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DANISH FDI IN LITHUANIA

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Abbreviations

BDF – The Baltic Development Forum

CEEC – Central and Eastern European Countries

CEO – Chief Executive Officer

DK – Denmark

EE – Eastern Europe

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

I(C)T – Information (and Communication) Technologies

LDA – Lithuanian Development Agency

LDC – Less Developed Countries

LFMI – Lithuanian Finance

MNE(C) – Multinational Enterprise (Company)

OECD - Organisation for Economic Co-operation and Development

OLI – Dunning's Eclectic Paradigm

R&D – Research & Development

RBV – Resource Based View

RQ – Research Question

SME – Small and Medium Enterprises

LT - Lithuania

TC(T) – Transaction Cost (Theory)

TNC – Transnational Corporation

UNCTAD – United Nations Conference on Trade and Development

VAT – Value-added Tax

Executive Summary

For many years Denmark has been one of the leading foreign investors in Lithuania and it continues to be amongst the key countries that Lithuania is willing to cooperate with going forward, by supporting the existing MNEs and attracting new FDI. Sadly, very few researchers have been interested in analysing the patterns of FDI in Lithuania. For this reason there is little knowledge on how foreign investors perceive Lithuania, why they choose to invest there and what problems they face in this country.

The aim of this paper is to analyse the patterns of Danish FDI in Lithuania and answer a question: "why do Danish companies choose Lithuania for their foreign direct investment projects and what are the main problems that Danish firms come across when doing business in this country?"

This research analyses survey results of 55 Danish companies in 10 different industries, which have engaged in foreign direct investment projects in Lithuania during the period of 1990-2009. The theoretical background behind this research includes the Transaction Cost Theory, Resource Based View, OLI Paradigm, Porter's Diamond model and the Network Perspective. The research analyses both firm-specific and location-specific FDI determinants as well as barriers that prohibit Danish companies from carrying on a successful business in Lithuania.

The findings suggest that Lithuania has been and remains attractive because of the skilled and cost effective labour, excellent geographic location, good infrastructure, cheap land, real estate and low operating costs, also unmatched demand for high quality, innovative products and services in the local and neighbouring markets. Lithuania's innovative and knowledge potential has been recognized by fewer Danish companies than one would expect based on the Lithuanian development and investment promotion strategies. However, the country is slowly improving in its value proposition and there are lots of growth and development opportunities for both existing and new foreign investors.

The research concludes that in order to attract more foreign direct investment and more importantly – to retain the existing investors and provide them with opportunities to upgrade and develop their operations in Lithuania, the country needs to focus on eliminating several business barriers. These are: lack of transparency, high bureaucracy, inflexible and frequently changing regulations, poor public service, uncompetitive education system, language barriers, high taxes and the present economic instability caused by the recent global financial crisis.

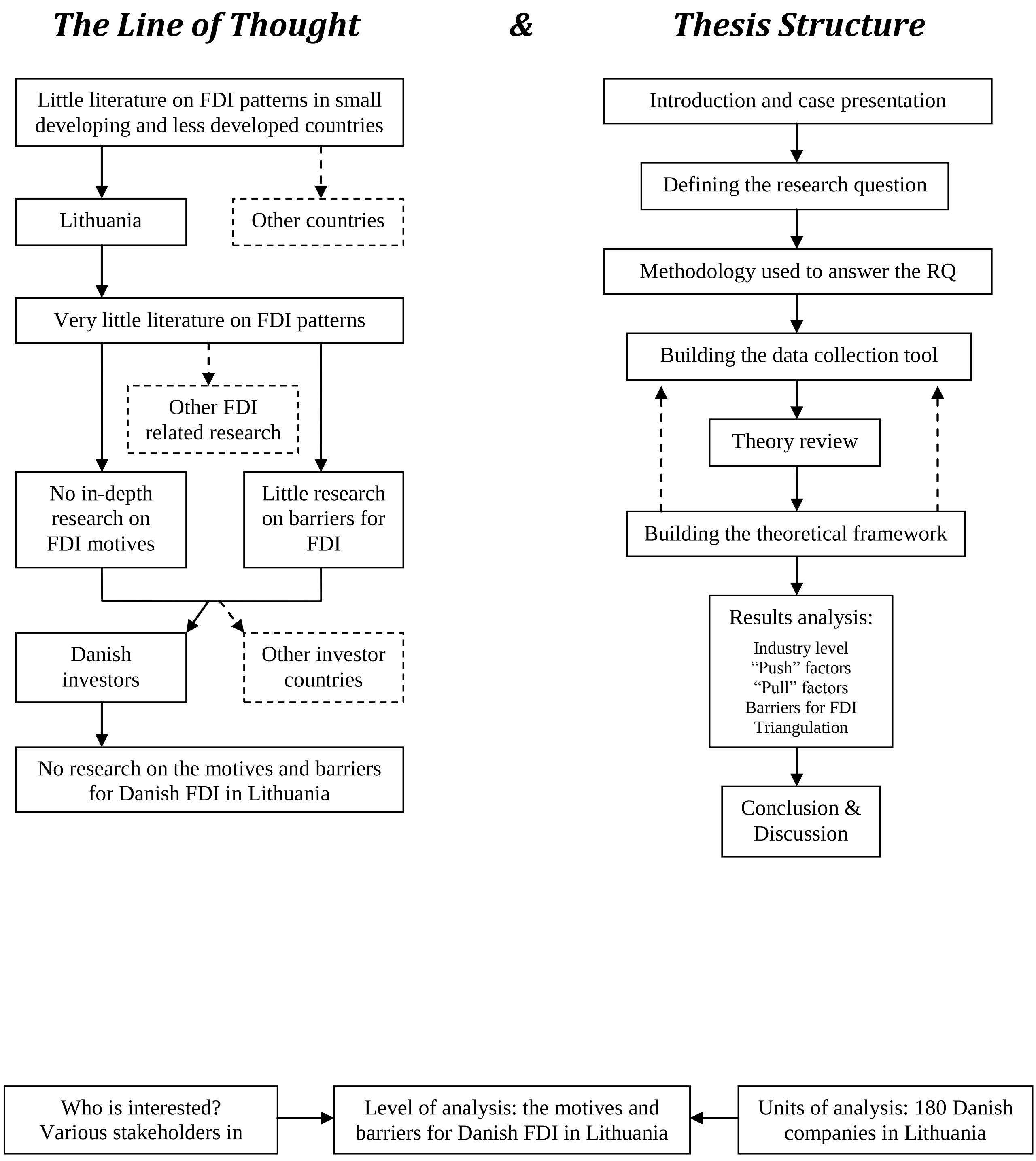


Fig. 1: Thesis structure and Line of Thought. Source: own

1. INTRODUCTION

Today many companies take the decision to establish themselves abroad. There are numerous reasons for doing that, both internal and external to the internationalizing firm. Internationalization can provide a company with new markets and marketing channels, cheaper production facilities, access to new technology, networks, products, skills and financing, only to name a few. Patterns of foreign investment are vast and constantly changing, whereas markets are becoming more and more open to foreign capital. Companies need to decide where to locate which specific activities in order to tap into the most valuable locational assets given the strategic position the company is targeting in its industry (BDF, 2006).

Amongst all the internationalisation modes, foreign direct investment (FDI) plays an extraordinary and a constantly growing role in the global business. According to the United Nations Report on Trade and Development, the world FDI stock has grown nine fold in 1990 - 2007 and there are some 82,000 TNCs worldwide, with 810,000 foreign affiliates today (UNCTAD, 2009). Naturally, the rivalry between FDI locations has dramatically increased. Technological innovation and policy changes have reduced transportation, communication, and trade costs. Many locations have started to systematically improve the conditions they provide for doing business, through better macroeconomic policies, investments in infrastructure and skills, and greater openness of markets (BDF, 2006).

For the less developed countries (LDC), foreign direct investment is an important source of capital and a strong impetus to economic growth (e.g. establishment of new workplaces). It provides a package of new technologies, management techniques, finance and market access for the production of goods and services (Binsaeed, 2009).

A great load of literature has been written on the FDI patterns, motives and effects in developing and less developed countries within the past decades. However, most of the research tends to focus on the big rather than small markets of the Southeast Asia, South America, Central and Eastern Europe as well as analyse FDI location choices of firms from advanced economies either in other advanced economies or developing / emerging markets (Strange, 2009). Sadly, not that much in-depth research with regards to FDI patterns has been carried on the lately developed countries, like the ones in the Baltic Sea region – Lithuania, Latvia and Estonia.

1.1. The Case

The fall of the communism and the opening of markets in Central and Eastern Europe has presented multinationals with immense trade and investment opportunities (Stoian, 2008). The FDI which reached this region became the key channel for economic restructuring, international technology diffusion (Bijsterbosch, 2009) and as a result – faster economic development. This applies in particular to the Baltic countries (Estonia, Latvia and Lithuania), where, for example, labour productivity levels increased from around a quarter of those in the euro area in the mid-1990s to around 30-40% in 2006 (Bijsterbosch, 2009). With the help of FDI the economies of these three countries also grew by far the fastest amongst the rest of post - Soviet Union countries (see Appendix 1).

Despite the above, the Baltic countries and in particular - Lithuania - which is the further point of interest in this paper, are striving for much higher cooperation between their local economies and international businesses. Even though Lithuania is now being positioned as a "developed country" (UNCTAD, 2009), it is still lagging behind the rest of the Western Europe and especially its close neighbours – the Scandinavian countries:

Increasing international competition requires much higher productivity. There is a need for more integration into international business chains. Lithuanian businesses are still too inward-looking <...> The region's development potential is very high and could be „untapped" through different initiatives <....> Closer trade ties between the Nordic countries would be a natural springboard into global markets, higher productivity and the knowledge intensive companies (BDF, 2009)

Lithuania is very small - only 3,3mln. inhabitants and a tiny local market compared to its close neighbours Poland or Belarus. For foreign investors, who are primarily market-seekers or low-cost resource-seekers, countries like Poland, Hungary, Czech Republic, Romania and the like, would be the more logical FDI location choice. Currently these countries absorb four – six times more FDI projects than Lithuania (see Appendix 2) and they are also ranked higher in terms of their overall competitiveness (see Appendix 3).

According to Mudambi (2008) firms from less developed economies strive to catch-up with advanced economy competitors, creating strong pressures for continued innovation. Lithuania, amongst those, is struggling to cope with the low-cost competition from the Central and Eastern Europe and catch up with the development of the Western and Northern

Europe. This is why Lithuania is aiming at moving away from the "cheapest amongst cheapest" image and becoming the "cheapest amongst innovative" (Matuliauskas, 2009).

Following this goal, Lithuanian politicians, businessmen and a number of organizations (e.g. The Lithuanian Investors' Forum, Lithuanian Development Agency, The Baltic Development Forum, The Baltic Outsourcing Association, Lithuanian Innovation Centre, etc.) have determined to promote research, innovation, entrepreneurship, strengthen SMEs, remove hindrances for the internal market, cooperate with and integrate region's business and education sectors and not any less importantly – cooperate with foreign investors in order to tap in their knowledge and reach more integration within Lithuanian and foreign businesses, amongst which, in the first place, are the Scandinavians:

Only by moving towards knowledge-based society by promoting innovations, research and development, can we create a competitive advantage for Lithuania's companies <...> It is very important for Lithuania to cooperate more closely with other Baltic Sea region countries and to better integrate Lithuania's economy with the economies of other Baltic Sea countries. First of all, I mean Scandinavian countries (Prime Minister A. Kubilius in BDF, 2009).

1.2. Danish FDI in Lithuania

Amongst the Nordic countries, Denmark for the last few years has been one of the leading foreign direct investors in Lithuania (see Appendix 4). According to the Lithuanian Department of Statistics, there were 264 foreign direct investors in Lithuania in 2009, whereas The Royal Danish Embassy in Lithuania has registered 176 Danish investors that engaged in Greenfield, Joint Venture or Merger & Acquisition projects in Lithuania.

Danish FDI started flowing in Lithuania in the early 1990s, when Lithuania escaped from the Soviet Union and opened up its market to the western investors. Danish FDI was constantly growing from year to year and it especially increased in the past decade, before the recent financial crisis hit the economies of the world (see Appendix 5). Danes have been investing in building and construction; chemicals, pharmaceuticals and health care; food and agriculture; oil and gas; real estate; metal, plastic and electronics; printing and publishing; paper production; service and consulting; ship building, equipment and car sales/repair; telecommunications; textile; transport and logistics; wood and furniture (see Appendix 6).

Despite the intense business relations between Danish and Lithuanian companies and despite Denmark's strategic importance to the development and growth of Lithuanian economy, there has been no in-depth research made on the Danish FDI in Lithuania, neither in the academia, nor in the business research. Appendix 7 summarizes the main publicly available articles and research papers that have tackled various issues in connection with Danish firms in Lithuania.

In general, Danish investments in the emerging economies of Eastern Europe and less developed countries (LDCs) are an aspect of Danish foreign investment which is highly under-researched (Hansen, 1996). The operations of Danish companies in LDCs and Eastern Europe have been devoted little interest in the literature and apart from a series of studies from the early and mid eighties no comprehensive portrayals of Danish investments in emerging economies exists (Hansen, 1996).

1.3. The Research Question

So, how can Lithuania attract more FDI and ensure that the investors are happy with their location choice, want to expand or upgrade their businesses in the host location, if it does not know much about its existing investors, their motives, needs and thoughts?

According to Mudambi (2008), in order to analyze the multinational enterprise (MNE) location choice problem properly, it is necessary to consider both the organizational ("push") and locational ("pull") choices together. Lithuanian policy makers do know how they are willing to position the country and they have indeed analysed the areas where Lithuania is lagging behind the rest of the developed world. However, all this focuses on the location attractiveness only, i.e. the "pull" factors (Rugman in Khoury, 2009), which is only one side of the coin. Furthermore, locational factors can be of difference importance to every foreign investor, e.g. one might be attracted by the favourable taxation in a host country, another might be looking for innovative and educated personnel, etc. Following this logic, different investors will emphasize different advantages and disadvantages of a specific FDI location.

An in-depth research on one of the biggest investor countries in Lithuania - Denmark - would provide a full picture of Lithuania as an FDI location as well as build a reliable argument base for future decisions, strategies and policies. Following all the above discussion a research question comes down to the below:

Why do Danish companies choose Lithuania for their Foreign Direct Investment projects and what are the obstacles that Danish investors come across when doing business in Lithuania?

1.4. Delimitation

There is a number of important delimitations that were made in order to deliver a valid and reliable research paper as well as to conclude it within a given time frame:

- This thesis will not test specific models or theories, but rather pull the vast knowledge from most recent empirical and academic research together in order to build a research framework that will help to collect the most valid and reliable data on the case.
- As mentioned before, both "pull" and "push" factors of internationalisation are analysed in order to fully answer the research question.
- Only FDI projects (Greenfield, Joint Venture, Merger & Acquisition) are analysed in this thesis leaving out other modes of internationalisation (e.g. export, licensing, franchising). This is because FDI inflows are in general expected to bring more of the needed capital, new technologies, marketing techniques, management skills and that technology transfer resulting from FDI will go beyond actual projects undertaken by foreign investors and, through knowledge spillovers, will benefit domestic firms (Javorcik, 2004).
- Data which was provided by the Royal Danish Embassy in Lithuania is used, even though their list on Danish FDI projects in Lithuania is not complete (176 Danish investors). Consolidated data on all Danish investment projects (i.e. 264) in Lithuania is not available.
- The investment time frame is limited to 1990 – 2009; 1990 being the date when Lithuania gained its independency and opened up its market for the foreign investors and 2009 being the date when last pieces of information are available. Some attention is paid to the investment timing, because it is expected that the investment motives in early 1990s will be very different from the ones in the last decade due to the privatization waves that took place in 1990s.
- The research is carried across different industries, in order to represent the distinct differences in FDI patterns (if any).
- The research will not extend any further than the FDI motives and barriers, e.g. mode of entry will not be analysed.

1.5. Purpose of the Paper

This Master's Thesis will benefit the Lithuanian policy makers, businessmen and academia in the following ways:

- It will position Lithuania as a location for foreign direct investment.
- It will challenge or confirm the current understanding of FDI drivers in Lithuania.
- It will provide more insights about one of the biggest investor countries in Lithuania:

  - It will investigate how the perceptions of Danish investors of Lithuania have changed over time (if any) across different industries.
  - It will identify what Lithuania needs to focus on in order to attract more Danish foreign direct investment and support the existing foreign companies.
- Finally, it will build some solid background for future research.

1.6. Outline of the Paper

The remaining paper starts with the methodology section (*chapter 2*), where I describe my research approach, the type of study and the methods that I will use, data collection process and discuss the issues of reliability and validity.

The next chapter (*chapter 3*) is dedicated to the review of theories on internationalisation and foreign direct investment. I focus on the motives and barriers behind internationalisation, review several approaches to it, also study a couple of popular theoretical models. Then I compile all this theory and explain how I see the various aspects of the internationalisation process.

Next follows the data analysis part (*chapter 4*). It starts out with an overview of the research results and then continues with an in-depth research of the following: industry-based analysis of motives and barriers for Danish FDI in Lithuania; the overall analysis of internal reasons for Danish companies to invest in Lithuania ("push" factors of FDI); the analysis of locational factors attracting FDI to Lithuania ("pull"); analysis of the main problems that Danish companies come across in Lithuania and subsequently – analysis of the most necessary improvement in Lithuania; comparison of the research results with experts' of the matter opinion.

Last but not least, research findings are discussed in light of the theoretical framework and finally, conclusion (*chapter 5*) closes the paper.

The outline of the paper is drawn in Figure 1.

2. METHODOLOGY

In this chapter the reader is given an understanding of the scientific methods that were used in the study. I explain the construction of my thinking, why I chose a specific research design and strategy, how I will collect the necessary data and how I will practically perform the research. The reader can also find a critical evaluation of the chosen research methodology.

2.1. Reasoning Approach

In order to address the research problem, several alternative types of research strategies are available. In principal, there are two methods of reasoning when addressing the problem in a thesis: deductive, which is the line of arguments, and inductive which is the line of discovery (Andersen, 2001). Inductive reasoning by its very nature is more open-ended and exploratory, especially at the beginning. Deductive reasoning is narrower in nature and is concerned with testing or confirming hypotheses. However, most social research involves both inductive and deductive reasoning processes at some time in the project (Trochim, 2006). In this paper I will address the research problem applying a combination of two approaches. Alvesson and Sköldberg (2000) would call it abduction - the process of creating a new combination of features that have not earlier been associated with each other and the outcome is a new creative idea.

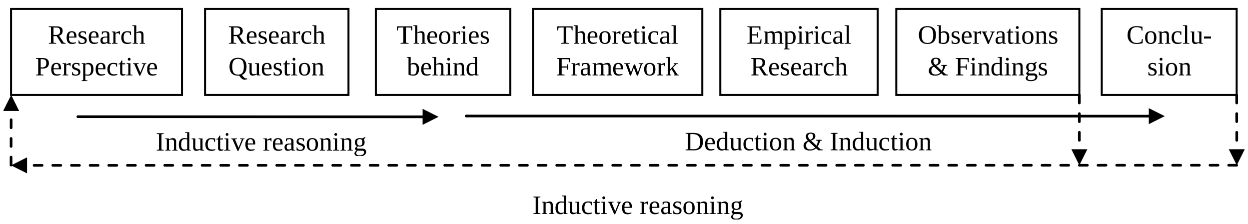


Fig. 2: Inductive and Deductive Reasoning in the Research Process. Source: own.

As Figure 2 shows, I use most of the inductive reasoning in the very beginning, where I mainly apply my own personal observations and thinking. It is in the early stages of the thesis where I start questioning: "what arguments are Lithuanian policy makers building the FDI promotion strategies on? why so many Danish companies engage in FDI projects in Lithuania? what are the main drivers that make them chose this specific little country and what obstacles do they overcome? etc.". Abduction is present in the stage where I choose the most relevant theories that could potentially answer some of my questions: since there is basically no literature on Danish FDI patterns in Lithuania, and loads of literature on internationalization in general, I find my own ways of using it for the Lithuanian case. I am deductive, when based on the knowledge I already have, I construct theoretical and empirical research frameworks. When I gather data and analyse the research findings I am both: deductive and inductive, because some of the findings just confirm the theory (they were expected), others are new and unforeseen. When I start the closing discussion, I again use inductive reasoning, because I raise new questions and an open-ended debate.

2.2. Discussion on the Type of Study

According to McDaniel and Gates (2006) research study can take the form of a descriptive study, an exploratory study or a causal study. McDaniel and Gates describe that exploratory research is conducted to increase the understanding of a concept, to clarify the exact nature of the problem to be solved, or to identify important variables to be studied. A descriptive study tries to portray reality as it appears and can as such be very helpful in gaining accurate data on existing variables. The main difference between exploratory and descriptive research lies in the design: while exploratory research allows the researcher to gain better insights on the topic to be researched, descriptive research is conclusive; it aims to provide an answer to the who, what, when, where, and how questions. Finally, the causal research tries to investigate the relationship between variables and determine if there is a correlation or causation. It is usually carried through laboratory or field experiments, what makes it very complicated.

In order to determine the most appropriate research approach for this study, it is necessary to look at the type of information needed to answer the research question. As we know, the purpose of this thesis is to *determine the main drivers and barriers* that Danish investors connect with FDI opportunities in Lithuania, across the different industries. Causal study, based on its definition is the first study type to be rejected. When investigating the problem of Danish MNCs location decisions, this project leads to an in-depth research, which goes beyond descriptive study. A descriptive study can provide me with information such as which companies invested in Lithuania, how many of them, which areas they invested to, how much, etc. It is indeed something very important, but this type of information is already available in the secondary data sources (see next section). Descriptive data cannot provide the answer *why* Danish companies chose Lithuania as the location for their FDI.

To get a full understanding of the problem at hand, it is therefore necessary to go beyond mere observation, and perform an exploratory study. This study will provide me with the flexibility in the research process, which is especially important, because I am interested in gathering information on the opinions, attitudes and intentions of the respondents.

I acknowledge certain weaknesses adherent when using the exploratory study approach. Firstly, in an exploratory study the researcher has to interpret the findings. In this way I open myself up to the possibility of acquiescence, administrative and auspice error. Another weakness of the method chosen is the fact that it is difficult to project findings of the research onto the entire population, i.e. all the investors from different countries and cultures in Lithuania. However, this is partly countered by the fact I have chosen the major part of investors (i.e. 176 out of 264) from one of the biggest investor countries (as well as from different industries) in order to get a more accurate reflection of the population.

