, transport or unethical deeds such as gambling and war material. (Borzovs, Brils 2005:15)

Venture Capital

There aren't many venture capital funds in Latvia, an even less of those funds which invest in start-up companies. Venture capital funds in Latvia prefer to invest in mature, conventional companies instead of innovative start-ups because of the related risks. The actual supply of financing for innovative early-stage companies is only a small portion of the investment portfolios. Venture Capital funds in Latvia include European Bank for Reconstruction and Development, Baltcap Management Ltd, Small and Medium Enterprise Support Fund, Entrepreneurship State Support Fund, LHV Securities, Alina Ltd, Eko Investors, Aureus Investment, Baltic Small equity Fund and New Century Holdings. It is important to notice that there is no actual seed fund in Latvia (Borzovs, Brils 2005:15, 18, 19, 25).

State policies

The state programs can be divided into two fractions: The business incubators, which operate to reduce costs of the companies and other programs which provide financing for innovative start-up companies for product development and marketing (Borzovs, Brils 2005:26).

Incubators and the Lida's Support for development of new products and technologies -program are targeted to support innovations. State Regional Development Agency's coordinates two programs that support any activity that is related to acquisition of fixed assets in especially supported territory; Interest rate subsidies and development of enterprises in especially supported territories. Loan guarantees for enterprises -program supports any enterprises in need of bank loan (Borzovs, Brils 2005:25-26).

Supply and demand of funding

According to Borzovs and Brils research (2005:32), most venture capitalists, business angels and banks in Latvia agree that there are more funds available for financing innovative start-up companies than is the demand of suitable investment targets. This means that the amount of companies that fill investors' requirements is low. The research also states that there is a market gap for small-sized investment projects. Besides some business angels, Eko Investors and Entrepreneurship State

Support Fund are the only capital funds that consider investments less than 100 000 latis (Borzovs, Brils 2005:32).

4.1.6 Finnish companies in Latvia

The interest of Finnish companies towards Latvia can be measured by the amount of investments. In the year 2003 Finland was the fourth largest foreign investor in Latvia. The number of investments is greater in Latvia than in Lithuania. The biggest foreign investor from Finland has been Sonera. Besides this also Fortum, Stora Enso and Kesko have done remarkable investments. (Helsingin kauppakorkeakoulu: Suomalaisten yritysten kansainvälistyminen Baltiassa ja investoitikokemukset Virossa 2005:2,5)

In the end of 1980's few Finnish companies started to operate in present Latvia. The trade wasn't remarkable because of Latvia's production structure; during the Soviet Union times Latvia had concentrated on light industry, which wasn't very interesting from Finnish companies' perspective. In 1989 Latvia received the right for frontier trade. This improved the situation as it made possible to have direct trade between the countries. It also increased the market orientness of the Latvian companies, as before they hadn't had real contact with the market. Finnish companies have faced more difficulties with business operations than in Estonia. Most commonly there has been problems with the attitude of government and local administration and lack of cooperation interest (Helsingin kauppakorkeakoulu: Suomalaisten yritysten kansainvälistyminen Baltiassa ja investoitikokemukset Virossa 2005:14,15, 56)

In 1995 Latvia's most remarkable business bank, Banka Baltija, got in difficulties caused by lack of capital. It is likely that this banking crisis also restrained Finnish investments. The first Finnish banking and service sector company that started in Latvia was insurance company Sampo in 1988. In the end of 1997 Merita Pankki Oy, Finfund and Northern investment bank started a consortium, whose aim was to get Merita share of Latvia's Investments bank. In 1999 it expanded its operations into private customers as well. Stimulus for this action was Merita's experience in Estonia. (Helsingin kauppakorkeakoulu: Suomalaisten yritysten kansainvälistyminen Baltiassa ja investoitikokemukset Virossa 2005:56)

Finnish exporting in Latvia has grown slowly, compared to Estonia. But importing from Latvia has increased more intensely. In year 2004 exporting grew 5,9 percentage. Finnish exporting is concentrated mainly into machinery and equipment as well as paper and cardboard. Export structure hasn't really changed in the past years, In 2004 Importing from Latvia grew 20,6 percentage from the previous year. The most important import products are wood, cork, clothing, iron, steel and furniture (<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Ulkomaankauppa.htm>).

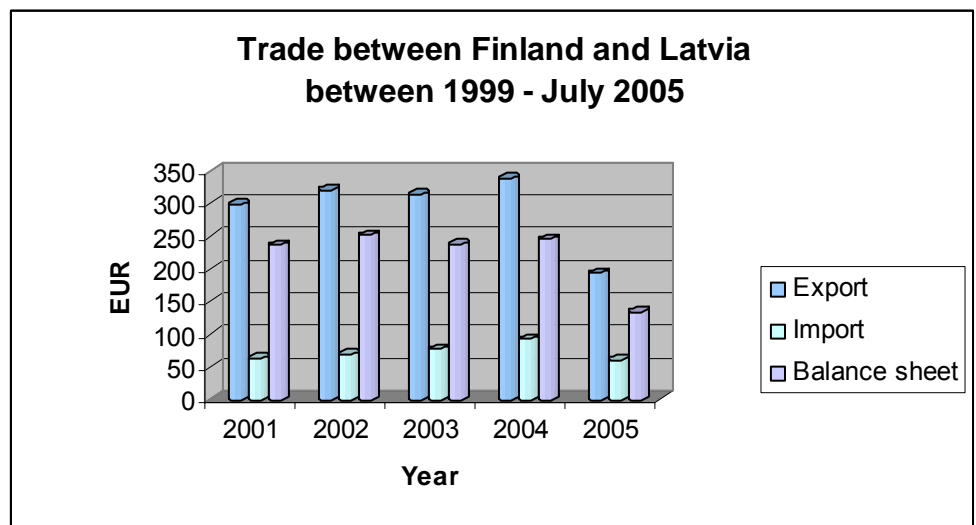


Figure 5 Trade between Finland and Latvia (<http://www.finpro.fi/fi-FI/Market+Information/Country+Information/EU+Countries/Latvia/Maaraportti/Ulkomaankauppa.htm>)

The figure 5 deals with the trade between Finland and Latvia from Finland's perspective. The figure describes the flow from January 1999 to July 2005 so year 2005 is only half way through.

4.2 Education and research

Because of the type of business Hermia Business Development does, it does a lot of cooperation with universities. Therefore it is important to have knowledge about the higher education of the area. First, the educational status of Latvia, to give an understanding of what higher education is like in Latvia, is described. After that the institutions of the area will be introduced.

According to Latvian investment and development agency, Latvia has the second highest per capita ratio of students in Europe after Finland. (http://www.liaa.gov.lv/eng/invest/business_guide/HR/)

This indicates the inflow and availability of new specialists in the labour and intellectual capacity markets.