2.3. Research Method

The two most common research methods which are relevant when collecting and measuring information and data are the quantitative and qualitative research methods.

McDaniel and Gates (2006) define qualitative research as one whose findings are not subject to quantification or quantitative analysis, whilst quantitative research uses mathematical and statistical methods to analyze results and reveal information. Qualitative research often provides a lot of information at a lower cost than quantitative research. Insights gained as a result of qualitative research can be used to improve the efficiency of quantitative research.

When choosing among these two research approaches it is again important to consider which research problem I am facing, and what kind of information I need to solve it. Since in this study I need to understand the in-depth motivations and thoughts of the Danish investors, I am going to build my research on the qualitative method. Its unstructured approach will allow the research participants to express themselves freely and provide answers and insights that I may not have even thought of. Furthermore, this method will increase the validity and reliability of my study due to the fact that I will collect primary data, own words of the Danish investors. Validity and reliability aspects will be further discussed in the following sections.

On the other hand, all qualitative data can be coded quantitatively and all quantitative data is based on qualitative judgment (Trochim, 2006). In that sense it could be argued that my research will have a quantitative aspect, since the results of the qualitative research will be coded and given values in order to be able to analyse and compare them.

Since there is no formal marketing research certification body, any individual can claim to be a qualitative expert (McDaniel, 2006). Qualitative research is subject to a subjective and interpretive analysis, therefore a non-qualified researcher can seriously affect the quality of it.

This is why the results of this research might not be considered representative of the population and the readers of this study might not take it seriously. As will be described later, I will use a method of triangulation which will allow me to verify the findings with two experts of the topic and thus make the conclusion much more reliable. Another drawback of qualitative research is that results cannot be compared across samples due to the unstructured data collection approach, which in turn eliminates the possibility of uncovering differences in attitudes and opinions. Finally, since most qualitative research techniques require the presence of a researcher, participants may feel uncomfortable answering sensitive questions, which may lead them to either decline to answer or answer dishonestly.

2.4. Data Collection

This project is based upon both primary data (when the researcher has collected data personally) and secondary data (already existing data). Several sources of secondary and primary data will be used in the research. They are all summarized in table 1.

Table 1

Sources of data

Secondary data	Primary data
Articles & Working Papers	Self-administered Survey
Books & Magazines	
Brochures	
Reports (yearly/quarterly/special/public/commercial)	Telephone Survey
Databases (national/international)	
Web-pages (company/(non-)governmental org./news)	

Source: own

2.4.1. Secondary Data

According to Blumberg (2005) secondary data is relatively quick to gather as well as cost effective, but one should be aware that it might not be fully relevant and may be dated. This however, has not been a big concern with this project as the main secondary data used was collected from the newest data sources and when it comes to reports and statistic data, these are from 2009 or even the beginning of 2010, which I believe, enhances this project very much. The poorest secondary data comes from the researched companies' websites, because a lot of them have not been updated for quite some time. It becomes especially relevant when I need to find some company history or contacts for its management.

2.4.2. Primary Data

For the collection of primary data I have chosen two survey methods: semi-structured telephone survey and self-administered survey.

Telephone survey is the ideal data collection method, because it will allow me to collect first hand data, i.e. insights of the decision makers in the Danish companies that invested in Lithuania, at the lowest cost. This data will be of high quality, since it will be one-on-one talks, with no other people who might make the interviewees feel uncomfortable involved. It will provide me with a possibility to interview people that are based in long distances from me. It is also quite flexible, as it will allow me to redirect the questions the way I prefer as well as the respondent will be always able to expand and cover topics that I did not initially think of. However, the phone survey will still be semi-structured in order to make sure that all necessary aspects are covered during the conversation.

Self-administered (e-mail) survey will also be used in the first stages of primary data collection. This is because of several reasons:

- There are 176 companies to be interviewed, which is extremely time consuming. This is why I need to use another instrument that can provide me with the same information, but in much less time and cost – i.e. open questions listed in an email or a questionnaire that one can print out, fill in and send back to me.
- Given the fact that many interviewees will not be available at the time I call, I need to make sure my data collection instrument provides them with flexibility: some of the respondents will be on holiday, in a meeting or will not be the exact persons to talk to. A self-administered survey will allow them to answer my questions at any time comfortable to them as well as will provide the possibility to forward the questionnaire to a more relevant person.
- More than half of the Danish companies I need to interview are very small, i.e. have 2-10 employees, which makes me think that their managing directors will not be so busy or unwilling to participate in the survey. If they could all fill in a self-administered questionnaire and I could tick them off the list of companies to be called, I would save loads of time.
- Finally, according to Blumbeg, (2005), self-administered survey will allow me to contact otherwise inaccessible respondents, e.g. CEOs.; will provide them with more anonymity as well as time to think about the questions.

It is important to be aware of the disadvantages of the primary data collection method:

- Accurate telephone numbers and mailing lists are necessary, which are difficult to get.

- The response rate of a self-administered questionnaire and of the telephone survey is usually very low. This is especially relevant in my case, because I will most likely need to get the insights of high-level managers within different companies, i.e. CEOs, managing directors, regional managers or heads of the business development department, etc. These people are usually very busy and unwilling to participate in academic surveys.
- Due to the above reason the respondents might be very anxious to finish the interview, hence not that comprehensive in their answers, dishonest.
- Some language barriers are to be expected, since neither the respondents' nor mine native language is English.
- The question list cannot be long or complicated and when it comes to self-administered surveys, I am not there to explain the questions in case the respondent does not understand.
- The self-administered survey is semi-structured, so some of the respondents might not find the answer they are looking for. To avoid that, I will provide an answer "other" in most cases.
- My credibility as a student interviewer is very low, because I am not representing any business or (non-) governmental organisation, neither am I a CBS professor or employee.
- There are no immediate benefits that the respondents can get out of the survey. They might be willing to help the Lithuanian policy makers and in the end expect the business environment to change in Lithuania for their benefit, but this is not of significant importance.
- Since I will be using two different data collection methods, it might be quite difficult to compare the data afterwards, especially when the phone interview is so much more flexible and the answers of the e-mail survey respondents can be less complete.
- I will also be the one who will interpret the data in the end. I might be subjective or not competent enough to analyse the range of data.

Despite the above disadvantages, a survey still remains the most suitable and insightful primary data collection method. Having performed a number of online and telephone surveys during my past 6 years of university studies I should be able to secure an effective data collection and analysis process.

2.6. Data collection process

Since my point of interest is managing directors, area managers, CEOs and other people at very high positions, I will approach and interview them in a slightly more formal and individually tailored way. Instead of calling the respondents without a prior arrangement, all of them will receive an e-mail that will have the following information:

- Introduction to the surveyor;
- Presentation of the survey and its main purpose;
- Required effort from the respondent - provided in order to allow the respondent plan his time and also ensure that the respondent knows it will not require too much effort;
- Ways to participate - as mentioned before, provided in order to give some flexibility to the busy businessmen, collect as much data in as short time as possible and reach otherwise unreachable respondents:
  - Telephone survey - requesting for date, time (in order to match their schedule) and direct telephone number, which is normally unavailable in public telephone directories.
  - Self-administered survey – providing a respondent with a possibility to answer the questions in writing.
- Anonymity assurance;
- Suggestion to send the survey results to the respondent, should he be interested.

A copy of the e-mail is provided in Appendix 8.

Since my respondents will be of very different backgrounds, I have to account for the fact that not all of them are familiar with the scholarly business language. Furthermore, in some cases I might be talking to a less relevant person or to someone who was not a part of the company when it initially entered the Lithuanian market. Because of this I will try to keep the questions simple and short, also allow the respondents to elaborate on a specific question as much as possible, so that I get the full picture of the real situation and can draw the most reliable conclusion in the end.

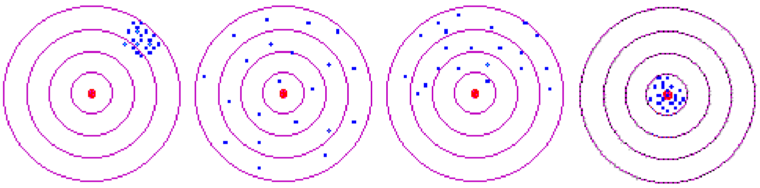
I will be following a logical questioning sequence and start out with some warm-up, close-ended, classification questions, continue with the main body questions and close with slightly broader questions, allowing the respondent to say what he hasn't had a chance to say or provide some expert comments, should she want to do that. Appendix 9 is a copy of the questionnaire which will be included in the e-mail that will be sent to every respondent. Same questions will be asked during the telephone interview, except for the fact that in questions 7 and 8 the respondent will have an open ended question and no check list, also the questions might be asked in different sequence of wording, depending on the course of the telephone interview. The list of questions is as follows:

- Name of the company
- Industry type

- Year it was established in Lithuania
- The "story behind" or why did the Danish company decide to expand into foreign markets
- Description of the Lithuanian subsidiary operations
- The range of countries considered for these operations
- The main reasons to choose Lithuania and not another country
- The main problems that the Danish company has come across in Lithuania
- Overall ranking: would they recommend other companies to establish in Lithuania? Why?
- Future perspective: plans to expand, disinvest, etc.
- Ideas on the most necessary improvement in the Lithuanian business climate and other comments, if any.

2.6.1. Reliability and Validity

There is a list of different kinds of reliability and validity in a research. A measure is considered reliable if it gives us the same result over and over again. Validity, on the other hand, refers to the approximate truth of propositions, inferences, or conclusions (Trochim, 2006). Every researcher, of course, aims for the valid and reliable research results, which are both closely related: the measure can be consistent, but wrong; it can be a valid estimate, but inconsistent; in worst cases it is neither valid, nor consistent; finally, it can be both valid and consistent:



Reliable not Valid   Valid not Reliable   Not Valid not Reliable   Valid and Reliable

Fig. 3: Reliability & Validity. Source: Trochim, 2006

Conducting a useful and informative study seems to be pretty easy, but in practise it is very difficult to choose the right questions, proper measures, etc. because of the vast majority of choices available. Two of the primary criteria of evaluation in my thesis measures are:

1. Whether I am measuring what I intend to measure – validity.
2. Whether the same measurement process yields the same results – reliability.

In order to make sure that the outcome of this study is as reliable and as valid as possible, I will build my questions in a way that they are short, easy to understand and by no chance equivocal. Before the interview I will provide the respondents with some background of this study, so that I establish some credibility and reduce the possibility of bias. When it comes to the self-administered survey, an option “other” will be provided so that the respondents can elaborate on their answer in case it is not included in the check list. Since I am going for the qualitative research and interviewing the Danish company representatives that are directly related to the decision to invest in Lithuania, I expect them to provide reliable answers to my questions. All companies will be given a possibility to stay anonymous, so as long as the respondents have a clear memory of why they made a decision to establish themselves in Lithuania, they should not be falsifying their answer. The same applies to the barriers that Danish investors associate with (re-)investing in Lithuania: respondents should be concerned with the business environment there, since this is directly affecting their company. Thus they should provide me with valid and reliable answers.

2.6.2. Triangulation

One more qualitative research method – *triangulation* – will be used in this research for two main purposes:

1. To enhance the validity of the research findings, i.e. to check if the findings are really true and credible;
2. To compare the research findings with how experts of the topic see it, i.e. to check if an academic research will yield results which are anyhow different from the existing knowledge and practice.

After the primary data has been collected, two experts of foreign investment in Lithuania will be contacted. One of them is the Head of the Investment Promotion department in the Lithuanian Development Agency (http://www.businesslithuania.com/en/index.html), which is a public organisation under the Ministry of Economy of the Republic of Lithuania. This organisation provides all kinds of information to foreign investors, consults them, helps to build a reliable contact network, guides through the whole investment in Lithuania process and provides aftercare. This institution can be a first-tier contact with Danish investors, interested in business opportunities in Lithuania. Another person that will be interviewed is the Executive Director of the Investor’s Forum (http://www.investorsforum.lt/en). It is an independent and self-managed business association of the largest and most active investors in the Lithuanian economy, who have a mission to improve the business environment and investment climate in Lithuania, through cooperation with public institutions and the business community.

Both experts will be interviewed separately. They will be first asked to answer the below questions:

1. What are the main reasons why Danish companies choose Lithuania for their foreign direct investment projects?
2. Do you think the factors that have encouraged Danish companies to establish in Lithuania have changed over the past 20 years? How?
3. Which industries are the most popular amongst Danish investors? Why?
4. What do you think about the quality and quantity of knowledge that foreign investors have over the business opportunities in Lithuania?
5. What is the most necessary improvement in Lithuania which would help to attract more Danish (or foreign, in general) investors?
6. What would you expect the representatives of Danish companies (that are doing business in Lithuania) to answer into the question: “would you recommend other companies to establish in Lithuania?”

Both interviewees are expected to have a lot of useful insights, as they have been working in this area for quite a few years. Furthermore, these two institutions have concluded a number of different research projects, concerning the business climate in Lithuania, held a number of conferences, workshops, been involved in a number of projects with business and governmental stakeholders, published a number of articles and books, though none of them were on the motives and barriers for FDI in Lithuania, not to talk about the Danish FDI. With the help of triangulation most of the errors in my interpretation of the survey findings should be eliminated and a piece of other relevant information should complement my findings.

2.7. Course of Action

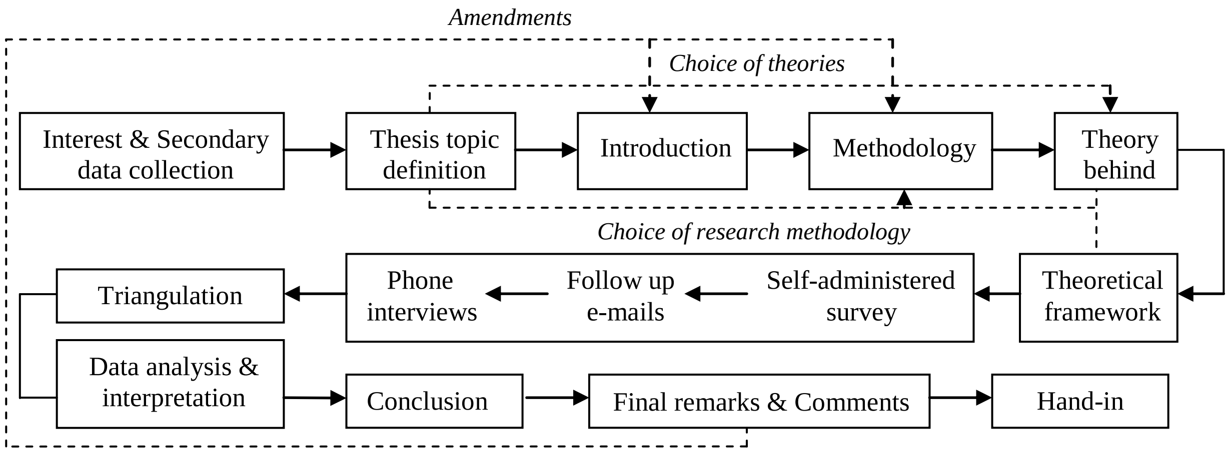


Fig. 4: Course of action. Source: own

Initially the work on this thesis started early in 2010, when I started collecting the first information and insights. The actual writing process started on 12 March 2010, as soon as the thesis topic was confirmed. During the first month the majority of thesis Introduction and Methodology were finalised. The next few months were dedicated to the review of books, articles, collecting the most relevant theory behind the thesis topic and finally drafting the theoretical framework.

The months of June and July were spent on data collection. First, e-mails were sent out to all the managing directors, CEOs, regional managers and other relevant representatives of Danish companies in Lithuania. Many e-mails needed a follow up, because respondents were on holiday or unavailable. E-mails were followed by a number of telephone interviews, several meetings in person and discussions via e-mails (described in chapter 4). Once the available data had been collected, two foreign investment promotion specialists in Lithuania were contacted for the data triangulation purpose. The month of August 2010 was dedicated to analysing the research results and writing the conclusions. Some minor amendments were made to the thesis and it was finalized in September 2010.

3. THEORY

In this chapter the reader is provided with a general understanding of internationalization theory as well as more detailed explanation of FDI motives and barriers. It starts out with the presentation of the theoretical framework, which is built of some classical FDI theories and more recent academic knowledge on location choice drivers and obstacles. The constituents of the framework are then explained in more detail.

3.1. Theoretical framework

In order to answer the research question, a number of different theories need to be employed. Single models are not sufficient to explain the specific motives that drive Danish investors to choose Lithuania for their FDI projects, thus I am merging several theories and models, cutting bits and parts of them, which are the most relevant for the Lithuanian case. By doing that I fill out the gaps and provide answers that the major theories were not able to provide.

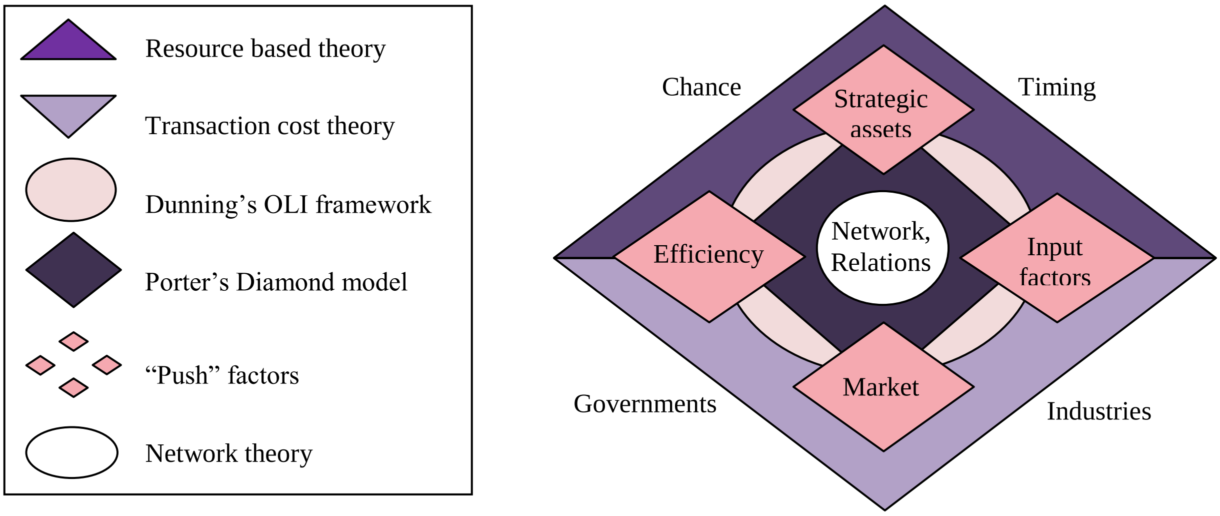
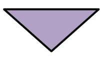


Fig. 5: Theoretical framework. Source: own.

Figure 5 delineates this paper's theoretical framework. In the background we have four traditional economic theories:

1)  *The transaction cost perspective*, which besides explaining why firms engage in FDI rather than relying on arm's length transactions, emphasizes that firms operate in markets where the transaction costs are lower and the overall MNE costs can be minimized (see 3.2.1.). I believe that this theory can by a large extent explain the FDI motives of market, input factor and efficiency seeking MNEs (Dunning, 2008).

2) *The resource based perspective* can explain the FDI motives of the strategic asset seeking MNEs (Dunning, 2008), which are trying to maximize the value through pooling and utilizing valuable resources (see 3.2.2.) Unlike the TC theory, which focuses on low cost, this theory can explain why these days we see more and more investors who are driven to explore foreign markets in search of skills, knowledge and innovative capacities.

3) I introduce *Dunning's OLI paradigm* (2008) in my framework, because OLI is a very popular model, that summarizes many of the major international business theories. It explains when firms decide to establish themselves abroad, what mode of entry they prefer to choose and which host-location they enter (see 3.2.4.).

4) *The network (relationship) perspective* is relatively new in the academia, but I find it essential in this research, because it describes how important the formal and informal relations are; that personal ties or willingness to enter specific actor networks can downgrade the importance of low cost, for example. The network theory can answer why some of the MNEs' behaviours might seem irrational and how important trust and relations can be (see 3.2.4.).

In theory MNEs' internationalisation motives are usually grouped to internal (push) and external (pull):

"Push" drivers (see 3.3.1) are the firm-specific FDI motivators, describing the main goals of an internationalising firm (or simply put – why MNEs want to open a subsidiary abroad). I group them into four categories: market-seekers, input resource seekers, efficiency seekers and strategic asset seekers (Dunning, 2008). On top of that I suggest a category of network/relationship seekers, in order to include the firms whose internationalisation patterns can be explained by the network theory.

"Pull" drivers (see 3.3.2.) are location-specific and include a number of factors that form the host-country's investment climate. I provide a long list of "pull" determinants which are most usually mentioned in the FDI literature and use Porter's Diamond model (1990) in order to group them. I acknowledge that this list may not be comprehensive and may differ from location to location.

In order to analyse the locational disadvantages (to answer the second part of my research question) I translate the "pull" factors to weaknesses of a host-location, e.g. high labour cost vs. low labour cost, high tax vs. low tax, etc. (see section 3.5.) and provide a list of FDI barriers that can withhold an investor from entering a specific country or expanding there.

Finally, I include four extra dimensions in my theoretical framework, i.e. *industry, government, timing and chance* (see 3.4.):

- Logically thinking, companies in different industries are likely to be pushed to locate in a specific country because of different reasons: in manufacturing they might be looking for abundant natural resources or low labour costs, whereas in R&D intensive industries firms will most likely want to exploit the local knowledge and talent, etc.
- I also acknowledge the strong influence that governments can have on all the firms and markets. Governments are an integral part in all the previously mentioned theories: they have both direct and indirect influence over the economical, politic and social situation in the host-country and they are often playing an important role in various local or international networks. Therefore, governments' power influence should never be underestimated.
- Timing is very important in a sense that the investment climate as well as the business trends in general change very fast these days. For example, Danish companies' motives to invest in Lithuania in early 1990s, when the country just escaped the Soviet Union, might have been very different from the ones that exist today, when Lithuania is one of the fastest growing and developing countries in Europe.
- I use "chance" to describe the unexpected, unplanned or unintended changes in the business environments (e.g. financial crises), firms' strategies (e.g. radical innovation) and even in the whole world (e.g. the break of Soviet Union). Chance is not likely to take place every day, but during my analysis period, i.e. 20 years, chance might have played an important role in Danish firms' internationalisation paths.

Next sections break the theoretical framework into smaller parts and analyse them in detail.