As a result of an underestimation of needs for some social science subjects, like business and law, during the Soviet period, and the resulting shortages in specialists, these subjects have become the most popular with students in recent times. However, the natural sciences and technology, particularly IT and applied technologies, are currently experiencing increased demand, as a direct result of the need for these skills in the expanding industrial sector. (http://www.liaa.gov.lv/eng/invest/business_guide/HR/)

Below is a table of University/Collage students by field of studies in Academical year 2002/2003

Table 2 Student by field of studies
(http://www.liaa.gov.lv/eng/invest/business_guide/HR/)

Field of studies	Number of students	%
Social Sciences, Business & Law	68822	53,91
Educational Sciences	21381	16,75
Engineering & Technology	19547	15,31
Humanities and Art	8287	6,49
Health & Welfare	3466	2,72
Natural Sciences and Math	2462	1,93
Services	1926	1,51
Agriculture	1765	1,38
Total	127656	100

Below is a table that states the number of Students in Selected Engineering/Technology Programs in Academical Year 2002/2003

Table 3 Students of engineering and technology
(http://www.liaa.gov.lv/eng/invest/business_guide/HR/)

Field of studies	Number of students	%
Computer science	5787	29,9
Electronics & Automation	3246	16,8
Mechanical Engineering	3165	16,3
Building & Civil Engineering	3142	16,2
Architecture & Spatial Planning	771	4,0
Food Technologies	636	3,3
Chemestry and Materials Science	706	3,6
Biology	549	2,8
Wood Processing Technologies	434	2,2
Transport & Logistics	117	0,6
Other Engineering Science	460	2,4
Total	19375	100

There are Universities in Latvia and other high-education institutions like colleagues. The main interest for Hermia Business Development is in those institutions that do research.

4.2.1 Universities and research institutes

University of Latvia

The University of Latvia named at that time "The Latvia Higher School" was founded in 1919 on the basis of the former Riga Polytechnic (founded in 1862). In 1923 this school received its now resumed name - the University of Latvia. In the course of time such higher educational establishments as Latvian University of Agriculture, Latvian Academy of Medicine, Riga Technical University separated from the University of Latvia and became centres of education and research of their own. The University of Latvia is the first classical university in Latvia, providing study and research opportunities in the humanities, the natural sciences, the social sciences, and the fields of education and medicine. (<http://www.lu.lv/eng/index.html>)

Below are the research institutes of University of Latvia. As Hermia Business Development's focus is on technology, the most interesting one of them is institute of electronics and computer science.

Table 4: Research institutes of University of Latvia
<http://www.lu.lv/eng/general/structure/institutes/index.html>

August Kirhenshtein Institute of Microbiology and Virology	Institute of Human Rights
Biomedical Research and Study Centre	Institute of International Relations
Institute for Environmental Science and Management	Institute of Literature, Folklore, and Art
Institute of Accountancy	Institute of Marketing and Quality Management
Institute of Aquatic Ecology	Institute of Mathematics
Institute of Astronomy	Institute of Mathematics and Computer Science
Institute of Atomic Physics and Spectroscopy	Institute of Microbiology and Biotechnology
Institute of Biology	Institute of National Economy
Institute of Chemical Physics	Institute of Philosophy and Sociology
Institute of Electronics and Computer Science	Institute of Physics
Institute of Experimental and Clinical Medicine	Institute of Polymer Mechanics
Institute of Finance	Institute of Postgraduate Medical Education
Institute of Geodesy and Geoinformatics	Institute of Solid State Physics
Institute of Geology	Latvian Language Institute
Institute of History of Latvia	

Riga Technical University

Riga Technical University (at the time named Riga Polytechnical institute) was established in 1958, when it separated from the University of Latvia. The growth of the University was fast, as in only 5 years from its establishment the number of students had tripled from 3000 to 9000.

Today there are 33 institutes, 43 departments, 48 divisions and 27 laboratories altogether in Riga Technical University. There are 17 000 students. Academic staff consists of 738 persons, including 200 professors. The research and development personnel is close to 450.

At present the university consists of the following faculties: Faculty of Architecture; Faculty of Building and Civil engineering; Faculty of Computer Science and Information Technology; Faculty of Power and Electrical Engineering; Faculty of Electronics and Telecommunications; Faculty of Engineering economics; Faculty of Material science and applied Chemistry; Faculty of Transport and Mechanical Engineering; Institute of Humanities; Institute of Languages; Scientific Library. Besides these, there is also an independent institution called the Research Institute of Inorganic Chemistry.

Riga Technical University has made research an integral part of the study process. Strategic aim of both fundamental and applied research is to analyse and find solutions of required social and technical problems. Success of these solutions depends on external university partners as well as co-operation between ideas and resources.

Riga Technical University offers its research potential for productive partnership and is ready to develop new research projects and programs. Administration of the university believes that economic entities of Latvia benefit from these research programs by creating new products or developing an innovation based technology and manufacturing. Their focus in research in the following years will be on engineering sciences, information technologies, organic chemistry, material sciences, architecture and engineering economics.

The administration of Riga Technical University feels that the University should strengthen the link between science and industry. Their goal of future activities is to bring industry closer to science. The mission of Riga Technical University is to promote innovation. (<http://omega.rtu.lv/en/index.html>)

Riga Technical University is quite interesting on Hermia Business Development's perspective as their main focus is on research,

development and innovation. Riga Technical University is already doing cooperation with the Latvia Technology Park. Riga technical University is one of the Founders of Latvia Technology Park. The Chairman of the Board in Latvia Technology Park Leonids Ribickis, is also the Pro-Rector of Riga Technical University.

Vidzeme University College

Vidzeme University College (Vidzemes augstskola) was established in 1996 by the city of Valmiera and 7 districts in the northern Latvian region of Vidzeme in order to stop the intellectual brain-drain from the northern region and to contribute to reforms in higher education in Latvia. The university college is situated 100 km north of Riga. There are only about 600 students in the university. Students study on 4 programs: Political Science, Communication and Public Relations, Business Administration and Travel and Tourism as well as a newly established Teacher Training program. (<http://www.va.lv/new/en/>)

The University does not have much interest in Technology or research; this is why it is not very interesting on Hermia Business Development side. It is also a quite small university so it does not have that much innovation potential.

Daugavpils University

Beginning with 1921 in Daugavpils the first pedagogical high-school in Latgale region starts its operations, later it was renamed as Teacher Seminary, in 1923 as Daugavpils State Teacher Institute, from 1952 it is known as Daugavpils Pedagogical Institute, but in 1993 it is awarded the status of the university. In 2001 the status of the Daugavpils Pedagogical University has been changed into Daugavpils University. Now, it is the second classical university in Latvia.

Nowadays Daugavpils Univesrity has become a significant education and scientific center especially in Latgale region. In the study year 2001-2002 there were the following faculties: Natural Sciences and Mathematics, Humanities, Pedagogy and Psychology, Music and Art, Social Sciences and Sports Pedagogy.

Daugavpils University is situated in the city of Daugapils, which is the second biggest city of Latvia. The distance between Daugavpils and Riga is about 230 km. As the university is so far away from Riga and it is not concentrated in Technology, it is not very relevant on Hermia business Development's perspective.

(<http://dau.lv/post/modules.php?op=modload&name=Sections&file=index&req=viewarticle&artid=112>)

Latvia University of Agriculture

Jelgava Academy of Agriculture was established in 1939. In 1944 the name was changed into Latvian Academy of Agriculture and in 1991 the institutions got its current name: Latvia University of Agriculture. Today there are 10 000 students in the university, which makes it the third largest university in Latvia.

University consists of the following faculties: Faculty of Agriculture, Faculty of Economics, Faculty of Engineering, Faculty of Veterinary Medicine, Faculty of Rural Engineering, Faculty of Food Technology, Forest Faculty, Faculty of Social Sciences, and Faculty of Information Technologies.

Latvia University of Agriculture is quite concentrated in research and owns several patents. It has 4 research institutes: Research Institute of Biotechnology and Veterinary Medicine, Research Institute of Agricultural Machinery, Research Institute of Agriculture and Research Institute of Water and Land Management. Here are some examples of the research topics: Innovative Technologies of Wood Processing Products and The Theoretical and Technological Models of Forestry. (<http://www.cs.llu.lv/?lang=eng>)

Latvian University of Agriculture is quite interesting on the aspect of Hermia Business Development as it has interests in scientific research. Whether the research is enough within the theme of technology has to be considered.

Riga Stradina University

Riga Stradiņš University was established in 2002. It was established on the basis of Academy of Medicine of Latvia. Today there are 3500 students in the university. Riga Stradiņš University is concentrated on medicine and health care. (<http://www.aml.lv/en/index.html>)

As Riga Stradiņš University is concentrated on medicine and health care, it is not within the target group of Hermia Business Development.

Ventspils University College

Ventspils University College is situated on the coast of the Baltic Sea in Latvia which is 200 km from Riga. Ventspils University College was founded in 1997. In 2004 there were 800 students and 50 teachers in the University. Ventspils University College offers academic and professional studies in entrepreneurship, business administration, information technologies, and translation.

Together with partners from European countries Ventspils University College has been participating in several domestic and international projects of science and applied research. It is important for Ventspils University College to improve research and to increase the role of science in the work of the university college.

The main concentrations in research are in:

- Information Technologies and e-administration
- The analysis of business environment
- Applied linguistics and linguistics

In collaborating with the Ventspils City Council, Riga Technical University and entrepreneurial companies of IT, Ventspils University College is actively working on introducing and setting up the Science and Technology Park of Ventspils.

(<http://www.venta.lv/portal/index.php?lang=en&page=1,0,0,0>)

Ventspils University College is concentrated in information technology, which is an interesting fact. The university is doing some research work on technological point-of-view, but the development and research projects are done in cooperation with some other institution. As the university is quite small, also the amount of research projects is quite small. The university situated 200 km from Riga, and if Hermia Business Development is planning to establish its company in Riga, it is quite far away. An interesting point to notice though is that Ventspils University Collage is working on setting up a Science and Technology Park in Ventspils.

Transport and Telecommunications Institute

In 1999 the Cabinet of Ministers of Latvia stopped the operations of Riga Aviation University, after 80 years of operation. Transport and Telecommunication Institute was established during that same year on the basis of Riga Aviation University. Transport and Telecommunications Institute is a joint-stock company, where over 90% of the shares are owned by Parex Bank. The institute is the only non-state higher education institution in Latvia where all

levels of education are available including Doctoral Degree. The total amount of students is 3400 and the amount of other staff is 160.

Transport and Telecommunications Institute offers bachelor's degree study programmes, higher professional study programmes, master's degree study programmes and doctoral degree programmes in different fields like economics, electronics, computers, logistics and transportation.

The Transport and Telecommunications Institute is concentrated on research. Here are the main areas of the research activities:

- TSI Artificial Intelligence
- Integrated Transport Information System
- Intelligent Transport Systems
- Intermodal Transport Networks
- Maintenance of Air Navigation Systems
- Remote Control, Monitoring and Redundancy for Air Traffic Control Systems
- Urban Transport Development Programme
- Riga City Parking System Development
- Development of the implementation Plan of VHF Data Link Mode 2 network
- Development of Aeronautical Telecommunication Network
- Aerodrome Traffic Movement, Information & Control System
- Statistical Interferences and Efficient Decision Making on Small Samples of the Data
- Computer Networks, Analysis and Optimal Projection of Computer Networks, Modern Network Technologies
- Extraction of Geometrical and Electro physical Features of Lighting Channels from Spherics
- Subsurface Radar Sounding
- Development of New Structures for Digital Filters
- Improving of Radio Systems and Complexes Efficiency by Means of Reception and Processing Equipment Optimization
- Study and Development of Non-traditional and Ecological Vehicle
- The Airframe Elasticity Effect on the Flight Characteristics of Aircraft
- Prevention Of Aviation Incident
- The New Suspensions for a Vehicle
- The New Method of the Sprung Mass Oscillations Damping in the Suspension for Vehicle
- Mathematical Modelling and Fundamental Properties Calculation of Disordered Condensed Media

(<http://www.tsi.lv/>)

The Transport and Telecommunications Institute is of interest to Hermia Business Development. The institute differs from other higher education departments as it is a joint-stock company. The institute's focus is on research and technology and it is located in Riga. The Transport and Telecommunications Institute has several partners: Companies, Universities, and international institutions. From Finland institute has one partner which is the Helsinki University of Technology

4.3 Regional actors

In order to get to know the business environment in the target country, it is important to get to know the regional actors of the area. It is important to be able to recognise their status the field and also to know what kind of actors are there. As stated in section 3.2.4, in order to select an entry mode, one must be able to say what the competitive structure is like.

4.3.1 Technology parks

Latvia Technology Park

Latvia Technology Park was established in 1996 in Riga. The goal of Latvia Technology Park is to support start-ups and development of technological and innovative businesses. Latvia Technology Park offers management and consulting of projects for business and product development and marketing and partner search services. Latvia Technology Park also offers office space and premises for small production.

Latvia Technology Park offers innovation services that include for example patenting. The park is organising forums for enterprises, seminars on exchange of technology, festivals with leading and prospective entrepreneurs.

Latvia Technology Park is planning to start a Spin-off program. The program would include the Riga Technical University, the University of Latvia, Latvenergo and Riga Water Company. The program will be developer further with the assistance of the Latvian Chamber of Commerce and the Latvian Development Agency and it will involve the majority of the biggest Latvian enterprises.

Activity of the technology transfer is closely related to the "Spin-off" program basically using the same organizational structure with additional foreign management.

Latvia Technology Park will rent out premises for enterprises according to different needs. It is possible for the technology park to rent out premises, starting from the small office of 15 m² up to a small technologically oriented industrial enterprise of 500 m².

Operative consulting services are also offered to the customers of Latvia Technology Park, for example technological and legal consultations. These services are offered by the personnel of the park and other involved or invited firms or persons, depending on the need and economical justification.

Latvia Technology Park also offers basic incubator services such as telecommunications services, mailing, copying and business information services.

The customers of Latvia Technology Park are entrepreneurs and researchers. The inventions that are chosen must have been originated in Riga Technical University, the University of Latvia or any other Latvian institution of scientific research, they also must be already patented or otherwise protected and prove commercial vitality thorough market studies.

Latvia Technology Park has establishes tow centres. The Business Innovation Centre provides manufacturers, scientific institutes, industrial enterprises and other local or international institutions and organizations information about opportunities to participate in different projects. The Centre helps in issuing business plans, finding cooperation partners abroad (and vice versa), offers consultancy in protection and evaluation of intellectual property.

Latvia Technology Park has established Process Control Training Centre in cooperation with a Swedish firm Reglertekniska Ingenjorsburan Ab and Riga Technical University. The Centre offers training courses in process control and industrial measurements. 5-day training courses are developed for technical people from manufacturing enterprises to improve their qualification in the use of advanced microprocessor control and measurements. Programs and schedules of the courses are worked out together with Reglertekniska Ingenjorsburan.

(http://www.rtu.lv/www_ltp/ltp.htm)

Latvian Technological Center

The Latvian Technological Center was established in 1993, it was the first technology center in Latvia. The Founders of the center were Riga City Council, Latvian Academy of Sciences, Institute of Physical Energetics and Associations of Latvian Scientific and Technical Societies.