3.2. The Internationalization Process

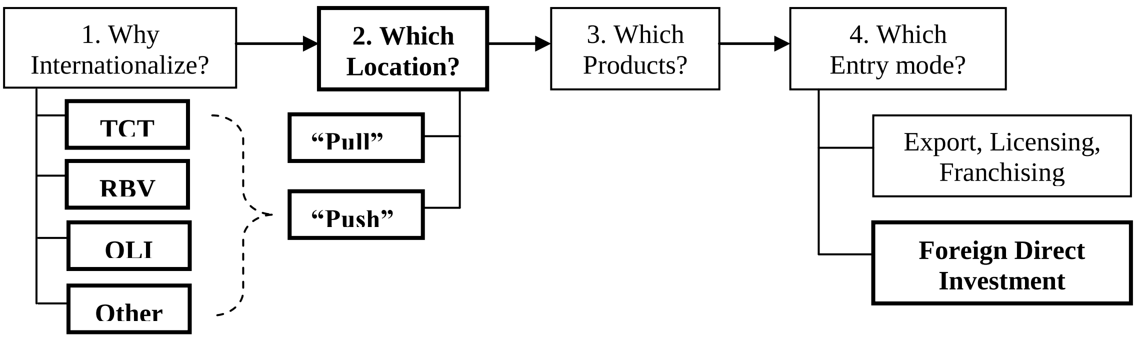


Fig. 6: Internalization process. Source: own, inspired my R. Mudambi (1999, 2008) and Lewin (2008)

Figure 6 shows what decisions a firm makes before it establishes itself abroad. It might seem very simple, but indeed every step involves a number of complex decisions. The darker boxes in the picture emphasize the areas which I will focus on in this thesis.

1) Lewin (2008) distinguishes between three types of arguments that have traditionally been used in the literature to explain firm level internationalization processes: the market approach (built on the resource-based view), the internalization approach (emerging from the transaction cost perspective) and the Dunning's OLI approach. Besides these three, network and relationship theories have not so recently emerged in the literature (Håkanson 1987, Callon 1991, Latour 2005, etc.). I am going to briefly introduce these, as I find them to be very important for further discussion, especially when explaining what motivates a multinational enterprise to choose a specific FDI location.

2) A review of the literature reveals that firms may be influenced by more than one motive to establish themselves abroad. According to Óladóttir (2009) motivational factors could arise from success in the domestic market, a saturated domestic market, a geographical location advantage, due to some technological improvements or due to any other motive. Initially, most firms invest outside their home countries to acquire natural resources or gain access to markets. As they become increasingly multinationalised, they use their activities abroad to improve their global market condition by raising their efficiency or acquiring new sources of competitive advantage (Dunning, 1993). The motives can vary from firm to firm based on past experience, current market circumstances, future market trends as well as the advantages which a specific location can offer. The motives list could be endless (Óladóttir, 2009) and stem from internal and external sources to the internationalizing firm (Mudambi, 2008). Firms combine the comparative advantages of geographic locations with their own resources and competencies to maximize their competitive advantage (Mudambi, 2008). All these aspects will be analysed in great detail and serve as a basis for the empirical research.

3) 4) Beyond the international diversification choice lie two other important decisions. The first decision concerns the choice of output, or what should be produced in the foreign market (Mudambi, 1999). This aspect is not at all the focus of this thesis, hence it will not be analysed. A second decision is of a more operational nature, and involves the choice over the mode of foreign entry. The MNE must decide whether to enter a market through foreign direct investment (i.e. Greenfield investment, Mergers & Acquisitions, Joint Ventures) (Mudambi, 1999) or through arms-length transactions (i.e. export, licensing, franchising) (Meyer, 1998). As it was mentioned in the introduction, the focus of this paper is only on

FDI, because of three reasons: FDI is considered a primary source of future sales and profit growth for MNEs (Mudambi, 1999), FDI is an important source of capital and a strong impetus to economic growth for FDI receiver countries (Binsaeed, 2009) and finally, the data availability for this project allows only the research on Danish FDI projects in Lithuania.

3.2.1. The Internalization approach

The roots of internalization theory are in the transaction cost theory (TCT) initiated by Coase (1937) which was largely developed by Williamson (1975, 1981, 1985) (Meyer, 1998). Essentially the TC approach explains why firms prefer to organize production internationally instead of simply relying on arms-length markets, e.g. through exports or licenses. Hennart (1991) provides a brief but comprehensive explanation of how the TCT works: in practice markets are never fully efficient and MNEs incur additional costs of operating in foreign environments, namely the information search and asymmetry costs, contract enforcement and bargaining costs. These costs occur through economic exchange and are determined by the economic exchange frequency, specificity, uncertainty as well as the economic exchange agents' bounded rationality and opportunistic behaviour. Bounded rationality arises due to incomplete information and information asymmetry, while opportunism is an attribute of human nature, meaning that one party of the exchange can take unfair advantage of other exchange parties involved. In order to eliminate these transaction costs, MNEs prefer hierarchies rather than arms-length market transactions. Cross border hierarchies are typically associated with foreign direct investment (FDI), that is investment undertaken in a foreign activity with the aim of obtaining management control of that activity (Hansen, 2004).

Primarily, the transaction cost theory can explain the reasons why Danish companies choose FDI rather than another choice of market entry mode. However, TCT can be also used to understand the economic reasons (i.e. cost related) for choosing specific FDI locations:

- Danish companies will engage in foreign direct investment projects because the market for raw materials and intermediate inputs is characterized by high transaction costs and/or Danish investors want to control the quality of their production or services.
- Danish investors will chose Lithuania and not another location because of lower transaction costs associated to operations in this country: e.g. lower liability of foreignness, higher frequency of operations, lower transaction uncertainty, lower bargaining and contract enforcement costs, and the like.

3.2.2. The Resource-based view

In contrast to the transaction cost logic, which emphasizes cost minimization, the resource-based approach emphasizes value maximization through pooling and utilizing valuable resources (Das, 2000). The resource based approach emerged in late 1960s, with the first works of Penrose (1959) and were later developed by a bunch of authors, with Williamson (1975), Hymer (1976), Grant (1991) amongst them.

Unlike traditional industrial organisation economics, which relies heavily on the analysis of the competitive environment, the resource-based view (RBV) focuses on the analysis of various resources possessed by the firm, e.g. human resources, technological and managerial practices, culture, patents, copyrights, trademarks, other property or knowledge based resources. Because many of them are firm specific and not perfectly mobile and imitable, firms are continuously heterogeneous in terms of their resource base. Sustained firm resource heterogeneity thus becomes a possible source of competitive advantage, which then leads to economic rents or above normal returns (Das, 2000).

It is not enough to possess and deploy firm’s resources – it is of utmost importance to develop and upgrade them. This includes replacement investment to maintain the firm's stock of resources and to augment resources in order to buttress and extend positions of competitive advantage as well as broaden the firm's strategic opportunity set. Such "upgrading" of competitive advantage occupies a central position in Michael Porter's analysis of the competitive advantage of nations. Porter says that the ability of firms and nations to establish and maintain international competitive success depends upon the ability to continually innovate and shift the basis of competitive advantage from "basic" to "advanced" factors of production. In order both to fully exploit a firm's existing stock of resources, and to develop competitive advantages for the future, the external acquisition of complementary resources may be necessary (Grant, 1991). Firms may use alliances or mergers and acquisitions to obtain resources possessed by other forms that are valuable and essential to achieving a competitive advantage (Das, 2000). Just as well as the latter, multinational companies may enter foreign markets and acquire a local company, make a joint venture agreement or just establish their own firm and source the valuable resources from local partners and other local market players.

According to RBV, Danish companies will choose Lithuania as the location for their FDI if:

- There are a lot of valuable (i.e. unique, cheap, scarce, etc.) resources in Lithuania that

Danish investors could obtain and which would increase / sustain their competitiveness.

- The costs related to investing in Lithuania in order to gain the above mentioned resources are still significantly lower than the value of the investment.
- The Danish investors can easily retain, deploy and most importantly – continuously upgrade these resources.

3.2.3. The OLI approach

As an attempt to integrate different theoretical approaches to FDI, John Dunning proposed an Eclectic paradigm, called the OLI paradigm. Dunning has been developing this approach for many years (1977, 1981, 1988, 1993, 2001) trying to explain why a firm becomes an MNC, using the Ownership, Location and Internalization advantage arguments.

Table 2

The Eclectic paradigm

Ref. to Fig. 5	**Advantage**	**Description**
O *RBV*	Ownership	The MNC must possess ownership of some firm-specific tangible or intangible asset or skill that gives it a benefit over other firms. Otherwise, it would not be able to overcome the additional costs of foreign production such as the costs of dealing with foreign administrations, regulatory and tax systems, and customer preferences, and would become non-competitive in comparison with the indigenous firms.
L *Diamond*	Location	The MNC will engage in FDI in a specific location if it will be more profitable to use the ownership advantages in combination with at least some factor inputs located abroad (locational advantage), e.g. low input price, productive, skilled, innovatory labour force, good infrastructure, investment attraction policies. If not, the foreign market could be served exclusively through exports, licensing or franchising.
I *TCT*	Internalization	It must be more beneficial for the firm to use or exploit the firm-specific assets itself, than to sell, lease or license them to other firms. For example, the firm-specific asset might be a brand name or a non-patentable managerial skill or process, which the firm might find in its interest to keep internally, instead of licensing, in order to prevent the asset from being replicated by its competitors.

Source: Pessoa, 2008 and Dunning, 2008

Given that indigenous firms certainly have superior knowledge of the local market, consumer preferences, and business practices, the MNC candidate must enjoy three compensating advantages: ownership advantage, which mainly derives from the resource-based theory; internalization advantage, which is inspired by the transaction cost theory and the location advantage, coming from the locational theories (see section 3.3.). At any given moment of time, the more a country's enterprises – relative to those of another – possess desirable ownership advantages, the greater the incentive they have to internalize rather than externalize their use, the more they find it in their interest to access or exploit them in another foreign location, then the more they are likely to engage in outbound FDI (Dunning, 2008).

Coming back to this paper‘s research question, OLI would suggest that Danish companies will establish in Lithuania if this is where they will have a significant advantage over competitors (i.e. posess an asset or skill that local companies do not have, or exploit some Lithuanian assets, which other competitors do not have access to). The ownership of this advantage will be so important that the investor company will want to keep it internally instead of e.g. licensing it.

3.2.4. Network & Relationship theory

Nordic researchers are considered to have taken the central role in the development of the network perspective (Björkman, 2000). Their case studies have shown that the establishment of a company’s oprations in foreign markets has been influenced by the relationhips gradually formed in that particular market. The process of internationalisation is seen as building on existing relationships or creating new relationships in international markets, with the focus shifting from the organisational or economic to that of the social (Vasilescu, 2008). It is the social and cognitive ties that are formed between actors engaged in business relationships that influence the interaction between, not the strategic decision making (Björkman, 2000). Network approach suggests that FDI can be explained, at least in part, by the fact that other firms and people who are involved in a national network themselves internationalise (Vasilescu, 2008). It is people who make the decisions and take the actions. It is the existing actors who influence the entry of new firms into a foreign market. Networks can be analysed and understood in three different dimensions (Table 3).

Table 3

The levels of Network/Relationship theory

Level	Explanation
Macro	Rather than the environment being seen as a set of political, social and economic factors, network theory would see it as a set of diverse interests, powers and characteristics which may well impinge on national and international business decisions. To enter new markets a firm may have to break old relationships or add new ones.
Inter - organizational	Firms have different relationships to one another in different markets. They may be competitors in one market, collaborators in another and suppliers or customers to each other in a third. If one firm internationalises, it may draw other firms into the international arena.
Intra - organizational	Relationships within the organisation may also influence the decision making process. If an MNE has subsidiaries in other countries, decisions may well be taken at the subsidiary level which increases the degree of international involvement of both the parent MNE and SMEs in the supporting value chain. This of course depends on the degree of decentralisation of decision making permitted by the firm.

Source: Vasilescu et al. 2008, Björkman et al. 2000

Strange et al. (2009) found some empirical evidence that it is both family and non-family insider shareholders who exert influence over the choice of MNE's FDI location: "the greater the shareholding of the largest family or non-family in the parent company, the more likely the foreign affiliate will be located in the areas where there are strong cultural and historic links with the home country <...> External relational linkages are also very likely to have a great impact upon the location of the foreign affiliate". It is worth mentioning, that Strange's empirical research was made in Asian countries, where family and relationship are the biggest cultural values. Despite of that, network and relationship theories are strongly supported by many other academics (see Vasilescu et al., 2008 for a full list).

Meyer et al. (2000) argues that many of the resources crucial for international business are knowledge-based. Besides the knowledge on how to do international business, they include foreign country specific expertise (knowledge on local markets, business practices, institutional conditions). Country-specific expertise is arguably of particular importance in transition economies, e.g. Eastern Europe, because market entrants need to overcome administrative and cultural barriers that arise with the specific business culture formed during the region's history, and amended by the socialist experience of the 20th century. Moreover, the incomplete institutional framework poses special challenges for inexperienced newcomers. Eastern-Europe specific knowledge may reside in the firm itself, in its national business environment, or in its business networks at home and abroad.

Even though Lithuania is no longer considered to be a transition economy (see Hessels, 2008), it still is a very specific FDI location due to its recent experience and history. Thus if we follow the network and relationship theory, Danish investors who choose Lithuania for their FDI are very likely to be embedded in local and/or foreign networks that include many Lithuanian players (e.g. suppliers, customers, competitors, partners) or Danish firms' insiders have tight relationships with Lithuanian actors, who draw them to invest in the Lithuanian market (e.g. friends, fellows, family, other points of contact). In addition, Lithuania and Lithuanians region-specific expertise can be an essential link in the Danish – Russian / Eatern European / Baltic network.

3.3. Determinants of FDI

As in every market, we can define supply and demand side in the market for FDI. Supply side of the FDI market consists of MNCs that have motives to invest in a specific host country.

Demand side of the FDI market consists of national governments and other economic units in the host country that will be sublimed under the national government (Babic, 2001).

In the literature, the supply and demand factors are very often called push and pull factors, push being firm-specific and pull being location-specific. Empirically, many studies tend to analyse either one of them, most usually – the pull factors, but according to Mudambi (2008), in order to analyze the MNE location choice problem properly, it is necessary to consider both the organizational ("push") and locational ("pull") choices together.

3.3.1. "Push" or Firm-specific motivators

To analyse the reasons for the internationalisation of MNEs I will use John Dunning's (1993) approach, which says that MNEs establish themselves abroad for the following reasons: they seek to exploit prior advantages from the market (*market seeking*), low cost factors (*resource seeking*), other externalities and location factors (*efficiency seeking*) or search for complementary assets to be combined with their own (*strategic asset seeking*) (Perugini, 2008). Dunning and Narula (1995) grouped the first three strategies into a more general category named 'asset exploiting', and used it in contrast to the fourth category 'asset augmenting' (Lewin, 2008). In my opinion, 'asset augmenting' should be supplemented with one more strategy – '*network seeking*' which has been recognized before as a very important reason for firms to internationalise.

Table 4

The "Push" factors of FDI

<table>
<tr><th colspan="2">FDI Motives</th><th>Description</th></tr>
<tr><td rowspan="2">Asset exploiting</td><td>Market seeking</td><td>The purpose of this FDI is to invest in a particular country or region to supply goods/services to markets in these or in adjacent countries:
• To sustain or protect existing markets, to exploit or promote new markets.
• To adapt products to local tastes or needs, to cultural mores, indigenous resources and capabilities.
• As part of its global strategy MNE may consider it necessary to have a physical presence in the leading markets served by its competitors.
• Tariff-jumping or export-substituting FDI is a variant of this type of FDI, because the production and transaction costs of supplying the host-market from a distance can be very high.</td></tr>
<tr><td>Resource seeking</td><td>MNEs invest abroad to acquire particular and specific resources of a higher quality at a lower cost than could be obtained in the home country. Three types of resource seekers:
• Physical resource seekers – usually primary producers and manufacturers, driven to engage in cost minimisation or secure the supply sources. Many of these resources can be location-bound, e.g. oil and gas, agricultural products, tourism, medical services, etc.
• Cheap and well-motivated, unskilled or semi-skilled labour seekers. This kind of FDI is usually undertaken by manufacturing or service MNEs from countries of high real labour cost, e.g. Denmark. It can also be a search of excess labour.
• Technological capability, management or marketing expertise and organisational skills seekers (e.g. a joint venture, where both parties fill in the gaps of the missing expertise).</td></tr>
</table>

	Efficiency seeking	The motivation of efficiency seeking FDI is to rationalise the structure of established resource or market seeking investment in such a way that the investing firm can gain from the common governance of geographically dispersed activities, i.e. the economies of scale and scope, risk diversification. These stem from cross-border specialisation, learning experiences that result from producing in different countries, cost arbitrage, price differentials across the exchange.
Asset augmenting	Strategic asset seeking	These firms engage in FDI by usually acquiring the assets of foreign corporations, to promote their long-term strategic objectives, especially that of sustaining or advancing their global competitiveness. The motive is less to exploit cost or marketing advantages and more to augment firm's global portfolio of physical assets and human competences in order to strengthen the firm's ownership advantage (OLI) or weaken the one of its competitors.
	Network seeking	Firms may have strong linkages to external actors that would make them decide to establish themselves abroad (e.g. be partnering with specific institutions). They may want to establish abroad in order to enter a specific actor network of market players that are present there. Also, firms may prefer to locate in some sort of regional clusters in the host-country in order to benefit from positive spillovers from investors already in place. Last but not least, the decision makers in an MNE may have very strong cultural preferences, may like a specific country very much, have a family there, etc.

Sources: own and Dunning 2008.

MNEs can start with only one of the motives, e.g. most research confirms that they usually start as natural resources seekers (Hansen 2007, Dunning 2008), but the early 2000s statistics showed that most firms combine two or more of them. Furthermore, motives for foreign production usually change, e.g. when a firm becomes an experienced foreign investor (Dunning 2008).

Hansen (2007) analysed the historical development of FDI motives in developing countries. He describes that historically MNEs were mainly motivated by exploitation of natural resources and abundant labour pools in the host-markets. Foreign investors viewed these investments as a means to access cheap raw materials or labour not available in the home country. As developing country economies picked up, and a growing number of countries embarked on import substitution industrialization strategies, FDI increasingly became directed toward accessing local markets. In recent decades foreign investors in developing countries have moved towards efficiency seeking investment motives as indicated by the emergence of globally integrated production systems and networks. In this regard, investments in developing countries are playing greater roles in the strategies of MNCs, creating global efficiencies through economies of scale and scope and through access to complementary assets such as innovative capacity (Hansen, 2007).

Perrugini (2008) could only find evidence for asset exploiting FDI motives in the CEEC and Baltic countries and no evidence for strategic asset augmenting investments, though he did mention that Lithuania and Estonia, in particular, seem to evolve towards an increase in codified knowledge assets and innovative capacity within the low-tech sector.

When it comes to network seeking or relationship driven FDI motives, they are found to have significant importance in LDCs and the Eastern Europe: a very large proportion of Danish activities was undertaken in partnership with investment promoting schemes, while 6% of all Danish FDI was encouraged because the owner of a firm or a top executive happened to have a personal affiliation with the country where the investment was made (Hansen, 1996).

Nowadays, what differs strikingly from Porter's (1980) contention that cost leadership may be a persistent competitive strategy (Pyndt & Pedersen, 2006) is that cost cutting is any longer a sustainable basis for foreign investment, because it can easily be replicated. The principal objective of private enterprises in undertaking foreign production is to advance their long-term profitability (Dunning, 2008), and given the intense competition in today's markets, the mass customization and the increasing speed of innovation, firms are finding that value-added is becoming increasingly concentrated at the upstream and downstream ends of the value chain. Both ends of the value chain are intensive in their application of knowledge and creativity (Mudambi, 2008). In the recent years theoretical approaches to FDI have turned to the possibility of the so-called "knowledge sourcing", i.e. when FDI occurs not to exploit advantages generated in the home country, but to access various types of knowledge that is created in the host country (Pessoa, 2008).

If one went through the latest literature and research papers on FDI motives, she would be stunned, how many of the foreign investors are found to be seekers of knowledge-based assets (Doz & Santos 2004, Ambos 2006, Hansen 2006, Booz & Co. 2007, Maskell et al. 2007, Mudambi 2008, Lewin 2008, A.T. Kearney 2009). 33 million young professionals with university degrees and work experience now live in 28 low-wage countries, compared with 15 million in 8 high-wage nations. The number of university graduates from the low-wage countries is increasing at an annual rate of 5.5%, compared with just 1% in the high-wage countries (Hansen, 2006). Because of this reality by moving to foreign centres of excellence MNEs can generate more innovations of higher value and lower cost (Santos 2004, Maskell 2007). Local wholly-owned units of MNEs function as hubs of local networks within which there are inevitable intentional and unintentional knowledge flows (Mudambi, 2008). Headquarters can benefit from their foreign subsidiary knowledge in various ways: local knowledge can help headquarters to fine-tune and coordinate a global strategy, improve processes in their own or other units in the network, or simply provide the missing link in the quest to develop a new product (Ambos, 2006). Finally, it is not only the laggards, who invest abroad in order to catch up, it is also leaders sourcing technical diversity.

The next-generation company will be led by the best people available from across the globe <...> This organization will unleash the flow of information, recognizing that more valuable information resides at the edge than in the core of a company. It will source local talent and feed innovation by establishing deep relationships with government, university, and business partners wherever it operates <...> It will design and develop products with input from all regions, with increasing emphasis on emerging markets where future growth will be concentrated (Booz&Co. 2007*).*

3.3.2. "Pull" or Location-specific motivators

Empirically, the vast majority of the FDI literature has been preoccupied with the traditional trade theoretic variables related to relative cost factors and market size (Kottaridi, 2003, Boudier-Bensebaa, 2005). Only recently have researchers begun to explore the influence of new trade theories on FDI location, paying much more attention to technologic, knowledge assets, also the externalities arising due to agglomeration economies of the host country, cultural differences trust and reliability of the host country market players (Kottaridi 2003, Butter 2005, Perugini 2008). Indeed, if in recent years we have seen a surge of knowledge and network seeking MNEs, then the locations, which are able to offer highly skilled and innovative labour pool, high-level technologies and a network of interrelated market players, spillover and linkage effects, will be emerging amongst the top-ranked FDI locations.