Latvian Technological Center is a structure which offers services and support for technology oriented firms and primarily concentrates on three basic functions:

- Business incubator; rooms for lease, technical and secretarial services, telecommunications, internet etc.
- Specialized consultations and information for technologically oriented business, support in participation

- on special exhibitions advertising of new products and partner search
- Advisory services for getting credits and any other kind of financial support.

At the moment there are 24 companies in the Latvian Technological Centre. Companies are technology oriented. The main concentration of the companies is on laboratory instrument production for medicine and biotechnology.

Latvian Technological Centre has implemented several EU-financed projects and they also take part in EU-projects that promote SME developments as partners. One of the centres of Innovation Relay Centre is situated in Latvian Technological Park. Through the IRC they concentrate on transnational technology transfer and supporting Latvian entrepreneurs in implementation of EU research results in practice and development of new competitive products, as well as encouraging local SMEs in participation in different EU research and innovation projects.

(http://www.innovation.lv/ltc/eng_default.htm)

Nordic Industrial and Technology Park

Nordic Industrial Park and Nordic Technology Park are both technology parks that operate together in different locations. The idea of the parks is to offer the services and premises for their customers. Their common goal is to “attract foreign companies setting up their businesses in Latvia by providing favourable business environment and an extensive range of services and to make it easy for local companies to launch their businesses in a modern and safe business environment.”

The Nordic Industrial Park is situated in Olaine, a city 25 km from Riga and the Nordic Technology Park is in Riga. They both offer several hectares of floor space and the buildings can be adapted for any kind of economic activity from light industrial manufacturing to food processing and warehousing. At the moment, there are 14 companies in Nordic Industrial Park and 21 companies in Nordic Technology Park.

They offer industrial and warehouse premises, office space and conference rooms for use of their customers. Their services include secretarial services, human resource assistance, legal assistance, financial assistance, telecommunications and IT-services, banking services, transport services and security services (<http://www.industrial-park.lv/>).

Baltic Business Park

Baltic Business Park offers different types of premises for companies in Riga. The Baltic Business Park will pay for the construction of the building and the customer will only pay for the rent of the premises. Baltic Business Park covers a 10 hectare area. They offer spaces for warehousing, food distribution, light manufacturing, office space and as wholesale showroom.

The Baltic Business Park is located in Riga, close to Riga international airport. This is a convenient location on transportation perspective. Baltic Business Park offers only premises and security service; it does not offer any type of business consulting or any other type of services.

(http://www.baltijasbiznesaparks.lv/BaltBiznPark_files/page0007.htm)

Madona Business Innovation and Information Centre

Madona Business Innovation and Information Centre is a non-profit organisation that was founded in 1998 under EU Phare Sme - program. Founders of the centre included Madona Regional Council, local authorities, local companies and private persons. The Centre is situated in the city of Madona, which is 147 km from Riga.

Madona Business Innovation and Information Centre offers the following services:

- Business consulting
- Business planning
- Development of project applications
- Project management
- Strategical analyse of enterprises
- Preparing of legal documentation for new companies
- Organizing and management of seminars and training courses
- Training of PC skills

The centre is not concentrated on technology, but instead they take part in establishing different kind of companies like hotels and pubs. The main aim of the Centre is to improve the business environment and promote entrepreneurship in the region.

(<http://www.madona.lv/biic/indexangl.html>)

Business Innovation Center of Latvian Electronic Industry (Lebic)

Business Innovation Center of Latvian Electronic Industry was established in 1997 on the basis of Radioelectronics Technology Center. The mission of Lebic is to promote development of innovative and knowledge-based entrepreneurship in the electronic industry and connected branches.

The main targets of Lebic are:

- To support development of new innovative products and technologies and implementation in the production, to collaborate with scientists, experts of branch, nongovernmental organisations, companies and investors;
- To promote qualifications rising of branch specialists and engineering practice of the young generation;
- To promote respect for rights of scientists and authors of ideas in the implementation of innovation and developed technologies in compliance with legislation of Latvia
- To participate in local and international projects, where the consummation of organisations goals is promoted.

Lebic offers the following services:

- Business consultations
- Organising of Technology Transfer
- Support for creation of new companies and collaboration partners seeking for industrial enterprises and research organisations in electronic industry
- Branch companies involvement in EU 6th Framework Programme and other R&D cooperation projects
- Export activities promotion of Latvian E&IT companies
- Technological services providing for new companies.

Business Innovation Center of Latvian Electronic Industry is a network of different partners that has a concentration in promoting innovation and technology. The network works in the interest of its members that include J.Smilgas TB, Ltd; University of Latvia; Institute of Solid State Physics from University of Latvia; Mikroelektronika, Ltd and Riga Technical University.

(<http://lebic.lv/>)

Hermia Business Development's point a view

The researching the technology centres are we can see that there are only two actual incubators; Latvian Technological Centre and Latvia Technology Park, the rest of them are mostly only either offering premises or work as information centres for companies.

These two centres are partly offering the same type of services as Hermia Business Development is offering in Finland. However, none of these centres have the exactly same concept as none of them have a seed fund.

4.3.2 Relevant organisations

Latvian Investment and Development Agency

The objective of the Latvian Investment and Development Agency (LIDA) is to promote business development of Latvia by facilitating more foreign investment, and through that increasing the competitiveness of Latvian entrepreneurs in both domestic and foreign markets.

The Latvian Investment and Development Agency is a state institution that was established in 1993. LIDA offers assistance to foreign companies throughout the process of setting up operations in Latvia. LIDA implements state support programmes and grants to entrepreneurs in order to increase their competitiveness.

LIDA is also involved in the implementation of national programmes on export and innovation promotion, participates in EU 5th Framework Programmes' projects, the facilitation of Public Private Partnerships and as the implementer of state functions in the energy sector.

LIDA takes part in the following activities: Investment facilitation, supplier searches, follow-up service, state support programmes and providing information on EU common market.

(<http://www.liaa.gov.lv/eng/>)

Development Project Institute

Development Project Institute is a spin-off of the University of Latvia. It is a private institute that is a consulting partner for organisations in public and private sector in the field of investment project identification, development and implementation through providing industry expertise as well as optimal grant and conventional financing solutions.

Development Projects Institute's scope of activities is from regional development, education and science, health care economics to bringing in financing and partners in the private sector.

Services that are offered include: Initialisation and development of projects that are of high importance to the development of the economy of Latvia; project implementation management and Bringing in foreign and local partners and financing resources.

(<http://www.projects.lv/en/>)

5 The Interview: Expert opinions

So far this thesis has relied on secondary data. In order to be able to confirm and clarify the view that has come through secondary sources, we needed to gather primary data as well. The idea of the interview was to gather first hand information about the market and the cooperation possibilities in Latvia. The interviewees were asked about he's opinions about 10 subjects.

The criterion for the interviewees was that the person must have extensive knowledge of the field of business, extensive knowledge of Latvia and actors of the field of business in Latvia. And the person must be experienced in the filed of business.

Two interviewees were chosen. Interviewees will be referred as expert 1 and expert 2.

Questions and analysis

1. What kind of early-stage business development services are currently offered by the private sector and by the public sector in Latvia?

Expert 1:

The overall early-stage business development services in Latvia are underdeveloped. Some of the largest banks (Hansabanka, Latvijas Unibanka, Hipoteku un Zemes banka) have developed lending programmes for new enterprises with lower collateral requirements. There are no start-up and seed funds in Latvia currently. However few Venture capital funds offers also seed financing. What comes to venture capital funds, 10 funds were operational in the first half of 2005. Couple of additional fund management companies were established in the second half of 2005 in order to apply for State support programme financing for 3 new Venture capital funds. Most of these Venture capital funds do not work with early stage innovative businesses and only two from 10 funds consider investments of less than 100 000 LVL (140 000 EUR).

There are only two business incubators operational in Latvia (both in Riga). Two more received funding and will be established in Ventspils city and Jelgava city in 2006. Another source of funding is business angels. There are small number of business angels, however they and 3Fs play more active role in the early stage business development market than funds in Latvia.

From all state support programmes only two can be defined as early stage business development services: Loan guarantees for

enterprises “Beginner’s project and one business incubator - “Latvian Technological Centre” in Riga is supported by the state.

Expert 2:

There is only one Technology center (business incubator) and one Technology park. Both organizations are non-profit private organizations but supported by the public sector (ministries) on the contract base. There is plan to create more in coming years.

Comments

Expert 1’s opinions about the sources of financing were in coherence with previous findings of this thesis; some banks offer loans and there are no actual seed funds but there are some venture capital funds that also do seed financing. Also the fact the only two of the venture capital funds do investments that are under 100 000 latis, agree with the earlier findings. It is important to be aware of these venture capital funds as they could do investments together with Hermia Business Development’s seed fund. It is interesting to notice that Expert 1 sees 3Fs and business angels as the most active investors in seed funding.

Expert 2 looks at this from the incubator perspective. He states that at the moment, there is only one active Technology Center and Technology Park, however more are coming. Thus tells about the direction of development, as the government is putting more weight on incubators services.

2. What kind of private funding companies is there for early-stage companies and are you aware of possible planning of this type of funds?

Expert 1:

The current situation is that the actual supply of financing for early stage ventures is far lower than the total investment portfolios of the venture capital funds and fund management companies. Only Eko Investors and Entrepreneurship State Support Fund are among venture capital funds which concentrate their activities on early stage companies. Both have Latvian capital and are limited in size – 0,3- 1 m EUR total investment budget annually.

Future plans: There is low interest in the market due to of still huge returns in the real estate business and other conventional fields. New State support programmes will be most probably introduced in Latvia in the new programming period (2007 or 2008): for seed fund management companies and for business incubator management companies. The owners of the Development Project Institute plan to transform their “business angel” activities into separate seed capital fund.

Expert 2:

There aren't any that type of companies.

Comments

The situation of supply of financing is as it was discovered earlier. However, the fact that venture capital funds are still concentrated in real estate is an interesting fact from competitive perspective. As if the current companies are mostly not concentrated on investing in early stage companies, there is a market gap. The new state support programs tell about the development of the situation; the country is promoting early stage companies' development, which may lead the line of business and the amount of start-up companies grow. The fact that the project development institute is planning to start a seed fund is of most importance. Depending on the point-of-view, this can be seen as competition or as a cooperation possibility. The fact that expert 2 responded that there aren't the type of companies at all is in coherence with the fact that there are no actual seed funds.

3. What kind of European actors are in Latvia in early-stage company development?**Expert 1:**

Venture capital fund – Baltcap (with Swedish capital).

Seed funds – none.

Business incubator – together with Zernike Group we have established organisation "Ventspils High Technology Park", which is responsible for business incubator development in Ventspils city.

Future plans

Probably Zernike Group could be interested in management of seed fund together with local partners if special State support programme will be introduced in Latvia for seed funds in 2007.

Expert 2:

Nothing

Comments

According to expert 1, there aren't many European actors; only one venture capital fund, which is not concentrated on investing in early stage companies. Besides this, there is Centrpils Rechnbology park that is established in cooperation with Zernike Group. Zernike Group is also a partner and an owner of Hermia Business Development. It is also important to notice that if the state support programme will be implemented Zernike might be interested in establishing a seed fund. As agreed in the previous comment, this must be considered as a factor affecting the competitive situation and as a cooperation possibility.

Expert 2 does not see any European actors in early-stage company development. Perhaps this is because he looks at the questions from the business park perspective and perhaps these actors are not very visible.

4. How do you see early-stage companies' development market.

4.1 Is the structure of the market: a) Scattered; b) Few main actors; c) One major actor

Expert 1:

Regarding business development services, there are few main actors.

Expert 2:

One major actor

Comments

To this question expert 2 responded that there is only one major actor. However, in the first question he stated that there are Latvian Technological Center and Latvia Technology Park. Therefore it is more reasonable to agree with expert 1's opinion. Thus it can be stated that the market structure is oligopolistic.

4.2 Are the actors in the field of business development services mainly: a) Private; b) Public; c) Equally both?

Expert 1:

Banks and funds – all are private, except Hipoteku un Zemes bank and Entrepreneurship State Support Fund); 2 current business incubators – one public, one foundation (established by several public bodies). 2 new ones – foundations (established by several private and public bodies).

Expert 2:

Public

Comments

From these answers it is possible to see that the banks and funds in Latvia are mainly private, which makes the funding side private. On the other hand, incubator services are either public or private-public, which mean that actual services are mainly offer from the public side.

4.3 Size of the early-stage business market compared to other business consulting

a) Small market; b) Medium market; c) Big market

Expert 1:

Small market

Expert 2:

Medium market

Comments

As one expert responded that the market is small and the other one stated that the market is medium sized, the answer most likely lies somewhere in between. Therefore the size of the market is between small and medium.

4.4 Growth potential of the early-stage market

a) Small growth potential; b) Medium growth potential; c) Big growth potential

Expert 1:

Medium growth potential.

- Technology based early stage market is limited due to small number of scientists and engineers in Latvia.

+ A lot of new innovative business ideas of local scientists and engineers are still not approached by investors. Lack of start up and seed funds. Real estate was more attractive during the last 10 years.

Expert 2:

Medium Growth potential

Comments

As both experts stated that the market has medium growth potential, that can be seen as a likely situation. Technology based start-up companies market is small because of the amount of research potential. However as Latvia is developing in this respect. There is also a number of potential researchers that have not been approached by the investors, which means that there might be even more researchers than expected. This also tells about the fact that perhaps the researchers and investors are not that aware of each other.

5. What type of services do you think are needed in order to assist companies to grow?

Expert 1:

Assistance to transform ideas of scientists into commercially viable products (product identification, business planning, marketing); Business incubators; Start-up and seed capital (Due to historical transition period local people have no significant

savings and estates which are required by banks as collaterals); Significant improvement of technical education in Latvia (currently lack of qualified specialists in Latvia).

Expert 2:

Company management, market research, international cooperation, reasonable financial resources

Comments

The services that, according to the experts, are needed in Latvia are the type of services Hermia Business Developments is currently offering in its home country. Business consulting e.g. marketing, commercialisation and Business plan assistance as well as seed company funding.

6. Financial aspects: How do companies pay for development services at the moment? Are the services subsidied by the public sectors?

Expert 1:

Companies pay full price for such services as accounting, business planning, marketing, patenting etc. Thus these services are hardly affordable for early stage companies. Public sector offers only subsidized office rent in two existing business incubators.

Expert 2:

Partly

Comments

This answer indicates the lack of business development services for start-up companies. It can also be concluded that it is important for Hermia Business Development to carefully consider their revenue model.