A whole lot of literature was published, where the factors underlying MNE investment location preferences were divided in many different ways (see Table 5 for a summary):

- Mudambi (1995) classified the locational factors into infrastructural variables (measures of a location's suitability as a site for business activity), location-specific risk factors (business and political risk) and policy variables (local government's hospitality towards MNEs).
- Dunning's Electic paradigm outlined the factor cost advantages, proximity to the market, existing economic structure, and the legal, social and political frameworks" (Meyer, 1998).
- *M. Porter's Diamond* (1990) outlines the main reasons why some nations are more competitive and more successful in attracting foreign capital than others. Four groups of reasons are: factor conditions (natural resources, climate, location, demographics, infrastructure, peoples' skills, research facilities); demand conditions (market size); related and supporting industries (clusters, spillover effects, other advanced industry factors, e.g. technological leadership); domestic rivalry combined with investing firm's strategy, structure

and goals (Grant, 1991). Nation's government is given an important role in this model, as the development initiator and facilitator, early demand stimulator and fair competition regulator.

I find the Diamond model to be rather broad and vague, but at the same time very flexible. It captures the importance of continuous skills' and knowledge upgrading as well as the dynamic interplay between the different determinants of the model. It enables a researcher to link the "push" determinants of FDI with the "pull" determinants. This is why I have incorporated the Diamond model in my theoretical framework.

Table 5

The "Pull" factors of FDI

Category		Metrics
Input Factor Conditions	Labour	Low labour cost Abundant labour pool High labour productivity Highly skilled and innovative labour pool Low language barriers
	Land & Real Estate	A suitable, cheap plot of land Cheap real estate
	Input Materials	Low input material cost Abundant natural resources
	Infrastructure	High quality of infrastructure (e.g. telecommunication, ice-free seaport, railways, airport, etc.)
	Operational cost	Low transportation cost Low operational costs (e.g. rent, water, electricity, gas prices, etc.)
Market Related	Demand	Market size
	Competition	Presence of competitors Low local competition
Related/ and Supporting Industries	Linkages	Presence of clusters & industry agglomeration Presence of knowledge institutions (e.g. Universities, R&D centres, laboratories, etc.) Free-economic zones and business parks
	Location	Proximity to major suppliers Proximity to major customers Proximity to the home market Proximity to other markets (e.g. Lithuania is close to Russia, Belarus)
Policy and Regulation Related	Financial support	Low corporate tax Low social security tax Government subsidies
	Business law	High security of Intellectual Property Flexible employment law Favourable privatisation procedures Low trade controls and quotas Ease of regulation (e.g. environmental, consumer safety, workers' health, etc.)
	Macro-economic measures	Low bureaucracy, high transparency Political stability Low inflation rate Market economic stability, growth & development
	Ease of access	Easy access to national and local officials
Other		Personal ties with the host country Cultural and historical proximity

Source: accumulated from a variety of articles used across the thesis.

Results of 1993-1999 FDI research data indicated that foreign investors in Central and Eastern Europe, incl. Lithuania, on average, preferred a stable exchange rate environment, although not necessarily an environment with low inflation. Also, market size mattered implying that the larger the country (the larger the purchasing power), the more attractive it is for foreign investors. Sovereign risk was found to be very significant in explaining FDI flows, emphasising the importance of the risk premium investors considered (Babic, 2001). Interestingly, Mudambi's (1995) analysis showed that infrastructural variables have no significant effect on MNE investment location decision. A risky host country environment was found to be just as attractive as the safe one, provided that the returns are high enough. Low tax regime was concluded to be the most important, followed by the indirect policy effects, which tend to have a ratcheting effect over time.

Singh's (2008) analysis revealed that several of the traditional variables, i.e., infrastructure, economic growth and openness to trade, do promote the flow of FDI to small developing nation states, but the size of a country's market is not a major constraint in attracting FDI. He emphasized tourism as an important "pull" factor. Singh also reporter a research made by Hunya (2004), who explored the possible factors of FDI in Estonia, Latvia and Lithuania. A favourable macro-economic environment and a sound privatization policy, were advanced as the primary reasons for the level of success achieved by these countries (Singh, 2008). Indeed, one would expect the regulation and policy related determinants to have the major impact on the FDI flows in small economies as Lithuania, but as it has been mentioned before, favourable legislation, tax exemptions and the like cannot be a sustainable country advantage over the long run.

When it comes to technology, knowledge and skills, they are found to be very important in the 21st century research (e.g. Boudier-Bansebaa 2005, Pyndt & Pedersen 2006), but Chung (2002) notes that they differ across locations because they depend on location–specific factors, such as innovations previously established, the education system, and the linkages between educational institutions and firms.

Even if the number of Lithuanians with university degree excels that of the EU average, Lithuania's innovative output is relatively low in comparison to other countries (Appendixes 10, 11). Furthermore, there are no significant clusters in Lithuania. Overall, Lithuania does not yet look like a leading country for its knowledge-based assets. The future place of the Baltic States in the "new economy" has been forecasted to largely depend on their innovative capacity (Runiewicz, 2004), but there is no recent research (e.g. from 2005-2009) which would show the changes in that field, if any.

3.3.3. Other FDI determinants (Industry, government, chance, timing)

Industry, timing, government and chance are the four FDI location choice determinants which I have also included in the theoretic framework, because I do not see a way out without these.

1. The Government - political influence and government incentives have been briefly discussed in the previous section. It is worth mentioning once more, that governments can have both direct and indirect influence over the flows of FDI in their country. For example, by designing specific policy instruments, governments can increase or decrease the transaction costs related to foreign investment, they can specialise on specific factor creation in a country, regulate competition and so on. The government can also become the main actor in any network, connecting local and foreign market players, decision makers, market facilitators etc.

Lithuanian policy makers have highlighted five priority areas, i.e. laser technologies; information technologies; biotechnologies; renewable energy technologies; and innovative agricultural technologies and the food industry, which will receive increased investment of both financial resources and human capital in the coming decade. Lithuanian policy makers will also do their best in order to attract much foreign investment to these areas (The Minister of Economy, 2009). These actions are expected to help Lithuania transition from a low value-added economy to a higher value-added economy. They are also a good example how important local and national governmental institutions can be in the effort to attract more FDI.

2. Industry. The FDI location choice theories have often overlooked, generalised too much or measured inadequately the importance of industry factors in the MNE internationalisation process. Some of the important industry factors that can significantly influence the MNE location decision can be: the level of competition in the industry, research intensity, tangibility of resources and product offer, industrial clusters (Grøgaard, 2005). Grøgaard et al. (2005) found empirical evidence that industry factors influence the MNE internationalisation path just as much as the firm-specific and country-level factors. If we look at the most recent FDI research across different industries, the most significant growth in terms of foreign investment can be observed in science and engineering industries, which are no longer limited to IT or business processes, but increasingly involve product development functions, such as engineering, research & development, product design. Recent Booz & Co. study showed that in the knowledge-intensive industries access to qualified personnel became the second most important foreign investment driver after cost savings (Lewin 2008). However, firms may also seek technology in less research intensive industries and not only through R&D facilities, but also through manufacturing operations (Chung, 2002), though in these more labour intensive industries as production and manufacturing, one could expect cost savings to prevail over other internationalisation drivers.

Since my research will include respondents from a variety of different industries, I find it essential to group them and analyse their motivation for taking up FDI projects in Lithuania according to the industry they operate in.

3. Timing – it was only twenty years ago that Lithuania became an independent country and opened up its market to foreign investors. During this period Lithuania transformed continuously and managed to become a small, but competitive world economy, whereas 20 years ago it was often considered to be the "3rd World Economy". This implies that the economic, political and social changes which took place during this period were very intense, daring and cardinal, what naturally meant a different investment climate at different development stages of Lithuania. For example, the early 1990s was a period when by far the main factor behind the FDI inflows into Lithuania was the privatisation of former state-owned companies. Moderate wage costs and skilled workforce, growing market potential, geographic location and economic and political stability also emerged as very important FDI drivers in the later stages of Lithuania's development (OECD, 2000). While in due course, the cost advantage is expected to disappear, there are signs that Lithuania, Latvia and Estonia are also beginning to attract inbound MNE activity that utilizes higher skill levels, including design, management and R&D (Dunning, 2008). Given the latest Lithuania's development strategies it is expected that many more foreign investors will choose it for the knowledge-based assets and innovative capacity. Unfortunately, there has not been any empirical research which could show signs of that, if any. These are the reasons why I will pay attention to the FDI timing in my research, hoping that the Danish companies' investment in Lithuania patterns will show signs of change over time.

4. Chance – if we come back to the Porter's Diamond model (1990), chance is something that is entirely out of control of firms, but it can often influence the change in location's attractiveness for foreign investors or MNE's incentives to internationalise. Some of the chance examples could be: significant shifts in exchange rates, radical innovation, unexpected rise of energy prices, revolution, etc. Chance is the least likely reason why Danish investors would choose Lithuania for their FDI, because in general, chance does not happen very often. However, it would be incorrect not to include it in the framework.

In creating sets of investments to "consider", managers appear to follow fairly rational (location choice) rules. However, the choice of actual "investments" appears less aligned to traditional models <...> Managers' final FDI decisions are highly idiosyncratic and subject to biases that they might not be aware of themselves when making those decisions <...> We have no way of knowing, how the manager's choices would translate into a firm's final FDI decision in reality, where all bonuses, financial analyst reports, institutional investment pressures and boards of directors come into play (Buckley, 2007).

3.4. Obstacles that investors associate with FDI locations

Answers to the first part of my research question can be very helpful and informative in order to describe the investment motives of foreign MNEs in Lithuania as well as learn more about the biggest locational advantages, how they changed over time and across different industries, etc. Yet this information is only on the positive side of Lithuania and does not provide any useful insights for the future improvement: "understanding the main problems faced by MNEs when considering the possibility to start operating with abroad is essential in order to increase the number of internationalised MNEs (Vasilescu, 2008)".

Just as well is there a great deal of reasons to invest in Lithuania, there are numerous reasons not to. The major barriers to investment in Lithuania are bureaucratic structures and practices, the unstable legislative framework underlying the business climate, followed by the small size of the Lithuanian market in general (The Minister of Economy, 2009). On top of that we should add the lack of applied or applicable skills, labour shortage, infrastructural deficiency (e.g. airport landing fees, low business parks' capacity, low-tech railroads), high social security tax, lack of country promotion and clear cluster strategy (Ernst & Young, 2009).

Even though this information is already available in some of the reports made by Lithuanian Development Agency, I am not willing to fully trust it, because they are based on only ~40 interviews with industry experts and foreign investors, amongst which the majority are Lithuanians. Making a research on the weaknesses of Lithuania's investment climate and basing the conclusions on local representatives' insights might be risky, in a sense that these answers might not be representative due to cultural bias, personal ties with the country, lack of knowledge on how to do international business, identify foreign business opportunities (Vasilescu, 2008) and what to look for in a host-country and inability to assess Lithuanian investment climate from a Danish perspective (also the company owner's perspective).

I am not negating the above arguments, but on top of them I am willing to collect more primary data which will hopefully be of higher quality and less biased. I will provide the research respondents with the below locational disadvantages to choose from as well as an option to present different insights, if any.

Table 6

FDI barriers

Category		Metrics
Input Factor Conditions	Labour	High labour cost Labour shortage Low labour productivity Lack of skills and innovativeness High language barriers
	Land & Real Estate	Expensive land Expensive real estate
	Input Materials	High input material cost Lack of natural resources
	Infrastructure	Low quality of infrastructure (e.g. telecommunication, ice-free seaport, railways, airport, etc.)
	Operational cost	High transportation cost High operational costs (e.g. rent, water, electricity, gas prices, etc.)
Market Related	Demand	Small market size
	Competition	High local competition
Related/ and Supporting Industries	Linkages	Absence of clusters & industry agglomeration Low quality of knowledge institutions (e.g. Universities, R&D centres, laboratories, etc.) Lack of free-economic zones and low business parks' capacity
	Location	Remoteness of major suppliers Remoteness of major customers Remoteness of the home market Remoteness of other important markets
Policy and Regulation Related	Financial support	High corporate taxes High social security tax Low government subsidies
	Business law	Low security of Intellectual Property Inflexible employment law Rigid privatisation procedures High trade controls and quotas High regulation (e.g. environmental, consumer safety, workers' health, etc.)
	Macro-economic measures	High bureaucracy, high transparency Political instability High inflation rate Market economic instability, low growth & development
	Ease of access	Difficult access to national and local officials
Other		Cultural and historical differences

Source: accumulated from a variety of articles used across the thesis.

4. EMPIRICAL STUDY

Empirical study section applies previously analysed theories and research methodology to the case companies and thus elicits empirical data, necessary to answer the research question. The first part of the section tackles three issues: why did Danish companies internationalise, why did they choose Lithuania and what problems are they facing now in this country. Later on the triangulation method is applied in order to check whether a couple of foreign investment promotion specialists in Lithuania see the actual situation in the same way as the research findings have represented it. The chapter is concluded with a discussion about the linkages between theory and empirical data.

4.1. Response rate

In total 176 companies were contacted with a request to participate in the survey. Out of the 176 companies 55 companies participated, implying a response rate of 31%. These 55 participant companies employ a total of 4.231 employees in Lithuania, out of 12.048 employed by all 176 companies, which is 35% of the survey population.

Table 7

Survey response rates (by number of companies and employees)

	Contacted (Compan.)	Participated (Compan.)	Rate (Compan.)	Contacted (Empl.)	Participated (Empl.)	Rate (Empl.)
Banking & Insurance	3	0	0%	2.218	0	0%
Chemicals	1	0	0%	160	0	0%
Oil & Gas	1	0	0%	130	0	0%
Printing & Publishing	2	0	0%	55	0	0%
Ship Building & Repair	3	0	0%	2.061	0	0%
Building & Construction	6	3	50%	112	95	85%
Telecommunications & IT	9	3	33%	288	194	67%
Metal, Plastic, Electronics	13	7	50%	668	440	66%
Investment & Real Estate	15	2	13%	64	41	64%
Textile	15	3	20%	2.116	679	32%
Transport & Logistics	16	8	50%	922	758	82%
Food & Agriculture	21	8	38%	1.247	1.077	86%
Wood & Furniture	21	7	33%	1.119	594	53%
Consulting, Business Serv.	28	11	39%	442	201	45%
Other	22	3	14%	419	152	36%
Total	**176**	**55**	**31%**	**12.048**	**4.231**	**35%**

Source: own

Out of the 55 companies, which participated in the survey, only 14 answered that they would prefer a telephone interview. Others, even when approached by phone, asked if they could receive the questions in an e-mail instead. The main reason for that was the fact that the respondents were often very busy, in meetings or on holiday. 2 respondents followed up with a more detailed e-mail discussion, another 2 respondents requested face to face meetings.

These four discussions increased the validity and reliability of the research findings, because they all evolved not only around the specific companies, but also around this project's research question in a broad sense and the respondents were people with a lot of experience in the Lithuanian market and also a lot of knowledge from different industries.

6 respondents refused to participate in the survey, 17 companies were inaccessible due to no longer existing contact details, while the rest did not respond to neither e-mails nor phone calls, or promised to respond after the project deadline. None of the Danish companies in Banking & Insurance, Oil & Gas, Chemicals, Printing & Publishing, Ship Building & Repair industries participated in the survey.

4.2. Analysis of results

Grøgaard et al. (2005) was claiming that industry factors influence MNE internationalisation paths just as much as the firm-specific and country-level factors. It was expected that the motivation of Danish companies to invest in Lithuania will differ across industries. However, this did not prove to be the case. Danish investors in all industries, with both globally dispersed value chains and concentrated value chains, had very similar investment patterns in Lithuania. This is not so surprising, because Lithuania is in the process of redirecting its development path from agriculture and light industries, where it was very competitive while under the Soviet Union repression, to knowledge-intensive industries, where technology development, innovation and "investment in brain" are expected to be the prevalent strategies. Based on that, I could see many companies investing in Lithuania because of the old traditions and implicit knowledge within e.g. textiles, wood and furniture, food industries, but also companies investing in IT, engineering, logistics, where Lithuania seems to have quite a lot of potential. All in all, locational and firm-specif factors were more significant FDI determinants than industry factors. A detailed industry analysis is presented in Appendix 12.

Danish firms which came to Lithuania in early 1990s were expected to have different investment patterns than the ones which came to Lithuania in late 2000. However, timing was found to be less important than anticipated. This could have something to do with the fact that big companies in banking, oil and gas, insurance industries (where state company privatisation was the main reason behind FDI) did not participate in the survey. As for the rest, time series analysis shows a slight shift from Danish investment in production and operations to services and a modest change in "pull" factors ability to attract foreign investment to Lithuania.

4.2.1. The profile of Danish companies in Lithuania

In order to analyse what internal reasons made Danish companies to look into foreign expansion options, they were asked an open ended question: “please tell me your story: how come did you decide to open a subsidiary abroad?”. Answers were categorised into five groups, based on regimentation described in Table 4. As Dunning (2008) has mentioned before, the “push” motives for FDI can be interlinked and companies rarely internationalise because of one single motive; but in order to be able to analyse and compare the results properly, all companies were categorised based on the driving “push” determinant.

Results analysis has shown that overall, Danish companies, which come to Lithuania, fall under one of the following groups:

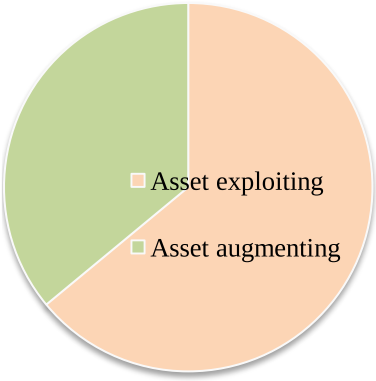


Fig. 7: The distribution of MNEs in Lithuania. Source: own.

64 % of the MNEs, look for: cheap and/or abundant labour pool, with low or medium level of skills; market, that they can provide their services or products to; raw materials. These MNEs are footloose: they pursue a static efficiency that *improves their own positions* in the international value chain; however, this behaviour *may be short-lived for the host countries*, since it relies in simply taking advantage of changeable market conditions and other location factors (Perugini, 2008).

36% of the MNEs look for: peoples’ skills, some specific expertise; close links to other market players (customers or suppliers, other markets, institutions and organisations); complementary assets to be combined with their own. This type of FDI triggers original combinations of pre-existing technological knowledge and competencies, which in turn may generate dynamic capabilities and *long-term competitive advantages for both MNEs and host country firms* (Perugini, 2008).

Figure 7 summarizes the findings. Evidently most of the Danish companies which are present in Lithuania were either efficiency seekers, market seekers or network/relationship seekers. It is worth noting, that these findings cannot be generalised to the overall population of Danish companies in Lithuania, because we do not know how many of the companies that did not participate in the research would fall into different categories.

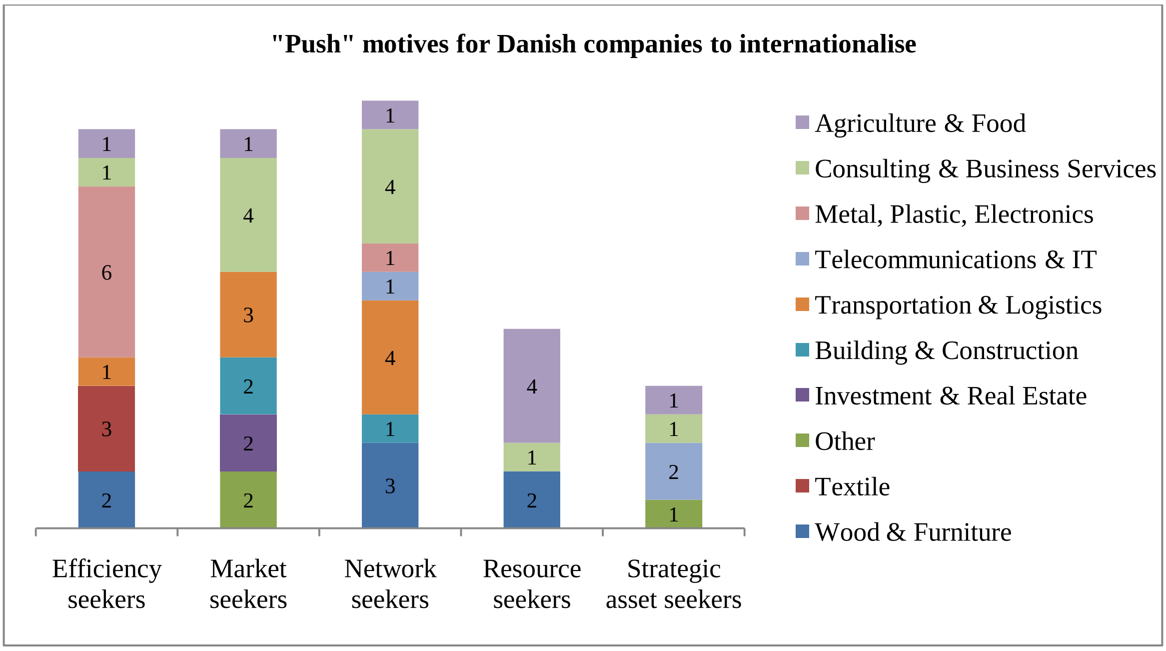


Fig. 8: The internal reasons ("push") for Danish companies to enter the Lithuanian market. Source: own.

Network / relationship seekers – 27% of Danish companies in Lithuania, which have participated in the survey, are network seekers. They were encouraged to internationalise because of already existing relationship with some partners in Lithuania and not less importantly – personal relations, like family, friends, colleagues. Half of the Danish companies in this group opened their subsidiaries in Lithuania because they had prior connections with customers or suppliers there. These companies wanted to get closer to their partners (also partners in the Lithuanian neighbour country - Russia) and it was more economical to have a local office:

There was no market research. We had an existing partner in Lithuania, which was one of our biggest customers. One Lithuanian farmer suggested that we use his farm and land for our activities instead of sourcing materials from abroad and importing them to LT. We did this for a while, but then the rules and requirements changed and we had to establish our own plant which would adhere to the new requirements.

Another half of network seekers had prior knowledge of the Lithuanian market, e.g. were previously working in another international company which did business in Lithuania. These companies were able to recognize new business opportunities and use their links with Lithuanians, thus opened up their own companies. Finally, quite a few businessmen had Lithuanian spouses which resulted in them moving to live in Lithuania and thus relocating their business together with them:

I was first expatriated to Lithuania with another company, then met a Lithuanian girl, got married and decided to start my own business here.

No logical relationship can be recognized between the network seeking motives and the type of industry that a company is in, however these findings support Meyer's (2000) conclusion that networks play a pivotal role in starting, managing and expanding business in CEE.