7. Estimation: How many potential technology based start-up companies are established annually?

Expert 1:

There are 50 000 companies in Latvia. 11,8% work in the production sector. We know that 9 000 new companies are registered annually in Latvia. Thus, we can calculate that ~ 1000 potential technology based companies are established annually.

Expert 2:

I have no data. In case of LTC it is about 4-5 companies every year. For Latvia it could be around 50-60?

Comments

We have to pay attention to the fact that these amounts are only estimations and can not be considered as data. It can also be seen that the concept of technology company is not clear. In Hermia Business Incubator approximately 15 technology companies are established yearly. In Latvian Technological Center, which is the biggest incubator in Latvia, 4-5 companies are established. From these figures it can be concluded that the amount of established companies is low.

8. Where would the innovative business ideas come from?

a) Company spin-offs b) Universities c) Private individuals d) Research institutes e) Other sources

Expert 1:

Currently these are company spin-offs and private individuals. Universities and research institutes were weak in the last 10 years because of no state funding for applied research. But situation is gradually improving, because after joining EU, more and more EU funding will be invested in the universities and research institutes.

Expert 2:

Company spin-offs and research institutes

Comments

As the main sources of business ideas are company spin-offs, private individuals and partly research institutes, they would form the main target group. Developing relations with these groups and making them aware of Hermia Business Development's services would be a crucial point when starting operations. However, as the research status of research facilities is improving it would also be good to establish relationships with them as well.

9. What kind of partner could be a suitable for Hermia Business Development in Latvia?**Expert 1:**

a) Organisations linked (owned, established or managed etc.) with Development Projects institute partners:

- Ventspils High Technology Park (new business incubator and industrial site in Ventspils city);
- Zemgale Technology Park (new technology park and business incubator in Jelgava city);

- TechVentures (new Venture capital fund, common project with Zernike Group).
- Eureka (business consulting company specialised in technology based fields).

b) Other organisations:

- Latvian Technological Centre.
- Major universities in Latvia and related research institutes (Latvia University, Riga Technical University, Riga Stradins (Medical) University, Latvian Agriculture University in Jelgava, Ventspils University College, Daugavpils University).
- Business Innovation Center of Latvian Electronics Industry (consulting and project development company).
- Baltic Consulting (consulting company).
- Venture capital funds which are operational in Latvia and willing to extend their current operations.

Expert 2:

One of innovation support structures mentioned in point 1.

Comments

All of the above mentioned institutions sound interesting. Some of them were already introduced in the previous sections. These institutions must be taken into consideration when determining possible cooperation possibilities.

10. Are you interested in cooperation with Hermia Business Development in Latvia or do you someone that could be interested?

Expert 1:

The partners of the Development Projects institute would be interested in cooperation with Hermia Business Development, particularly in development of pre-seed or seed fund in Latvia. We are open for further discussions.

Expert 2:

LTC is ready to start, but later; it depends on developments in Latvia.

Comments

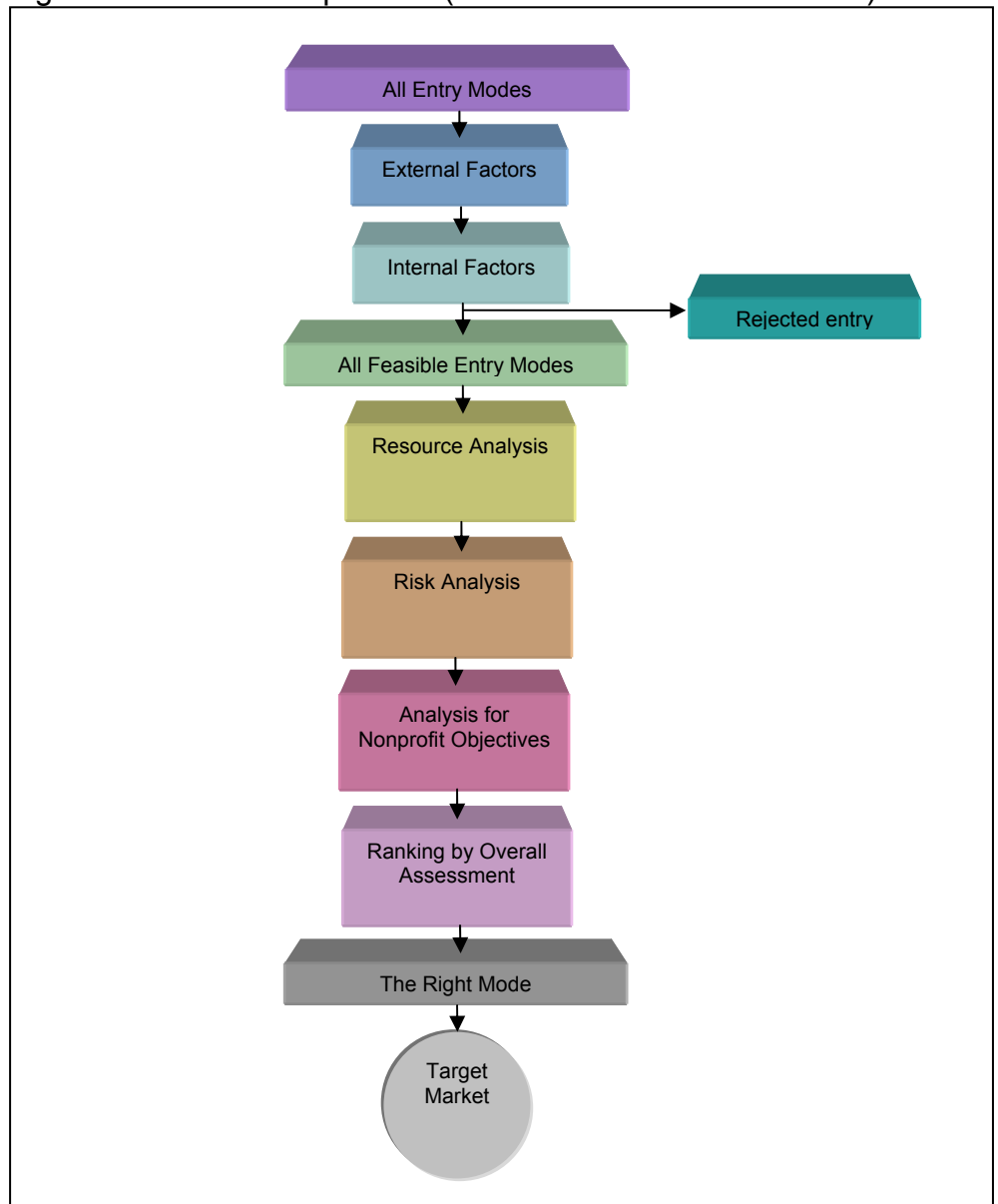
When determining the entry mode, we can state that there are possible cooperation partners.

6 Selection of the entry mode

At this point the characteristics of different entry modes as well as the factors affecting the selection have been introduced and the target market has been explored. Next phase is to choose the most suitable entry mode. The selection process is described in figure 6.

Internal and external factors were stated in chapter 3.2.4. Now the factors are considered from the case's point-of-view. The factors are analysed and the inappropriate entry modes are rejected. After this, the feasible entry modes are left. Then they are evaluated based on company's resources, risks and non-profit objectives. After these analyses the most appropriate entry mode is selected.

Figure 6: Selection process (Modified from Root 1994:164)



6.1 External factors

6.1.1 Target country market factors

Size of the market

The first external factors are target country market factors. The size of the target market is one factor. If the demand is low, it is usually more inexpensive to internationalise through exporting than investments. However having a unit abroad can offer the possibility of creating demand. Small markets favour export entry modes and contractual entry modes and markets with high sales volume investment entry modes. It is safe to say that the market demand is low, but it is growing. According to experts' estimates the amount of established technology companies is quite low. In Hermia Business Development's case exporting modes can not be considered as they require actual physical products. The demand on the market is low as the type of services are not offered at the moment. However, by establishing a unit abroad it would be possible to create more demand of the type services. Therefore the size of the target market would favour firstly contractual arrangements and secondly investment modes.

Competitive structure of the market

Another market factors is the competitive structure of the market. A market can be atomistic (many nondominant competitors, oligopolistic (a few dominant competitors) or monopolistic (a single competitor). Oligopolistic and monopolistic markets require investment entry modes. An atomistic market can be also entered through export entry modes. According to the research of the market and conclusions of the interviews the market has few main competitors, which makes it an oligopolistic market. Therefore investment entry modes are recommended.

Market infrastructure

This part is about the possible cooperation partners. If there aren't possible cooperation partner, the market can only be reached through investment entry modes. The interviews have stated that there are interested cooperation partners in Latvia and therefore this does not limit the selection of the mode. From this point all of the modes are possible.

6.1.2 Target country production factors

Target country production factors deal with the production of physical products. As Hermia Business Development does not manufacture physical products these factors do not affect to the selection of the entry mode.

6.1.3 Target country environmental factors

Government policies and regulations

As was stated in section 3.2.4, government policies and regulations are important factors when selecting an entry mode. If the country has restrictive import policies such as high tariffs, it discourages export modes and favours other modes. Then again if the country has a strict equity investment policy it discourages equity investments. However, country can also attract foreign investments with certain incentives.

The government of Latvia is promoting international trade through special economic areas and free trade harbours. The government also offers some taxation benefits in order to appeal investors. Another thing is that the Latvian Investment and Development Agency assists foreign companies with investments and business possibilities and partnerships. There are also some restrictions concerning ownership of Latvian companies. Foreign investors can not be major owners of companies of certain sectors. However, none of these sectors includes Hermia Business Development's activities. Another restriction is that when acquiring major ownership of a company that's shares are worth over 1 million USD, the trade must be accepted by the ministry council.

As it has become clear through the expert interviews, new EU programmes are being started in the following years for seed fund management companies and for business incubator management companies. This shows that business development activities are being encouraged more by the government in the future.

All in all, the government of Latvia is encouraging international trade and investment activities. It favours foreign investments with taxation benefits and internationalisation assistance by Latvian Development and Investment Agency. It also favours export entry modes through economic areas and free trade harbours.

Geographical factors

If the geographical distance between the countries is wide, it affects the transportation cost, which then increases the cost of the product and will decrease the product's competitiveness.

The geographical distance between Finland as Latvia is not great. As stated in section 4.1.2, the cities of Tampere and Riga have become closer due to Ryanair's new route. The cheap and fast way of travelling between the cities increases more effective cooperation.

As Hermia Business Development does not make any physical products transportation costs are not that important and therefore geographical factors do not affect the selection that much.

Economical factors

One economical factor is the absolute level of performance which determines the size of the market. This is measured by the gross national product of the country. As stated in section 4.1, Latvia's gross national product in 2004 was 10, 96 billion euros. This indicates that the size of the market is small. The same fact was also seen though the interviews.

The level of dynamics of the target market affect as well. Dynamic economies encourage modes with equity investment, even if the size of the market is low at the moment. Dynamics is measured by investments, gross national product's growth, personal income and employment. In 2003 the accumulated foreign direct investment was 2,8 billion euros and the accumulated foreign direct investment per capita 1 186 euro. The gross national product's growth rate in 2004 was 8,5 %. The wages are rising, especially for the high educated young work force. Even so, labour costs are low compared to western countries. In the last quarter of 2004, the average gross wage was 230 latis (about 327,26 euros) and the net wage 164 latis (about 233,35 euros). The unemployment rate for 2004 was 8,6 percentage, which is close to unemployment rate of Finland. From these ratings it can be seen that the economy in Latvia is developing and it is dynamic. It is clear that foreign companies are doing big investments and we can conclude that they also expect to get return for their investments. The profit can not be gained if the market economy is not dynamic. Also, the gross domestic product's growth percentage is high, which indicates fast growth and development. Therefore it encourages equity investment modes.

One more economical factor is taxation. If the taxation is lower then it attracts foreign investments. As stated in section 4.1.4, the government of Latvia grants tax discounts for companies. Therefore, taxation encourages investment modes.

Sociocultural factors

If there is a big cultural distance between the countries, export modes, licensing, franchising and company cooperation are the most suitable entry modes. Foreign investment modes are also possible but it requires more input when integrating the cultures together.

As stated in section 4.1.2, mentalities of Latvians and Northern Europeans are quite similar and they both base their lives to similar type of values. However, history with Soviet Union is more visible in Latvia than it is in other Baltic countries. Latvia and Finland are not as close to each other culturally than Estonia and Finland. It is important to pay attention to the development process happening in Latvia; transfer from manned socialistic society into democratic state and free market economy.

It can be seen that there is a cultural difference, but it is not a huge difference and the gap is narrowing. This does not limit any entry modes, but if investment mode is chosen, attention must be paid into integrating the cultures.

6.1.4 Home country factors

The size of the home market may affect as well. Big companies are more into investment modes and smaller companies are more into exporting modes. Hermia Business Development is a medium sized company. This fact favours exporting modes.

The competitive structure may also have an effect. Companies in oligopolistic market structure are more driven into investment entry modes and companies in atomistic structure are more driven into exporting and contractual entry modes. The home market for Hermia Business Development can be considered atomistic as there are several incubators in Finland, although there are not many that are private. The structure would suggest contractual entry modes or export entry modes.

High production costs in the home country could also have an affect, but in Hermia Business development's case they do not as the company does not manufacture any physical products. Another thing is governmental incentives and regulations. The government of Finland has several organisations that support

internationalisation, but they do not directly limit any form of internationalisation.

6.2 Internal factors

6.2.1 Product factors

Product factors concern the details of the company's physical product; differentiation, demand and pre and-post purchase services. However, as Hermia Business Development does not offer any physical products, this is not of concern.

In Hermia Business Development's case the product is a service. And as was stated in section 3.2.1, if the company's product is a service it cannot be exported and must therefore be performed in the target country. This can be done through contractual entry modes like franchising or setting up a company such as subsidiary or a joint venture in the target country.

6.2.2 Resource and commitment factors

Resources consist of economical and operational resources. The basic idea is that more resources, more modes to choose from. Company's resources in management and skills are good as they are on the line of business that they are. However, they are lacking the personnel skills placed in target country. It is not possible to detach any personnel from the home office; Hermia Business Development's personnel is not familiar with the business environment in Latvia and they do not speak Latvian. The operations in the home country are taking personnell's working time. Therefore recuriting personnell would be an obvious choise.

High-commitment companies, despite the size of the company, are more likely to choose one of the equity entry modes. Hermia Business Development is mostly owned by its personnel and therefore when the decision to internationalise is done, it is done in consensus, and therefore the level of commitment will be high. Because of this factor investment mode may bee seen as good selection.