Efficiency seekers (25%) – 86% of efficiency seeking companies are representatives of the most labour intensive industries: metal, plastic, electronics, agriculture and food, also textile, wood and furniture, i.e. companies with high real labour cost. They have globally dispersed value chain activities, e.g. materials' sourcing takes place in the Far East, production in the Eastern Europe, design in Denmark, sales and marketing in a number of foreign countries. Efficiency seeking MNEs have chosen to locate the low value adding activities, such as manufacturing in Lithuania (NB! which are not strongly bind to the host location can be easily moved to another, cheaper country), which is encouraged by low labour cost and abundant labour pool. Most of them chose amongst investment options in Lithuania, Latvia and Poland. Efficiency seekers in Lithuania take advantage of different factor endowments, institutional arrangements, local laws and policies, also differences in currency exchange rates (e.g. LTL-USD). Very little production is being sold locally, while the majority is exported abroad, usually back to Denmark or to other Western European countries:

We are able to keep our production at a low cost, especially now when the USD is becoming stronger, we can stay competitive with our prices. We can source a lot of goods locally, e.g. wood, metals, other. We wanted to build an operations unit in Vietnam, but instead we decided to expand in Lithuania - it is close to our main customers and Denmark too.

Market seekers – another significant group of Danish companies represented in this research are market seekers (25%). These firms have come to Lithuania to provide their services or sell their goods to the internal market. After the fall of the Soviet Union many foreign companies considered it necessary to be present in Lithuania. Most of the first market-seeking Danish companies in Lithuania were transport and logistics firms, to which Lithuania was a gateway between Western Europe and Russia, also building and construction service providers:

Having a lot of knowledge and also high quality tools we entered the Lithuanian market, which combined with the low cost of the local labour force allowed us to become very competitive. A lot of our customers are also international companies, esp. in the ship building sector, because a lot of them build and repair ships in Klaipeda port.

As Lithuania developed and started aiming for accession into the EU another bunch of market-seeking companies opened subsidiaries in Lithuania. The support from EU structural funds and the liberalisation of trade guaranteed a lot of new opportunities for Danish companies in this country. Most of them were advanced business services providers, e.g. market research companies, training and conference service providers, investment and real estate companies, business consultants, importers of various goods. Majority of these companies also have offices in some other Eastern European countries.

Resource seekers – resource seeking motives have never been the main driving force for FDI in Lithuania (Meyer, 1996), because this country has a modest variety of natural resources to offer. Lithuania has plenty of wood, peat, arable land, also clay, gypsum, limestone, dolomite and some more. 11% of respondent companies came to Lithuania because they were either looking for cheap land, wood or in some cases also cheap unskilled labour (applies to some service companies, where labour is the main input resource). Also, a large part of resource seeking Danish FDI goes to the oil and gas industry, but since the Lithuanian-Danish oil and gas companies refused to participate in the survey, they are not analysed going forward.

Strategic asset seekers – the smallest group (9%) of Danish companies represented in the research are strategic asset seekers. Amongst the strategic asset seeking MNEs there are two types of companies: ones, which came to Lithuania because they were looking for peoples' skills and knowledge, i.e. most of them are telecommunications & IT companies; another type of MNEs were looking to acquire local companies and diversify their business risk or advance their long term competitiveness by acquiring/privatising local companies with future growth potential. Strategic asset seekers are mainly big international companies, offering innovative and knowledge-intensive products and services. All three Baltic countries seem to be fierce competitors for strategic asset seeking FDI, because most of the Danish investors in this group have considered investing in Estonia, Latvia or Lithuania.

According to Lithuania's economic development and investment promotion strategy (LDA, 2009) asset augmenting FDI (i.e. network seeking and strategic asset seeking) is the type of foreign investment that Lithuania is willing to attract. Asset augmenting foreign investors engage in backward and forward linkages and produce knowledge spillovers, which is beneficial for local firms. However, domestic firms will benefit from the presence of foreign multinationals only if an adequate knowledge base exists in the host country and if local firms carry out R&D expenditure to improve their absorptive capacity for foreign technology

(Perugini, 2008). The following sections will analyse the "pull" motives for Danish FDI in Lithuania and the main obstacles that Danish firms come across. This analysis will allow us to see if Lithuania has any potential in attracting more asset-augmenting FDI in the future.

4.2.2. Reasons for Danish companies to invest in Lithuania

In order to collect the information on what made Danish investors choose Lithuania, they were asked a sequence of questions: "Please describe your activities in Lithuania", "Did you consider other countries as a potential location for the same operations?", "Why did you choose Lithuania and not another country?" Respondents were offered a couple of alternatives for the last question: to provide their own answer or/and rate the importance of several factors (1-unimportant, 5-very important). Figure 9 lists all the possible answers based on their importance to the investing firms.

To summarise, the reasons for Danish investors to choose Lithuania have not changed significantly over the last 19 years. Lithuania has been and remains attractive because of the skilled and cost effective labour, its excellent geographic location, fairly good infrastructure, cheap land, real estate and low overall operating costs, also unmatched demand for high quality, innovative products and services in the local and neighbouring markets. Lithuania's political, economic stability and rapid development, also favourable regulations and tax system were very important locational advantages in the 1990s, but have diminished in their FDI attracting power in the past decade.

On the other hand, Lithuania is showing some innovative and high-value adding capacity in the knowledge intensive sectors, especially IT, electronics, engineering, also in wood, furniture and textiles. Danish companies have engaged in sequential learning process and started to realise that there are more opportunities in Lithuania than just low-cost production or service. They have recognised the Lithuanian knowledge potential in previously mentioned industries, however they are hesitant to move more of the high-value adding functions (e.g. design, R&D, marketing or sales) to Lithuania, because they are still lacking a lot of improvement (see section 4.1.3.). All in all, Danish investors are less positive about Lithuania's innovative capacity and knowledge potential as the Lithuanian policy makers claim it to be.

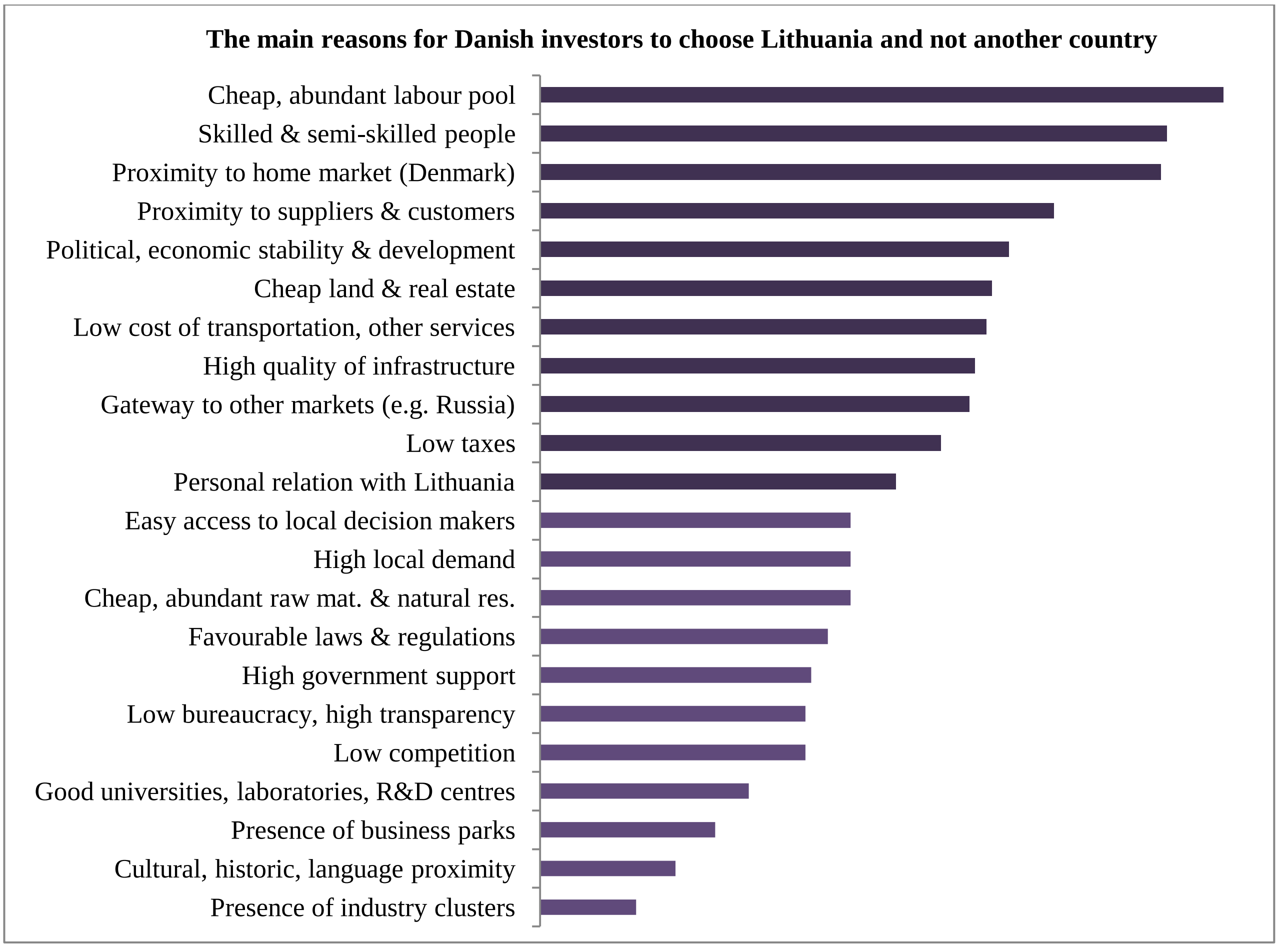


Fig. 9: The main reasons for Danish investors to choose Lithuania. Source: the survey.
NB! These motivators applied back in the time when the initial investment decision was made.

Cheap, abundant labour pool has been the most important factor which attracted Danish companies to Lithuania. Average importance ranking – 3,5 out of maximum 5 points. Even though some companies complained that the cost of labour was increasing over time, today it still seems to be a very significant locational advantage. Besides the low cost of labour, Danish investors have mentioned the importance of labour loyalty and also high specialisation in some of light industries (will be analysed in the "skills" section). Understandably, cheap and abundant labour is the most attractive locational factor to labour intensive MNEs, like the producers of metals and electronics, packing companies, building and construction service providers, food producers and farmers, textile, wood and furniture companies (see Figure 10), whose production is price sensitive and labour costs is the major element of the total production costs. On the contrary, cheap labour was also found to be an important factor to more knowledge-intensive MNEs as telecommunications and IT firms, which emphasized that Lithuania has a lot of inexpensive, but skilled and promising young professionals.

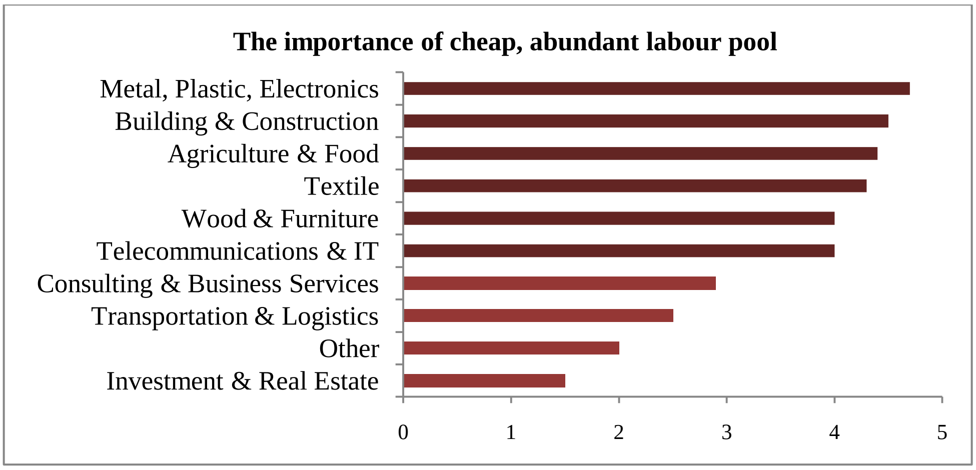


Fig. 10: Factors attracting Danish FDI to Lithuania: cheap, abundant labour pool.

Meyer et al. (2005) found that Lithuania was focused on the less sophisticated parts of the industrial value chain back in 1990-2003, i.e. was attracting foreign investors into the manufacturing and production sectors. According to this survey data, the situation has not changed – Lithuanians are still most attractive because of the relatively cheap labour, even when accounted for the companies with more knowledge-intensive operations in Lithuania and the fact that the average wages have doubled in the past 10 years (www.stat.gov.lt).

Skilled and semi-skilled labour pool – slightly, but almost insignificantly less important than the labour costs were the Lithuanian labour skills. Average importance ranking – 3,4. As shown in Figure 11, the availability of semi-skilled labour was one of the main driving forces for Danish companies in building and construction, metal, plastic and electronics, textile, wood and furniture, agriculture and food industries to choose Lithuania and not any other country. This is not surprising, given the fact that Lithuania is highly specialised in these industries and they have always been the “bread and butter” industries for Lithuanians. However, MNEs in the construction, electronics, packing, textile, wood, furniture, agriculture and food industries are only attracted by Lithuanians’ operational skills (they find Lithuanian labour to be very “handy”) and not research, innovation or development skills, which are essential for the every company’s long-term competitiveness. As it will be shown in section 4.1.3., the failure to upgrade the skills and productivity of production staff is turning into a big disadvantage of Lithuania.

Contrary to the labour-intensive industries, many of the knowledge-intensive companies (as the ones in IT industry) have chosen to invest in Lithuania because they could find an abundant and relatively cheap pool of highly skilled, innovative young professionals. Overall, research data shows a modest increase in the importance of peoples’ skills factor over the last

5 years. This was mainly caused by the increase in the number of knowledge-intensive industries' representatives in Lithuania.

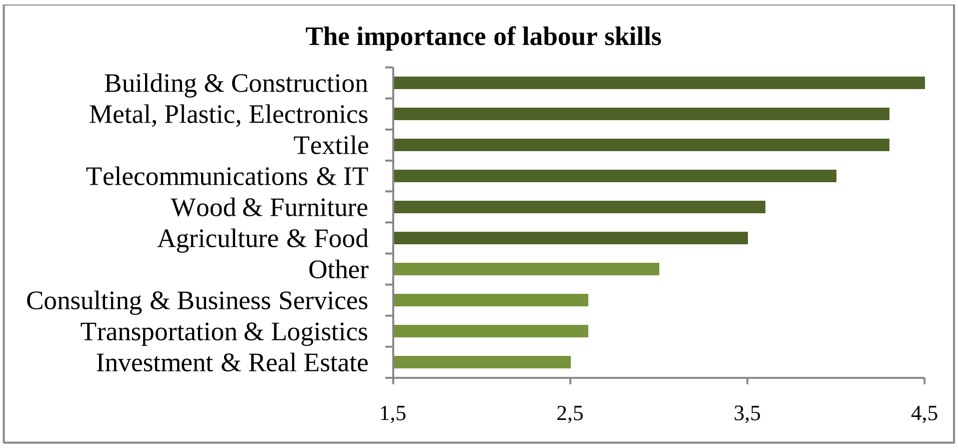


Fig. 11: Factors attracting Danish FDI to Lithuania: labour skills.

Good geographic location (i.e. proximity to the home market and gateway to other markets, proximity to suppliers and customers) – a few locational advantages in this category have been mentioned by the Danish investors:

1. Lithuania is very close to the Scandinavian countries: 1,5-hour flight, 12-hour sail or 24-hour drive; easy access by almost all means of transportation. This is very important, because the majority of Danish companies export the Lithuanian production to Denmark (mainly textiles, furniture, IT services, agricultural products) or provide Danish products / services for the customers based in Lithuania (e.g. very significant in the business services, consulting, construction, also finance sectors). Another reason why Danish companies decided to establish in Lithuania is because they wanted to have close control of the foreign operations, or to be able to commute between the Danish and Lithuanian offices easily due to personal reasons (family, willingness to live in Denmark, but work in Lithuania, etc.).

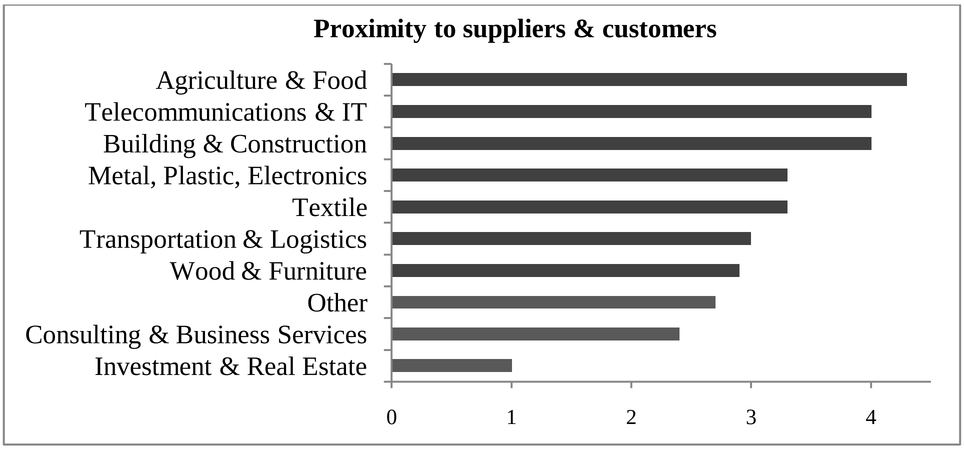


Fig. 12: Factors attracting Danish FDI to Lithuania: proximity to suppliers, customers.

2. Lithuania's proximity to the markets of Russia and Western Europe - on one hand, relatively cheap production can be provided to the Western European customers within a very short period of time (e.g. compared to the cheap production travelling from Eastern Asia), which also allows high flexibility in customer service. On the other hand, Lithuania is a gateway to Russia. Besides its geographical proximity to Russia, Lithuanians have a lot of knowledge of the Russian culture, business style, customs and language. All the latter factors have been found to be very important to the Danish businessmen, because due to cultural and language differences a lot of them expressed a willingness to have a middleman whenever they were doing business with the Russians.

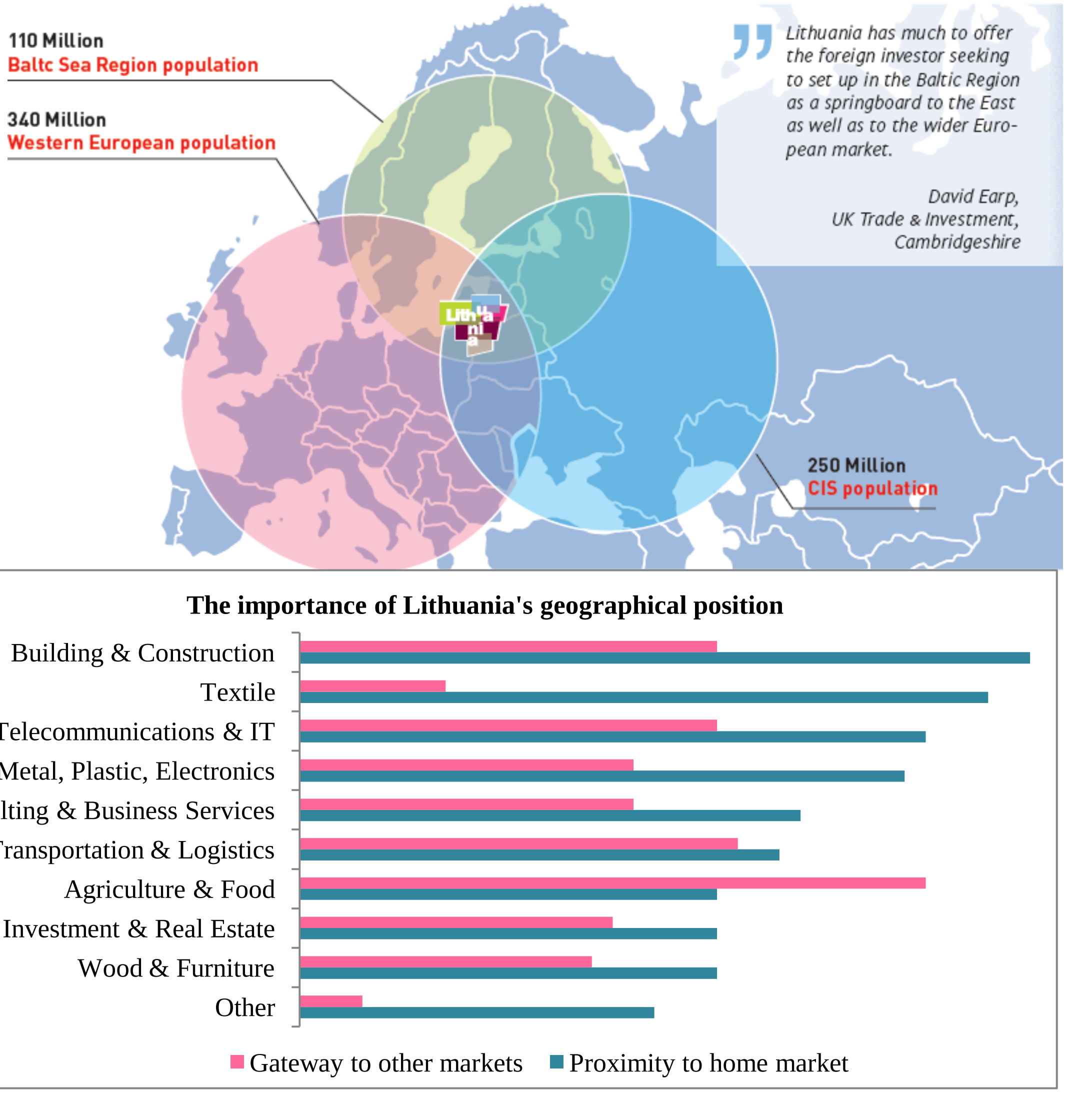


Fig. 13: Factors attracting Danish FDI to Lithuania: host country location.
Top picture – Innovative Lithuania (2009)

Galego et al. (2004) suggested that EU firms still prefer to invest in geographically close countries: the Nordic investors prefer the Baltic countries, the Swedish investors supply mainly Estonia and Lithuania, etc. Lithuania could make very good use of its geographical location. However, this is not being used in its full potential – a lot of Danish companies are still not aware of the business opportunities in Lithuania and hence do not appreciate the advantages of being so close to this country. This proposition is also supported by the fact that 30% of Danish companies established in Lithuania because of their network linkages and not because of prior research on the potential host locations, i.e. because they were in a relationship with Lithuanian customers or suppliers, had friends, family or other important contacts in Lithuania. Last but not least, a lot of Danish companies, which would like to enter the Russian market, but maybe are still a bit hesitant, are not aware of the fact that Lithuanians can be perfect partners to help them do that.

Political, economic stability and the country development – when it comes to choosing amongst several FDI locations, the stability of Lithuania's political system and country's growth and development (represented in Appendix 1) was amongst the most important locational factors for Danish companies in all industries, except agriculture, food, wood and furniture, which showed strong preferences to low input materials and labour costs instead. The average importance ranking of this FDI motivator was 3 points out of 5.

With a strong, pro-business government, excellent external relations and harmonious minority relations internally, Lithuania is an oasis of political and ethnic stability in the region. It has a stable currency, strong banking sector, and offers unrestricted movement of capital and dividends (OECD, 2000).

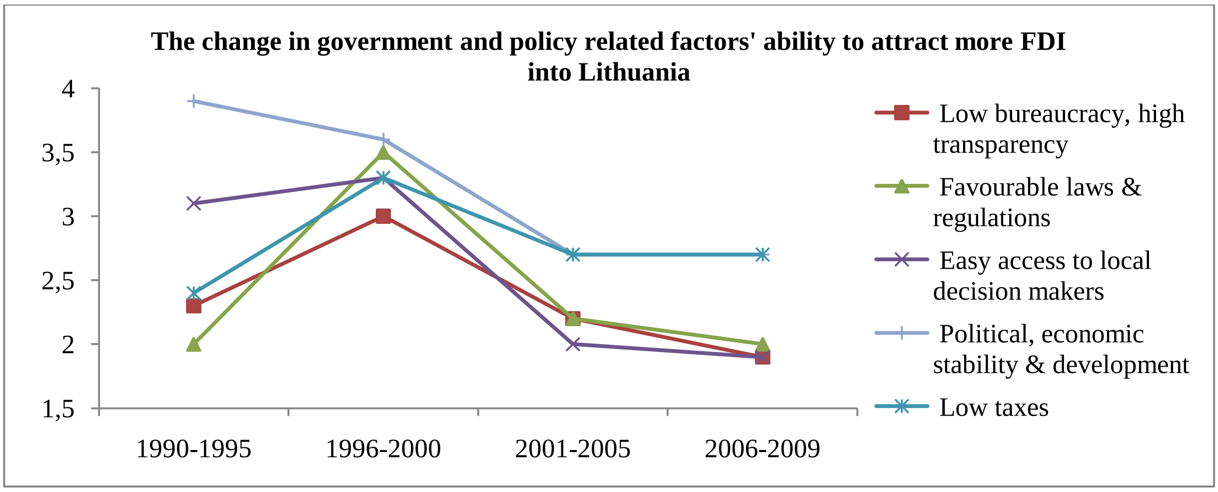


Fig. 14: Government and policy related factors' ability to attract Danish FDI into Lithuania (1990-2009).

Despite all that, if we look at Figure 14, we can see a dramatic drop in how much government and policy related locational factors have motivated Danish companies to invest in Lithuania over time. In fact, these are the only factors which have decreased in their power to attract Danish FDI into Lithuania over the last decade.

Cheap land and real estate, low cost of services – cheap land and real estate were by far the most important FDI motivators in three industries: investment and real estate, where investment into and development of residential areas, shopping malls, business centres was more profitable than anywhere else in Europe (according to one of the Danish investment firms, the yield potential in Lithuania was 12-15%); also agriculture, where 100% of the respondents claimed having chosen Lithuania because of cheap and available property; and finally construction and building companies, to whom the cost of land and buildings is the major aspect of their competitiveness.

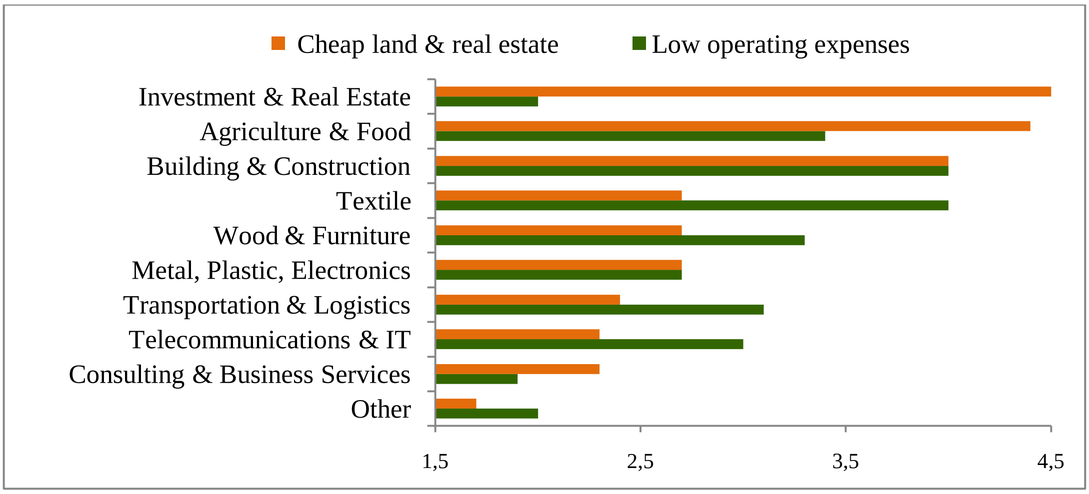


Fig. 15: Factors attracting Danish FDI to Lithuania: cheap land, real estate, low operating cost.

The overall operating cost was found to be important to all companies, especially when talking about the cost of transportation (very relevant for exporting, importing, cross trade firms), cost of utilities (relevant for companies with big production plants). However, it has not played a very significant role when Danish companies were choosing which country to open the subsidiary in and this finding is different from OECD (2000) report, where low operating cost in Lithuania was ranked as the second most attractive FDI factor in Lithuania.

High quality of infrastructure – the quality of infrastructural development is a significant factor in determining the inflow of FDI to a small nation state (Singh, 2008). This proposition has been confirmed in my research too, because many Danish companies pinpointed the well developed Lithuanian infrastructure, namely roads, Klaipeda ice-free sea port, world-class logistics centres, and the ITC infrastructure. Lithuania is considered to be the 1st in Europe in GSM penetration, have the broadest high-speed mobile broadband coverage in Europe and maintain the densest network of public internet access points in Europe (Advantage Lithuania, 2009). This makes Lithuania attractive to ICT companies, which can use the small Lithuanian market for their systems and technologies' testing, research and development, also various services. The ranking of Lithuania's infrastructure has decreased in the past couple of years. It could possibly have something to do with Lithuania's worse position on air transport and on electricity supply (State of the Region Report, 2009).

Low taxes – low taxes (corporate tax, VAT, social tax, real estate tax, etc.) have not shown very significant power in attracting Danish FDI to Lithuania. Average ranking – 2,8. Tax has been of some importance to Danish companies in the building and construction, metal, plastic, electronics, consulting and business services, wood and furniture, also textile industries.

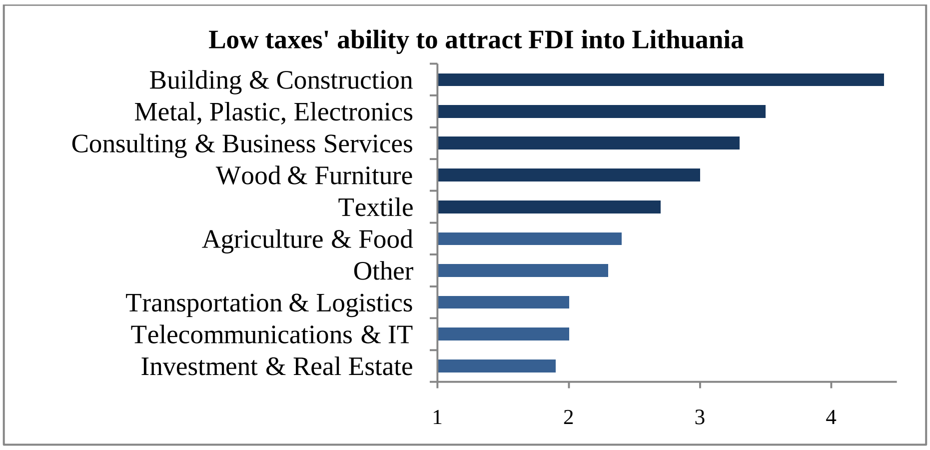


Fig. 16: Factors attracting Danish FDI to Lithuania: low taxes.

As it has been shown in Figure 14, Lithuanian taxes have attracted most Danish FDI in 1995-2000 and decreased in its FDI attracting power afterwards. Interestingly, the corporate tax in 1993-1999 was 29%-24%, while during 2000-2008 it had slowly decreased to 15% and increased to 20% in 2009. As will be discussed later, the Lithuanian tax system has a lot of problems and indeed this is one of the major concerns for foreign investors, especially when talking about the set-up of the social tax.

Personal relation with Lithuania – unlike other research on FDI in the Lithuania, this survey managed to capture the importance of personal relations in pulling more foreign investors to Lithuania. In every industry I was able to come across at least one company whose representatives had personal connections in Lithuania, i.e. family, girlfriend/boyfriend, people one new from before, business partners, etc. Quite a few Danish companies in wood and furniture, electronics, packing, food, transport, textile industries were encouraged to open a subsidiary in Lithuania because of the influence made by other people in their network. The average importance of this factor was 2,6 out of maximum 5.

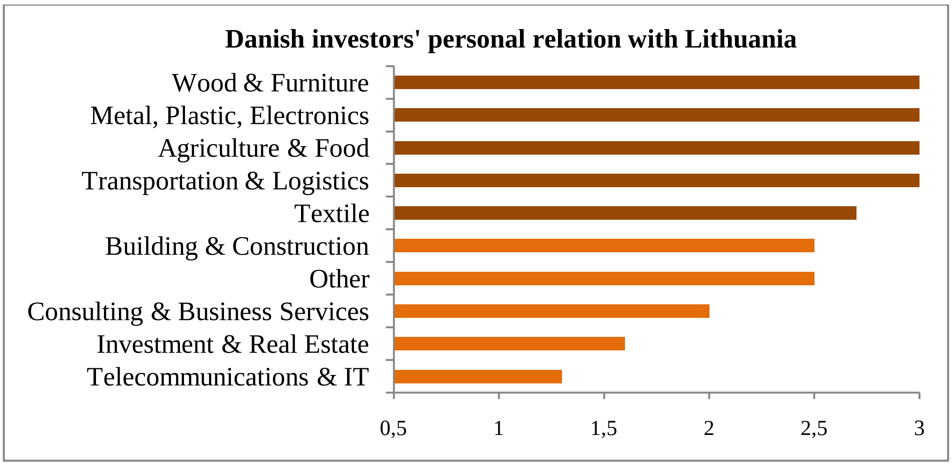


Fig. 17: Factors attracting Danish FDI to Lithuania: personal relations.

Meyer et al. (2000) found evidence that personal relationships are more important in transition economies than in Scandinavia. Meyer thinks that the importance of trust and the reliance on personal relationships and networks has its origins both in the Russian culture and in the lack of legal institutions that would ensure contract enforcement. Some support to Meyer's findings can be found in my research too, because several respondents mentioned that local contacts helped them a lot in establishing their companies in Lithuania, developing them and getting to know how the local business environment works. On the other hand, the reliance on personal relationship is too much embedded in Lithuanians' mentality and is many scenarios it leads to transparency problems, public procurement fraud, corruption and the like.

4.2.3. Problems that Danish companies come across in Lithuania

In order to collect information necessary to answer the second part of the research question, survey respondents were asked: "what are the main problems that your company has come across in Lithuania? What do you see as the most necessary improvement in the Lithuanian business climate?" Danish companies' representatives' answers were as follows:

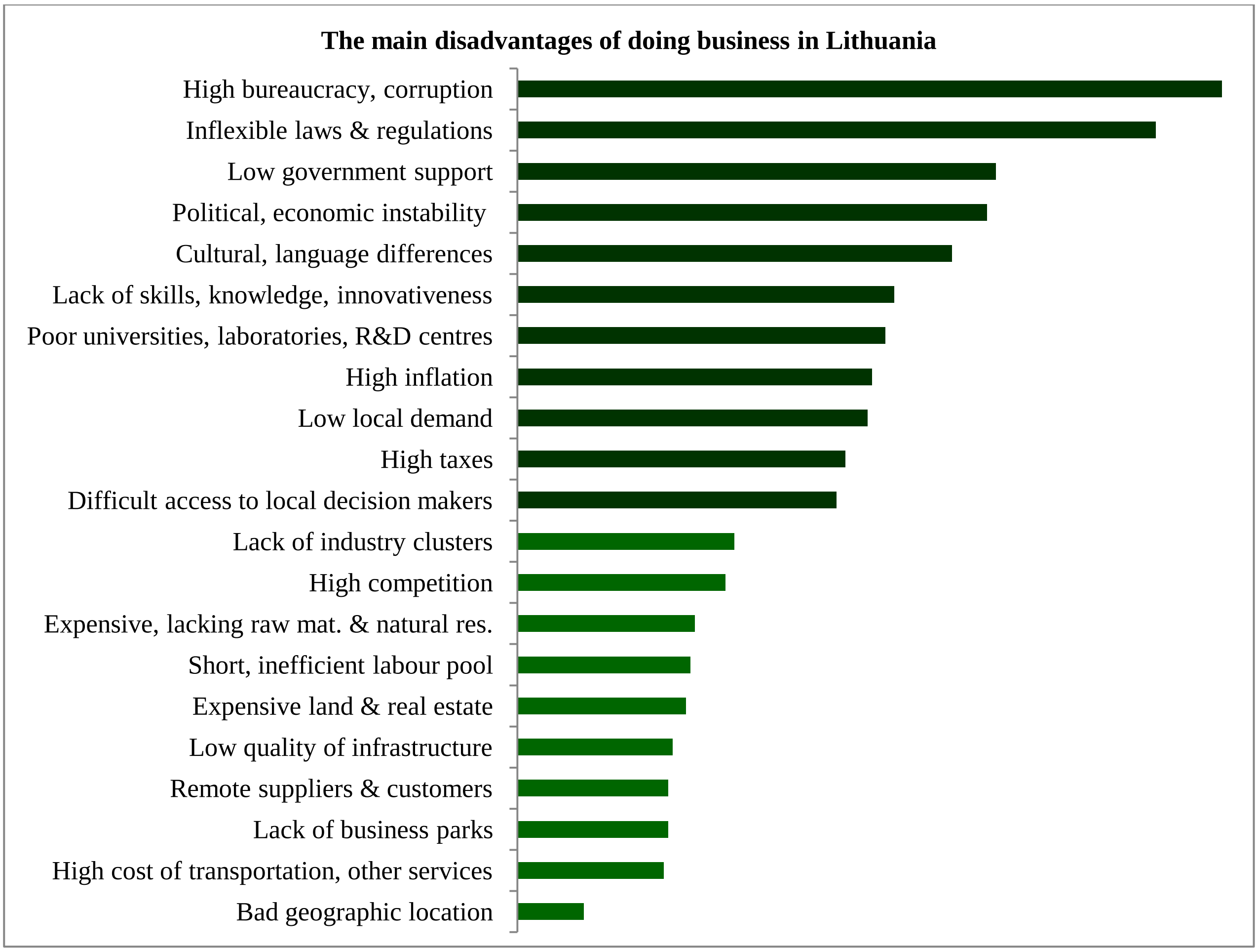


Fig. 18: The main problems that Danish companies come across when doing business in Lithuania.

Surprisingly, all respondents mentioned pretty much the same major problems, which could be categorised into four big groups:

1. Policy and regulation related
2. Transparency related
3. Knowledge related
4. Macro-economic and market related

The fact that most of the companies were facing more or less similar problems in Lithuania indicates the magnitude of these problems and also provides an opportunity for Lithuania: because the main issues are so focused, they are relatively easy to identify and difficult to ignore. Removal of these problems would result in significant advances in Lithuania, would make the Lithuanian business environment more stable, increase the inflow of FDI and ensure sustainable country development. Most importantly – it would allow Danish companies which have already entered the Lithuanian market to upgrade their functions and engage in more backward and forward linkages with domestic market players. As mentioned before, this would result in knowledge spillovers and other positive externalities; also help to keep the footloose companies (asset exploiters) away from disinvesting from Lithuania.

1. Policy and regulation related barriers for FDI in Lithuania

As Figure 19 shows, on average, companies in all industries except Transport & Logistics and Building & Construction rated high bureaucracy, inflexible laws and regulations and unsuccessful cooperation with the local authorities by more than 4 points (out of 5), showing that this is indeed one of the biggest problems in the Lithuanian business environment. It is of equal importance to both: production/operations companies and also firms in more knowledge intensive industries. 66% of strategic asset exploiting companies and 70% of strategic asset augmenting companies reported bureaucracy, inflexible laws and regulations to be the main barrier in their daily business life.

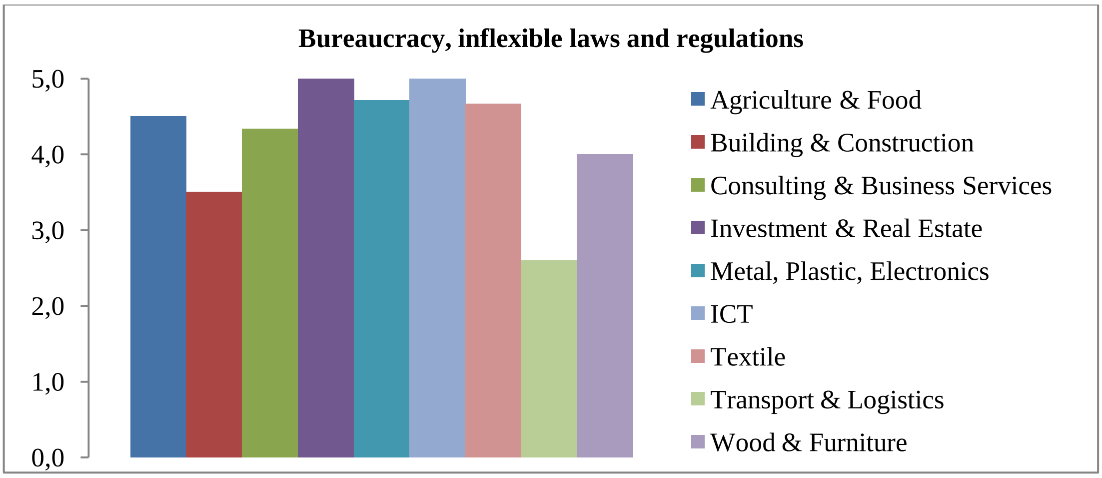


Fig. 19: The main problems in the Lithuanian business environment: corruption.

When probed into the issue, most of the Danish companies complained about several things:

- Bureaucracy at all levels: the whole business life runs very slow and is "old fashioned". Every single move requires to be documented, stamped, confirmed, followed by long contracts and big commitments to the other party. Also, none of the public institutions in Lithuania accept documentation in English: all must be translated and the translation certified.

It takes half a day just to do sign off each necessary paper for tax, etc. could be done much more easily via internet. The different public offices don't work together and communicate with each other, so you need to run to many different offices to handle even the smallest details, e.g. if you want to change the name and address of a company you need pay a lot of money for every stamp and run to 3 different offices. In Denmark you don't pay and just send a mail to Registra and you get a new certificate 2-3 days after via post.

Different public service offices do not communicate or share the same system, hence in many cases companies / individuals need to go from one office to another, get different approvals, pay a fee for each of them and also wait long in order to get an appointment. The bureaucratic apparatus needs to be modernised and simplified – not only when talking about the business life, but also when talking about foreign families life in Lithuania, e.g. registering with the local authorities, getting a Lithuanian passport or a residence and work permit, buying property, using the education and health care system, etc. In general, the understanding of "public services" concept in Lithuania is low and unacceptable to foreigners:

Endless "Red tape" with regards to the bureaucracy <...> Complete lack of "one window approach" in any public office. Public servant is not even a known phrase, and the concept of public service is poorly understood.

<...> There's a lack of understanding from decision makers, high personal interest instead of public interest. The system is not made for servicing you but more for controlling you. Missing the approach, e.g. when you build an office, you do not make electrical installations which will cause a fire, why do you need to make so much paper work, investors do not spent money on issues which harm to company.

- Inflexible employment law: Danish companies were very unsatisfied with the employment / termination conditions and procedures (they require a whole lot of documentation, references, checks and licences, which given the bureaucracy in Lithuania take a lot of time to obtain); leave regulation; also notification periods. They find that the current employment law is a big burden to companies; this is why it is very difficult and risky to start a business or expand it. Current laws do not allow companies to adjust the number of employees quickly, depending on the market situation, e.g. it is complicated to hire employees on time limited contracts, seasonal contracts, overtime work regulations are very stiff:

Hiring and firing employees can be very costly. Then there is inflexibility on working overtime, etc. Danes are very much afraid to enter the LT market because they are aware of the big burden they have to take on if they want to run a business here. And LT can no longer say that they are very cheap, they were cheap in the 1990s and early 2000, but 5-6 yrs ago the wages started to increase dramatically and given the inflexible labour laws on the other side, you have a very unattractive situation for investors.

Next, in terms of leave and termination, the employer has a lot more commitments to the employee than vice versa:

When people want to quit, they only need to give a 2 weeks' notice, it is a very short time for professionals who have more responsibilities in a company. There should be possibilities within the labour law to make agreements of 1 months notice. For low level unskilled jobs 2 weeks are ok, but not for more knowledgeable jobs in a company.

- High and often changing taxes: the overall business start-up and operation taxes are unattractive to foreign entrants; the social tax is set up in an employer-unfriendly way. There are many and fast changes to the tax system, while companies are not given the full and timely information on it. This creates many problems, accounting mistakes, irritation, mistrust in the policy makers, and in general is not an attractive factor to new investor companies:

Some time ago I helped around 40 companies from Denmark, Holland and Sweden to start up in Lithuania. But the new taxes for employers are so high, that it gives almost a 50 % tax and then no one want to start up in Lithuania but instead go to Estonia or Poland.

The World Bank "Doing Business index" shows a decrease in the ease of doing business in Lithuania (numbers represent country ranking). One of the most significant disadvantages is the business start-up procedures and costs. This strongly supports my research findings.