6.3 Rejection of inappropriate modes

At this point of the selection process the inappropriate entry modes are rejected. As stated earlier the export entry modes are not a possibility as they require physical products. There also some

contractual modes that require physical products, these are: counterpurchase, contract manufacturing and project exporting. These can all be rejected.

Most of the external and internal factors favoured investment entry modes of joint Venture, foreign unit, portfolio Investing and therefore they are all left. Some of the contractual modes are also left; company cooperation, licensing, franchising management contracts.

Next, the possibilities of these modes are evaluated based on resources, risks and non-profit objectives.

6.4 Resources, risks and non-profit objectives

6.4.1 Resources

Resources will not be evaluated based on cash-flows, profit and revenues, but instead on the available economical and operational resources. The funds are limited and they will not be enough for acquiring a foreign unit. Therefore this mode will be rejected as starting up a foreign unit is the entry mode that requires most economical and operational resources. Economical resources are also a limitation for portfolio investing mode. Hermia Business Development does not have the equity, nor enough operational resources for administrating international investments. Portfolio investment is about investing in foreign shares, mutual fund units, bonds and money market paper. However this form of entry is not incoherence with Hermia Business Development's aim of internationalisation. Another point is that having local assistance in target country will cause costs. Because of these reasons portfolio investing will also be rejected.

What comes to operational resources, as stated before, there is a lack of personnel with target country know-how. Because of the need of knowledge, cooperation entry modes are favoured. And this is another reason for rejecting foreign unit and portfolio investing. The mode must include cooperation in a way that needed knowledge is included and both parties are committed. Joint venture combines these two objectives.

6.4.2 Risks

As Hermia Business Development is not a big company and internationalisation will affect its operations greatly, the company is willing to take some risk, but not too much. This is the reason why the risk should be a shared risk. Foreign unit includes too

much risk, which is another reason for its rejection. Instead equity joint venture includes shared risk, which is a lot better option. And as equity is involved, the level of commitment of both parties is also higher. Still, the risk in joint venture mode is high.

6.4.3 Non-profit objectives

There are also other factors affecting on the selection. One of these things is the lack of intellectual property. Licensing concerns a product or a method and selling of production and marketing rights of them. As the company does not have any intellectual property rights, licensing is not a feasible option. In licensing, the licensor receives a onetime fee, a royalty or both, based on the agreement as it does with franchising. This type of operation model is not in coherence with Hermia Business development vision of internationalisation. As neither though licensing nor franchising, does Hermia Business Development get a contact with the customer flow. If it does not have contact with the customer flow, then the deal flow of investments will nor grow. Another point is that it is not clear if it is possible to find a suitable cooperation partner for franchising. The partner would have to be interested of the Hermia Business Development concept and it would have to have extensive knowledge of early stage businesses, business development, regional actors and it would have to have proper resources.

The concept of management contracts is that one company managers another company's day-to-day operations in a foreign country. However, manager company's operations income is limited to fees for a fixed duration of time. Management contracts can be seen as unsatisfactory as they won't allow the company to build a permanent market position. Another thing is that this form of entry can require time consuming negotiations and the problems of commitment. As the manager company does not invest any money on the project its level of commitment will not be as high. Another point is that the seller company, which would be Hermia Business Development, should already have unit in Latvia or to be able to start unit in Latvia. However, as agreed earlier, it would not be reasonable for Hermia Business Development to invest such a huge amount of money into a foreign unit. It is worth mentioning that if the management contract is combined with other entry modes, such as joint ventures, licensing, franchising or project exporting, it can be seen as a good choice.

Company cooperation mode may not be enough on its own. Company cooperation agreements can for example refer to common distribution, common purchases, common marketing, exchange of product ideas, exchange of commercial knowledge and management knowledge. Company cooperation mode is a

way of networking, however it does not provide enough status for the company in the target country. Cooperation agreements can complement some other form of entry.

7 Conclusions

This thesis has now studied different entry modes. First the entry modes and their characteristics were introduced. Entry modes divide into three classes: export entry modes, investment entry modes and contractual entry modes. Export entry modes deal with importing and exporting physical products from a country to another. Contractual entry modes are long-term non-equity alliances between the company that wants to internationalise and the company in the target country. Investment entry modes are about acquiring ownership in a company that is located in the target country.

From these three, export entry modes had to be rejected as they can only be used by a manufacturer company. Therefore investment entry modes and contractual entry modes were discussed in more detailed.

Next, the factors that affect the selection were introduced. It was discovered that there are external factors that deal with market, production and environment issues in the target country and in the home country and internal factors that deal with the company's ability to respond to external factors. These factors were then studied from the case's perspective. The study was done by requiring information about the target market through bibliography and expert interviews. The interviewees gave their vision of the situation and confirmed previous findings of the thesis.

The interesting findings of target market were that there is no actor in the Latvian market with the same type of concept that Hermia Business Development has. There were actually only a few technology incubators. The stage and speed of development in the target country were also of interest for the case. The direction of education is becoming more technology oriented and it was also interesting to find out that new State support programmes will be most probably introduced in Latvia in the new programming period for seed fund management companies and for business incubator management companies. Another thing is that potential cooperation partners were discovered.

After this, the entry modes selection process started. The results of the study were combined with the theory of external and internal factors. After this, some inappropriate modes were rejected. Next the remaining modes were analysed based on resources, risks and non-profit objectives. As a result the most appropriate modes were discovered.

The final selection of the most suitable entry modes can not be told at this version of the thesis as the nature of the information is critical to the company.

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Appendix : The questionnaire

Hermia Business Development is a consulting and development company for technology companies. We offer consulting services for commercialising technology based product and business ideas and to licence technology.

We also govern a pre-seed fund called Hermia Ventures and we present possible investment targets to Hermia Ventures. Hermia Ventures invests 30 000-50 000 euros per company. You can find more information about from our websites: www.hermiayrityshehitys.fi/english

We are interested in developing business operations in Latvia. We are defining services we could offer in Latvia as a business development organisation. We are also looking for suitable partners and checking out business environment for this process.

Could you please take some time and answer the following questions. We really appreciate your input in this matter!

1. What kind of early-stage business development services are currently offered by the private sector and by the public sector in Latvia?

--

2. What kind of private funding companies are there for early-stage companies and are you aware of possible planning of this type of funds?

--

3. What kind of European actors are in Latvia in early-stage company development?

--

4. How do you see beginning-stage companies' development market?

Is the structure of the market

Scattered Few main actors One major actor

Are the actors in the field of business development services mainly

Private Public Equally both

Size of the early-stage business market compared to other business consulting

Small market Medium market Big market

Growth potential of the early-stage market

Small growth potential Medium growth potential Big growth potential

5. What type of services do you think are needed in order to assist companies to grow?

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6. Financial aspects: How do companies pay for development services at the moment? Are the services subsidized by the public sectors?

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7. Estimation: How many potential technology based start-up companies are established annually?

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8. Where would the innovative business ideas come from?

<input type="checkbox"/> Company spin-offs
<input type="checkbox"/> Universities
<input type="checkbox"/> Private individuals
<input type="checkbox"/> Research institutes
<input type="checkbox"/> Other sources:

9. What kind of partner could be a suitable for Hermia Business Development in Latvia?

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10. Are you interested in cooperation with Hermia Business Development in Latvia or do you know someone that could be interested?

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