	Overall	Enforcing contracts	Trading accros barriers	Closing a business	Registering property	Getting credit	Paying taxes	Starting a business	Protecting investors	Employing workers	Dealing with construct. permits
Denmark	**6 (-1)**	28	6	7	47	15	13	28 (-10)	27	9	10
Norway	**10 (=)**	4	9	3	8	43	17	35 (-10)	20	114	65
Iceland	**14 (-3)**	2	73 (-38)	16	13	30	31	33 (-14)	73	56	31
Finland	**16 (-2)**	8	4	5	27 (-6)	30	71 (+18)	30 (-10)	57	132	47 (-6)
Sweden	**18 (-1)**	51	7	18	20	71	42	43 (-11)	57	117 (-5)	19
Estonia	**24 (-2)**	49 (-20)	3	61	13 (+1)	43	38	37 (-14)	57	161	20
Germany	**25 (+2)**	7	14	35	57	15	71	84 (+17)	93 (-5)	158	18
Lithuania	**26 (-1)**	**17**	**28**	**36**	**4**	**43**	**51 (+8)**	**99 (-22)**	**93 (-5)**	**119**	**64**
Latvia	**27 (+2)**	15	22	88	58 (+21)	4 (+8)	45 (-8)	51 (-16)	57	128	78
Poland	**72 (=)**	75	42	85	88	15 (+12)	151	117 (+28)	41	76 (-7)	164 (-7)
Russia	**120 (-2)**	19	162	92	45	87 (+22)	103	106 (-18)	93 (-5)	109	182

Fig. 20: Doing Business Index. Source: State of the Region Report (2009)

- Other rigid laws and regulation: public procurement regulation, natural resources sourcing regulation, daily business processes regulation, bookkeeping standards, all were rated as very old fashioned and ineffective:

If I want to buy wood from LT, I need to sign at least a one year's, 50-page contract with fixed terms and very high prices. It is a huge burden! How do I know what materials I will use after one year? In other countries there are very flexible conditions for sourcing local resources on a monthly basis, flexible prices and other conditions.

2. Transparency related barriers for Danish FDI in Lithuania.

According to Transparency International (2009), between 22% and 49% people in Lithuania paid a bribe in the past 12 months, while public officials and civil servants were found to be the most corrupt sectors. Lithuania was found to be the 52nd most transparent country in the world, but the 7th most corrupt country amongst the EU and Western European countries (http://www.transparency.org/cpi). This is also highly represented in the Danish FDI in Lithuania research. Out of 55 companies 35 Danish firms ranked corruption 4 or 5 points out of maximum 5 points. 71% of strategic asset exploiting MNEs and 55% of strategic asset augmenting MNEs reported corruption and lack of transparency to be the major problem in the Lithuanian business environment.

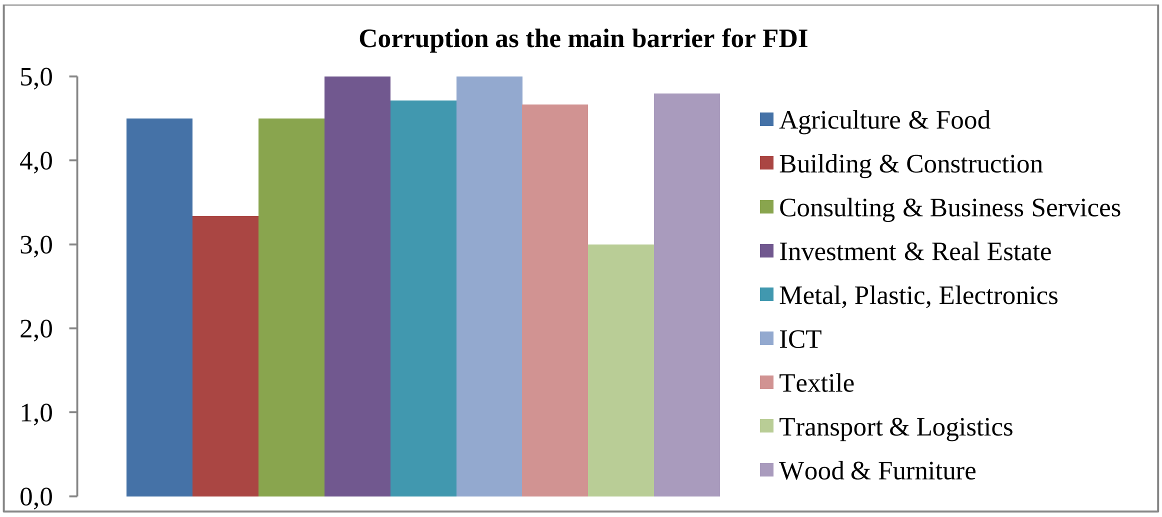


Fig. 21: The main problems in the Lithuanian business environment: corruption.

The main problem is corruption, very week politicians, especially local. In Lithuania you can get everything if you "support" the right people. We don't do that, hence we have so many problems, that I can't recommend any firms to establish a company here.

Fighting corruption is one of the most important task for Lithuania, as there are too many people within the public administration, who still look only from their point of view and not what is good for Lithuania or the private companies who are providing jobs to the society.

Biggest problem as I see is the lack of public hired people which you trust. You never know what rules will be implemented tomorrow and who will stop your activities unless you pay them "penalties".

Given the fact that Denmark is the first most transparent country in EU and Western Europe (http://www.transparency.org/cpi), Danish companies emphasize the lack of transparency in

Lithuania more than anything else. In fact, survey respondents were complaining that corruption in Lithuania has been increasing in the past couple of years. This might be an effect of the recent global financial crisis, which led numbers of companies in Lithuania into bankruptcy and increased the unemployment in Lithuania from 4% in 2007 to 12% in 2009 (http://www.stat.gov.lt/lt/). Naturally, this led the country into big shadow economy and increased corruption. According A.T. Kearney (2009), host location's corruption is one of the several factors which can dramatically decrease the flow of inward FDI, hence increasing transparency should be prioritised in Lithuania.

3. Knowledge related. There are three major problems connected to the peoples' knowledge and skills aspect:

- In Lithuania the availability of low skilled staff was constantly improving over 1990-2003 (Meyer, 2005) and as was shown before, Lithuania is still attractive because of cheap, semi-skilled labour pool these days. Nevertheless, the level of the cheap labour skills is lower than the foreign investors would prefer it to be. 59% of respondent companies with production or operations units in Lithuania said that their staff's lack of knowledge and skills is becoming one of the major problems for them. First of all, most of the workmen have little foreign language skills, which makes it difficult to communicate with them on the daily basis:

<...> We also have a big issue with the employees' foreign language skills. Lowest level employees do not speak English.

- Second, the knowledge that workmen bring from vocational schools, universities or colleges is obsolete and out of date. The training that they get is of low quality and uncompetitive, workmen are not aware of the latest technologies and tools, innovative work practices, etc. This results in poor labour productivity and companies hiring such people have to spend extra time and investment in training these employees. The companies in labour-intensive industries would be willing to move their Lithuanian operations up the value chain, but the lack of peoples' skills and knowledge is stopping them:

What Lithuania needs to focus at if still to be attractive in the traditional sectors is on one hand to improve the general efficiency, on the other hand being able to add more value/innovation to its products <...> If Lithuanians focused more on their core industries, like farming, wood, metal, food and other, if they build on their vast knowledge in these areas, this is where they can become world-class competitive.

In 2000 OECD research and 2005 research by Meyer the scarcity of qualified personnel was reported to be one of the main disadvantages of investing in Lithuania. It seems as it remains to be a big problem these days too – one of the main problems for 50% of survey respondents in Lithuania is the lack of educated staff: finance, strategy, international marketing and management specialists, and most importantly – personnel with good leadership and entrepreneurial skills. According to some respondents the notion of a leader is not even well understood in Lithuania:

Earlier problem was lack of labour. This is better now. Another problem is access to qualified management with an understanding of international sales and marketing. Here LT is too "old fashioned".

Universities do not educate enough people with a driving force, ability to take initiatives, implement innovative ideas. Leadership programmes must be introduced. If you want to establish a company in LT you know that you will have to send your local (DK) management over there, otherwise thins will not move fast enough.

It is very hard to find highly qualified managers. We have been looking for a finance manager for a while, but it is impossible to find one: they are either not qualified enough, don't have a good command of English or even if we find someone relatively good, these people do not want to relocate and work outside the city.

The last knowledge related problem that Danish investors often come across in Lithuania is the language. 23 companies out of 55 rated the language barrier by more than 3 points out of 5. It has been mentioned before, that staff in labour intensive industries speak poor English, but that in understandable given their overall level of education and so on. The bigger part of this problem is the lack of English skills within the public officials, civil servants sector:

Authorities, especially local, are not very well educated. It is very difficult to communicate with them because of language.

According to statistics, the percentage of the Lithuanian population with higher education is two times higher than the EU-15 average (Appendix 11). Every third Lithuanian speaks English and eight Lithuanians out of 10 speak Russian. Half of the population speaks two foreign languages (Innovative Lithuania, 2009). Interestingly, this statistics is not represented in the Danish companies in Lithuania case: as Figure 21 shows, Danish companies in all industries except transport and logistics, metal, plastic and electronics ranked the lack of skills, knowledge, innovativeness, pour education system, language (and also cultural) barriers by 3-5 points out of maximum 5 points. If the statistics of Lithuanian Ministry of Economy is correct, then the results of the survey mean that the whole education system in Lithuania is by far too much focused on the quantity of students graduated, languages taught, etc. and too little on the quality and world-class competitiveness of education.

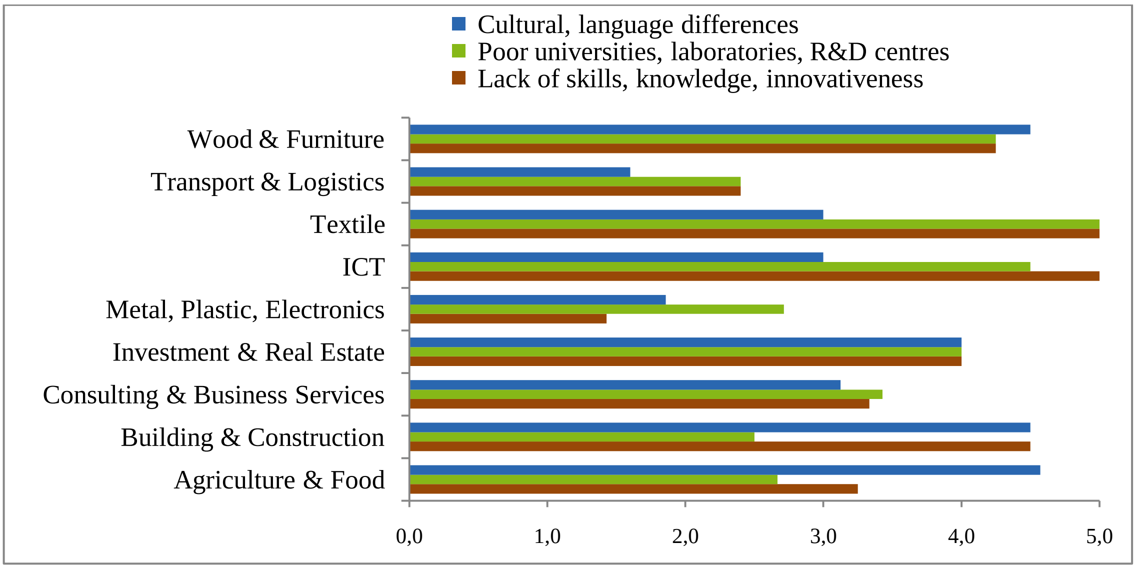


Fig. 22: The main problems in the Lithuanian business environment: lack of knowledge, skills; poor education.

To wrap up the knowledge related section, I could use a conclusion from another research: the major determinant of the FDI development in the era of the "new economy" is the existence of strong technological infrastructure, such as science and technology parks, innovation and incubatory centres as well as qualified labour resource. It is expected that these factors will become the most important ones to insure the further FDI flows to the Baltic States economies (Runiewicz, 2004).

4. Macro-economic and market related barriers to FDI in Lithuania. Given the fact that Lithuania is a relatively new and fast developing economy, it is at the same time quite sensitive to various triggers, e.g. it has been growing in its GDP twice as fast as the rest of EU countries, but the drop of GDP was extreme during the recent global financial crisis (see Appendix 1). Naturally, these dramatic changes have affected the consumer purchasing power, the small internal market has shrunk even more and many of the high quality and more expensive service/products providers have lost a lot of their customers. The financial crisis also had a great impact on inflation rate, availability of funding, bank loans, interest rates, and the whole business ecosystem in general. According to the Baltic Development Forum (2009) capital market infrastructure suffered the most in Lithuania.

The financial crisis affected consumers' purchasing power heavily and therefore also affected the interest from retailers for establishing new shops.

Very unstable market and very affected by crisis. Rates/fees are dropping and corruption is increasing. Lithuania is the worst market we are in.

There is very little government help to investment in Lithuania and inflation will be high again when economy improves due to shrinking demography and a small pool of skilled workforce, which will drive up salaries once again.

High percentage of the shadow economy, according to LFMI 25% of the GDP belongs to the shadow economy.

The political system is unstable and fluctuating as the wind is blowing. There is a lack of knowledge with the people who have to make decisions, and too many times they just pretend to be doing something when in fact they don't.

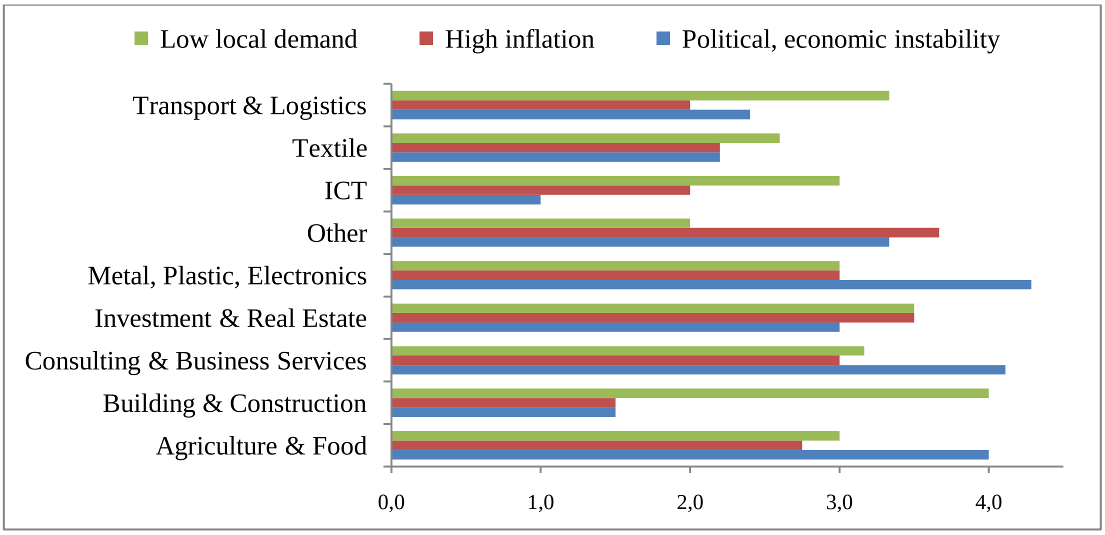


Fig. 23: The main problems in the Lithuanian business environment: macro-economic and demand factors.

Economic and political instability, also high inflation was found to be equally disadvantageous to both strategic asset exploiting and strategic asset seeking companies: approximately 40% in each group reported these to be major barriers for FDI in Lithuania. When it comes to demand conditions, 50% of asset exploiting and 35% of asset augmenting companies report the decreased demand to be a big obstacle for them in Lithuania. 54% of asset exploiters and 40% of asset augmenters expressed a need for more support from the government: subsidies, exemption from various regulation or tax, even cooperation, willingness to talk and consult with each other.

Main problem is a very big lack of realistic approach to business from the government. There *is a very big difference between what the government say it will do for business and to what it in fact actually do for business. Lithuania has too high expectation for itself right know. It wants to access wealth easy, like real estate and foreign inflow of money for investment, but neglect it has lost a lot of competitive power the last many years and still despite the crisis do nothing to address this issue.*

According to Dunning (2008) the low cost advantage in Lithuania and other Eastern European countries is expected to disappear, there are signs that these countries are beginning to attract inbound MNE activity that utilizes higher skill levels, including design, management and R&D. The latter has been noticed in this research too, primarily in ICT sector, but it has also been found that in order to ensure the growth of the more skilled MNE activity in Lithuania a lot of improvement and change is necessary. At the moment there are too many roadblocks stopping the development of Danish companies' activities in Lithuania.

To sum up, in order to eliminate the major problems that foreign investors have in Lithuania and ensure a sustainable inflow of foreign investment, the country needs to focus on:

1. Fight corruption and increase transparency at all levels: private, business, public
2. Reduce the bureaucratic apparatus: make the system much more lean and innovative
3. Reorganise and modernise public services: so that they serve business more than control it
4. Introduce changes in the rigid employment law
5. Review the taxation system, ensure its stability
6. Ease the business start-up processes, provide more support to new companies
7. Introduce big reforms in the education sector: focus on quality, not quantity
    a. Modernise vocational training programmes and curriculum
    b. Lift the international business management, marketing, finance and strategy tutoring into a much higher and world-class competitive level
    c. Introduce leadership and entrepreneurship classes
    d. Improve the quality of languages taught and spoken
8. Bring the government and local authorities closer to business in terms of consulting with each other, joint efforts and improved communication
9. Continue stabilising the economy after the recent financial crisis
10. Focus on long-term, sustainable country development rather than short term gains
11. Promote business opportunities in Lithuania; primarily in a less formal way: personal visits, business to business, government/institution to business level promotion (see 4.3.).

4.3. Other findings

Besides the questions about their reasons to invest in Lithuania and the problems that they come across when doing business in this country, Danish companies were asked to provide an overall assessment of the Lithuanian investment climate. They were given questions: "Would you recommend other Danish companies to invest in Lithuania? Why?", "What are your company's future plans Lithuania?"

2 firms (4%) disclosed their plans to disinvest from Lithuania, 12 companies said that they are not planning to expand (22%), 16 respondent companies are unsure about their future plans (29%) and finally 25 companies are have growth and re-investment plans (45%). It would be fair to assume that the timing of this research was not the best due to the effects of the recent financial crisis on Lithuania's economy. Many of the respondent companies are going through tough times, with the budget cuts, production decrease, cost cutting, pressure from the vendors, etc. This has psychological and emotional effects on how pessimistic/optimistic the respondents perceive their current situation and future outlook.

Table 8

The overall assessment of Lithuanian business climate

	Danish MNEs would recommend other companies to establish in Lithuania	**Danish MNEs would not recommend other companies to establish in Lithuania**
No of answers	76% (42 out of 55)	22% (12 out of 55)
Why?	Low cost of labour Skilled, loyal workforce Good geographic location Good infrastructure (also IT infrastructure) Lithuania is part of EU A lot of business possibilities and potential within both traditional industries and knowledge-intensive industries Relatively stable political system Functional law Skilled and forward looking young generation	A lot of bureaucracy Very low transparency Big cultural differences (no trust, win or lose partnership, focus on quantity not quality) Underdeveloped, old fashioned education system Lack of highly qualified personnel and leaders Weak banking and insurance sectors Too little support for export industry High taxes Inflexible regulation Little internal market Few innovative products to be exported from LT

Source: survey results

Despite the positive overall assessment of business opportunities in Lithuania, 5 respondents emphasized that Lithuania and the possibilities it offers are very little known in Denmark:

Lithuanian Ambassador in Denmark is somewhat invisible. E.g. the Estonian Embassy in Denmark is all about business and cooperation. Their Ambassador would interact with the Danish Chamber of Commerce, various investor associations; promote the country, while nothing similar happens on the Lithuanian side.

When we arrived at the Confederation of Danish Industry, I was surprised how little Danish businessmen know about Lithuania. Some of them don't even know that Lithuania is a well developed and competitive EU country.

This leads to another very important task for the Lithuanian policy makers, willing to attract more FDI to Lithuania: promote the country, communicate the business possibilities in Lithuania non-stop and across various communication channels and levels. Given the importance of informal networks and relationship (see 4.1.1.), also not necessarily the most rational MNEs' insiders control on FDI location choice (Strange, 2009), the majority of country branding and promotion should be done through informal networks, private visits, relationship at a personal or business to business, government to business level.

4.4. Experts' opinion

Two experts of foreign investment in Lithuania were interviewed in order to check whether the findings of this research are valid and reliable, and also to compare how many of the findings are known to them. One of the experts is the Director of Investment Promotion department in the Lithuanian Development Agency (hhtp://www.lda.lt), another is the Managing Director of Investor's Forum in Lithuania (http://www.investorsforum.lt).

The two interviewees (and subsequently the institutions they represent) were found not to have enough in-depth knowledge about one of the biggest investor countries in Lithuania (see Annex 13 for more details). They do have a good understanding of the overall advantages and disadvantages of investing in Lithuania, but this is based mainly on their personal experiences and already existing knowledge, not on some latest in-depth research. Luckily, the knowledge they have (especially in the Lithuanian Development Agency) is quite similar to the findings of this research and thus both investment promotion organisations are moving the right direction. However, the experts seemed to feel a bit uncomfortable when probed into their understanding of the scope and long term effects of different factors attracting Danish FDI into Lithuania; neither do they realise the importance of various factors discouraging Danish companies to establish themselves in Lithuania. It seems as if the main research these experts have done on Danish companies in Lithuania was statistical analysis of the number of companies investing / disinvesting, company sizes, investment volumes, etc. None of the institutions seem to have spent the time on qualitative research.

The fact that my research findings are quite similar to what the Lithuanian Development Agency representative was talking about, makes me trust that my research results are valid and reliable. However, the fact that the two investment promotion agencies do not have detailed information on the Danish investment in Lithuania keeps me wondering whether the quality and reliability of their investment promotion strategies are good enough to ensure Lithuanian efforts towards increasing FDI flows are going the right direction.

4.5. Linking theory with empirical data

Talking about the theory reviewed in chapter 3 it is safe to say that most of it was well reflected in the empirical results section. We see a mix of Danish companies that have chosen Lithuania instead of another country for several reasons: lower the transaction costs (access to much cheaper input resources within a short distance from Denmark, low liability of foreignness, tight control of local operations, proximity to customers); access to scarce resources, human skills and expertise, important suppliers and customers; and finally the ability to enter and/or exploit the local networks. In fact, as the FDI theory suggested, we saw that many Danish companies chose Lithuania because of a mix of reasons; or in other cases, the number of reasons keeping Danish companies in Lithuania have increased after they entered this market and started building their own networks there.

Interestingly, the network perspective was very significant in the research. This could be explained by the fact that Lithuania is a small market compared to other developing countries like India, China or Eastern European neighbours; and thus unable to offer a big market, inexhaustible cheap labour pool or natural resources, etc. Fast development of Lithuania also leads to an increase of wages and shifting value proposition. Due to that factors like personal relation and network links can become the most important factors in attracting FDI to a small economy. Network links are a more reliable way of also keeping FDI in the country, because after a company has entered a new network, it starts building relationship with various stakeholders in the network, which might result in spillover effects, new projects, etc.

The joint analysis of “push” and “pull” FDI factors allowed me to discover that the current country profile and focus have been attracting more asset-exploiting that asset-augmenting FDI to Lithuania, which is in fact not what the Lithuanian policy makers are aiming for. At the same time it allowed me to identify the most necessary changes in Lithuania which would increase the flow of asset augmenting FDI and provide more growth possibilities for the asset exploiters in terms of the value added to their Lithuanian products and operations. Hadn’t I followed Mudambi's (2008) logic that "pull" and "push" FDI determinants must be analysed together, I wouldn't have noticed how likely Danish investors are to stay and expand or upgrade their operations in their host location.

Unlike theory suggests, I could not see big differences in the FDI patterns across various industries, but I could notice modest differences in the "pull" factors FDI attracting power across time. The driving FDI determinants have not changed significantly since 1990 and the main problems that Danish companies face in Lithuania are few, but big issues. Lithuania continues to be focused on lower-value adding foreign investment; its efforts to attract more knowledge-intensive FDI have not been recognised by the Danish investors yet (or recognised by too few companies). So, despite the fact that a lot of recent literature focuses on "knowledge sourcing" as the major determinant behind FDI, Lithuania is not yet a perfect example of this phenomenon. The situation will not change unless several big problems are tackled in Lithuania, which, in fact, I have found to be different (or at least to differ in their importance to the foreign investors) from the latest Ernst & Young (2009) findings, which I criticised in the beginning.

It is well known that people look for things confirming their prejudices rather than forming own, independent, qualified opinions. My whole research was built on the theories and methodology that I chose in advance and so my thinking, construction of arguments, topics that I discussed with the survey respondents and interpretation of empirical data was framed around a pre-selected agenda. In other words, I might have been steered by theory. E.g. I found the network perspective to be very significant in my research, whereas it has not been so important in other FDI location studies. One could argue that if I did not include the network perspective in my theoretical framework, my findings on Danish FDI in Lithuania would look somewhat different. However, I see this bias as something that is not possible to avoid. The research results were validated with external people (triangulation method), so they should be considered as valid and reliable within the given theoretical framework.

To conclude, the complex theoretical framework was a good tool that helped me to address the right issues in the research. My research methodology did not allow me to collect as much information as I wanted or sometimes the information was not that in-depth as I preferred, but overall it enabled me to make some good and valid conclusions.

CONCLUSION

This study was aimed at identifying the main determinants behind the Danish foreign direct investment in Lithuania and the main barriers that Danish companies come across when doing business in this country. Joint analysis of “push” (firm-specific) and “pull” (location-specific) FDI factors was applied to 55 Danish companies that were established in Lithuania during 1990 – 2009 and represented 10 different industries.

- The first part of the research question was:

Why do Danish companies choose Lithuania for their Foreign Direct Investment projects?

Lithuania was found to be the most attractive to efficiency seeking and marketing seeking Danish companies, i.e. companies willing to take advantage of the cheap and abundant pool of skilled and semi-skilled labour as well as companies willing to sell Danish production or Danish-knowledge-based services to the customers in Lithuania or the neighbouring markets. Fast development of Lithuanian market, political and economic stability, fairly good infrastructure and an excellent geographic location (i.e. proximity to Denmark, gateway between Western-Eastern European markets) were amongst the main locational factors that encouraged Danish investors to choose Lithuania rather than another country.

Due to the fact that Lithuania does not have a big local market or too many natural resources (unlike its neighbours Poland or Belarus), also the cost of Lithuanian labour is increasing, networks and relationships start playing a crucial role in attracting Danish FDI to Lithuania. For many Danish investors Lithuania was not necessarily a rational host location choice, but rather influence made by other people (family, partners, suppliers, customers, investment promotion institutions, other personal contacts with Lithuanians). The role of network / relationship perspective in attracting FDI to small transition economies was found to be very important and it is quite a novelty, which has not been discovered in any of the previous researches on Nordic FDI in Lithuania or the Baltic countries in general.

Not as many Danish companies, as one would expect based on Lithuania’s FDI promotion strategies or economic development strategies, have chosen this country because its knowledge-based assets. Lithuanians’ knowledge and expertise have been recognised in the light industries: furniture, textile, food and agriculture, where Lithuanians have a long history; also ICT, electronics and engineering, where the country started investing a lot only recently.

However, loyal, skilful low cost labour and good geographic location were the prevalent FDI determinants.

The research findings were expected to differ across industries or based on the timing when the company was established in Lithuania (e.g. 1990s vs. late 2000), but it was not the case. The type of Danish investment in Lithuania has not changed much throughout the years; neither has the Lithuanian value proposition improved notably in the eyes of Danish investors.

- The second part of the research question was:

What are the obstacles that Danish investors come across when doing business in Lithuania?

Amongst the main barriers for developing and growing their companies in Lithuania, Danish investors have reported the following: high (NB! and increasing) corruption, big bureaucracy, business unfriendly, inflexible and constantly changing laws and regulations, poor public service, “old fashioned”, uncompetitive and low quality education system, language barriers, high taxes and the present economic instability caused by the recent global financial crisis. Furthermore, Danish investors would prefer a lot more cooperation, understanding and mutual trust between the local authorities and businesses; also more focus on quality and state of art in all aspects of life and work in Lithuania.

Two thirds of the Danish companies have been engaged in low-value adding activities (manufacturing, support services, etc.) in Lithuania. These companies were found to be footloose and to pursue a static efficiency that improves their own positions in the international value chain. This behaviour may be short-lived for Lithuania, since the latter functions can be easily moved to a cheaper or more business friendly location. On the other hand, most of the Danish companies are satisfied with their decision to invest in Lithuania and would be willing to move their Lithuanian subsidiaries up the value chain (e.g. do more design, R&D, marketing, after sales services), however they do not find it to be viable due to the reported of obstacles.

The problems reported by Danish companies in Lithuania were recurrent and focused, every respondent complained about similar issues. This just shows the magnitude of the problems and provides an opportunity to Lithuania: removal of these business barriers would provide expansion and value upgrading possibilities to foreign companies in Lithuania; it would also help to increase the flow of new foreign investment and subsequently facilitate the country development.

CLOSING DISCUSSION

Attracting FDI to a transition economy is not enough to ensure its long term advantages for the host country. According to the resource based view and M. Porter's "Competitiveness of Nations" (Grant, 1991) a much more difficult task is to retain the foreign investors and to provide them with possibilities to upgrade and grow their businesses, so that both foreign companies and local market players can benefit from the foreign capital and knowledge flows.

Probably the most alarming finding of this research is that 64% of Danish companies in Lithuania are fairly footloose. They engage in low-value adding operations or exploit local assets / local market, and thus improve their own static positions, without engaging in too many backward and forward linkages with the domestic companies. Consequently the knowledge and technology spillover effects are relatively low. On top of it, these companies' future behaviour is uncertain, e.g if the local market for their services shrinks or if the labour cost becomes cheaper somewhere else, they might shut down their operations Lithuania.

Theory suggests that asset exploiting is no longer a sustainable basis for foreign investment, because it can easily be replicated (Pyndt & Pedersen, 2006), therefore MNEs are looking to access various types of skills and knowledge that are created in the host country (Pessoa, 2008), or other complementary assets which can be combined with their own (Perugini, 2008). So, if the majority of Danish investors in Lithuania are in fact asset exploiters and not asset augmenters, how likely are these Danish companies to stay in Lithuania and how likely are they to upgrade the value created by the Lithuanian subsidiaries?

Based on the insights collected during the research, I would say that the quality and durability of foreign investment will depend on the balance between reasons keeping foreign investors in the host location and barriers preventing them from upgrading their value proposition and/or developing their businesses.

Dunning (2008) said that the motives for foreign production usually change, e.g. when a firm becomes an experienced foreign investor. Many of the Danish companies started in Lithuania as market or efficiency seekers, but during some years they have built a network, invested a lot of time and effort in establishing business relationships, maybe noticed some emerging business opportunities, etc. So the number of reasons to stay in this country has increased and become more diverse. Indeed, the majority of Danish investors reported that they are not willing to move out from Lithuania, and there is much potential for asset augmenting FDI there. However, the value that the Danish companies are able to create in Lithuania is highly dependent on the removal of previously reported business barriers.

So, before Lithuanian policy makers start moving the country towards a knowledge-based society by promoting innovations, research and development, they first need to realise that there is some homework to be done. The foundation for business needs to be stabilized and enhanced: the basic barriers for sustained business, as corruption, bureaucracy, economic instability, inefficient public service, rigid and unstable regulations, weak educational sector, etc. have to be removed.

The same applies to the 36% of asset augmenting companies in Lithuania: they are there because they have recognized some high value-added, innovative capacity in Lithuania or a Lithuanian subsidiary was necessary for them in order to connect to other markets, customers and suppliers, etc. The attachment of these Danish companies to their host location might be stronger and more beneficial for Lithuania than the asset exploiting investors', but again, just attracting this type of FDI to Lithuania is not enough: in order to keep it and support it proper business conditions must be established.

Another important finding in this research was the ability of the network/relationship perspective to explain a lot of foreign direct investment motives in a small, developing country, which is not very rich in natural resources, does not have a big market or cannot offer many innovative, high-value adding assets. Meyer (2000), Strange (2009) and some other previously analysed scientists found evidence that personal relationships are very important in transition economies and argued that many of the FDI location decisions depend on the individual preferences of the location decision makers within an MNE. This research supported the network theory to a high extent. I would argue that the Lithuanian businessmen and policy makers have failed to recognise this and make use of the cultural, historic, geographic and other proximity to Denmark. One of the business barriers reported by the Danish companies in Lithuania was the lack of trust, cooperation, willingness to seek mutual benefit and connect to foreign investors in less formal and benevolent ways. If Lithuanians were more open-minded and much better in establishing and maintaining networks and relationships, they would be more successful not in just attracting FDI, but also keeping and upgrading it in the country.

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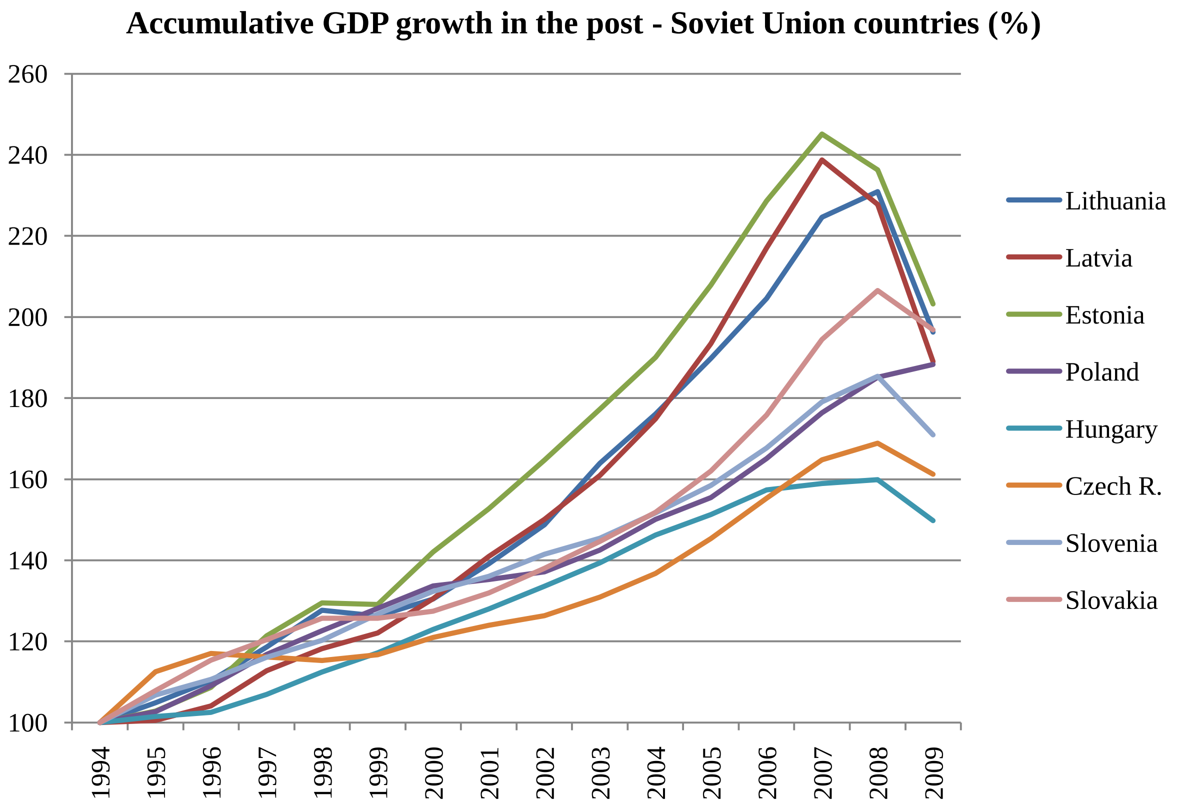
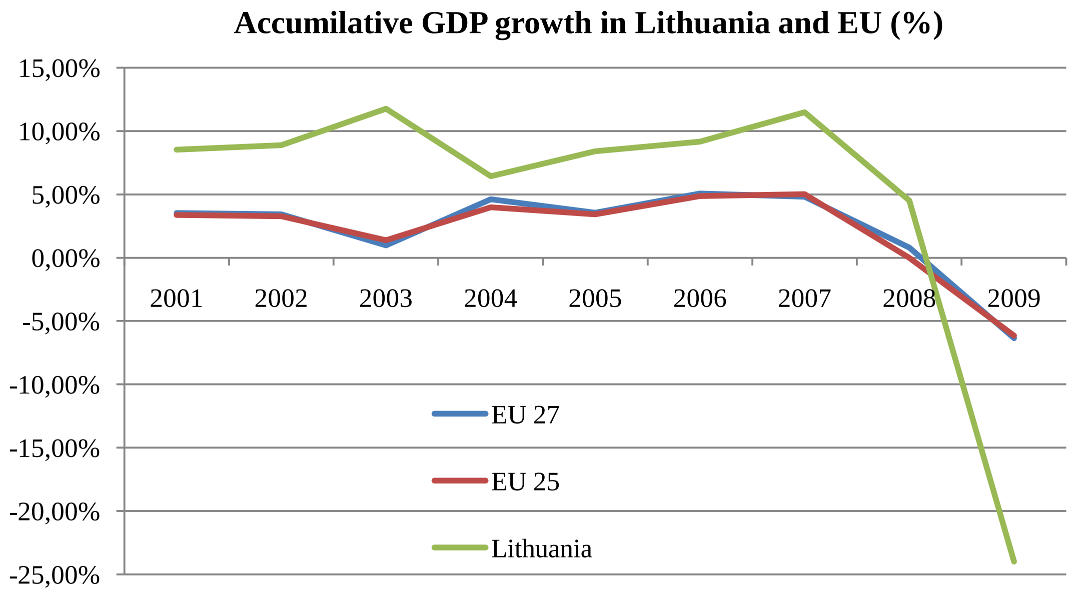
Appendix 1



Source: Bloomberg database, report date: 6 March 2010



Source: Bloomberg database, report date: 1 September 2010

Appendix 2

Number of Greenfield FDI projects

Partner region/economy	World as source					
	2004	2005	2006	2007	2008	2009 (Jan–Mar)
	Destination					
World	10 222	10 481	12 175	11 928	15 551	3 363
Developed countries	4 664	5 089	6 089	6 195	6 972	1 528
Europe	3 503	4 032	4 837	4 795	5 332	1 101
European Union	3 405	3 935	4 708	4 625	5 115	1 047
Austria	99	103	87	104	111	17
Belgium	115	162	122	206	179	22
Bulgaria	109	140	285	151	146	33
Cyprus	6	5	15	7	18	2
Czech Republic	148	150	179	148	141	22
Denmark	91	78	69	67	65	10
Estonia	43	62	55	32	44	6
Finland	32	35	44	38	38	4
France	233	492	587	566	668	149
Germany	276	271	360	440	503	99
Greece	59	28	29	37	47	12
Hungary	221	205	241	217	147	31
Ireland	131	192	146	116	183	40
Italy	131	140	148	170	219	34
Latvia	30	83	110	33	51	10
Lithuania	23	76	60	44	46	8
Luxembourg	14	3	12	26	19	5
Malta	3	9	12	9	8	6
Netherlands	104	109	138	130	173	24
Poland	239	270	337	340	353	43
Portugal	82	28	57	77	74	17
Romania	180	262	373	369	348	41
Slovakia	88	118	118	99	86	15
Slovenia	23	19	23	23	23	1
Spain	267	156	287	427	495	100
Sweden	128	106	123	86	85	25
United Kingdom	530	633	691	663	845	271

Source: UNCTAD, 2009

Appendix 3

World Competitiveness Rankings 2009 - 2010

Country/Economy	Rank	Score	Country/Economy	Rank	Score
Switzerland	1	5,60	Thailand	36	4,56
United States	2	5,59	**Slovenia**	**37**	**4,55**
Singapore	3	5,55	Bahrain	38	4,54
Sweden	4	5,51	Kuwait	39	4,53
Denmark	5	5,46	Tunisia	40	4,50
Finland	6	5,43	Oman	41	4,49
Germany	7	5,37	Puerto Rico	42	4,48
Japan	8	5,37	Portugal	43	4,40
Canada	9	5,33	Barbados	44	4,35
Netherlands	10	5,32	South Africa	45	4,34
Hong Kong SAR	11	5,22	**Poland**	**46**	**4,33**
Taiwan, China	12	5,20	**Slovak Republic**	**47**	**4,31**
United Kingdom	13	5,19	Italy	48	4,31
Norway	14	5,17	India	49	4,30
Australia	15	5,15	Jordan	50	4,30
France	16	5,13	Azerbaijan	51	4,30
Austria	17	5,13	Malta	52	4,30
Belgium	18	5,09	**Lithuania**	**53**	**4,30**
Korea, Rep.	19	5,00	Indonesia	54	4,26
New Zealand	20	4,98	Costa Rica	55	4,25
Luxembourg	21	4,96	Brazil	56	4,23
Qatar	22	4,95	Mauritius	57	4,22
United Arab Emirates	23	4,92	Hungary	58	4,22
Malaysia	24	4,87	Panama	59	4,21
Ireland	25	4,84	Mexico	60	4,19
Iceland	26	4,80	Turkey	61	4,16
Israel	27	4,80	Montenegro	62	4,16
Saudi Arabia	28	4,75	Russian Federation	63	4,15
China	29	4,74	**Romania**	**64**	**4,11**
Chile	30	4,70	Uruguay	65	4,10
Czech Republic	**31**	**4,67**	Botswana	66	4,08
Brunei Darussalam	32	4,64	Kazakhstan	67	4,08
Spain	33	4,59	**Latvia**	**68**	**4,06**
Cyprus	34	4,57	Colombia	69	4,05
Estonia	**35**	**4,56**	Egypt	70	4,04

Source: World Economic Forum, 2009

Appendix 4

Foreign direct investment in Lithuania (LTL thousand)

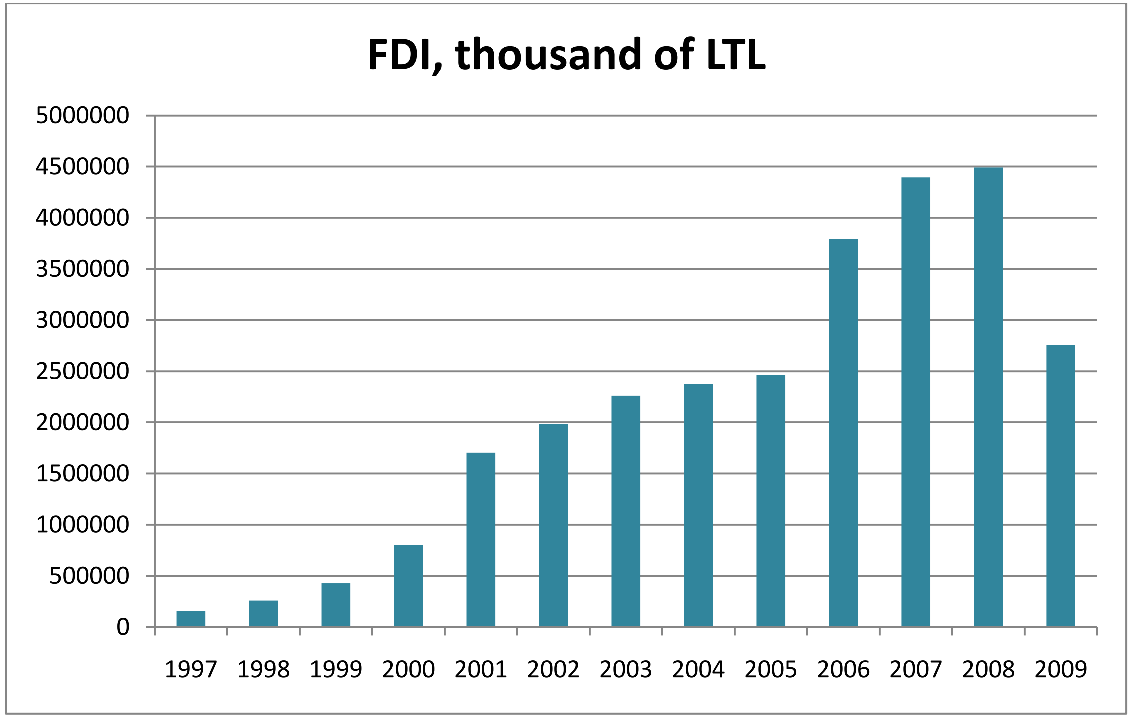
	2008	2009
SE Sweden	4056553	5300100
DE Germany	3040089	3175710
DK Denmark	**4491081**	**2756350**
EE Estonia	2030014	2397660
NL Netherlands	1495682	2116330
LV Latvia	1633172	1974900
PL Poland	6259254	1853450
FI Finland	1810540	1750890
RU Russia	3466975	1682310
Other countries	863817	949760
US United States	677106	836870
LU Luxembourg	633693	792330
FR France	464442	711310
CH Switzerland	537015	693850
GB United Kingdom	621182	667410
IE Ireland	267316	249140
VG Virgin Islands, British	38378	153680
CA Canada	127373	148130
BE Belgium	80272	141590
IL Israel	64278	131530
IT Italy	96339	86310
CZ Czech Republic	56290	63520
LI Liechtenstein	57820	54500
SK Slovakia	25879	26450
KZ Kazakhstan	17708	16010
HU Hungary	14705	15960
BG Bulgaria	1156	1760
GR Greece	-582	730

Source: The Lithuanian Department of Statistics, 2009

Appendix 5

Danish FDI in Lithuania (yearly, thousand of LTL)

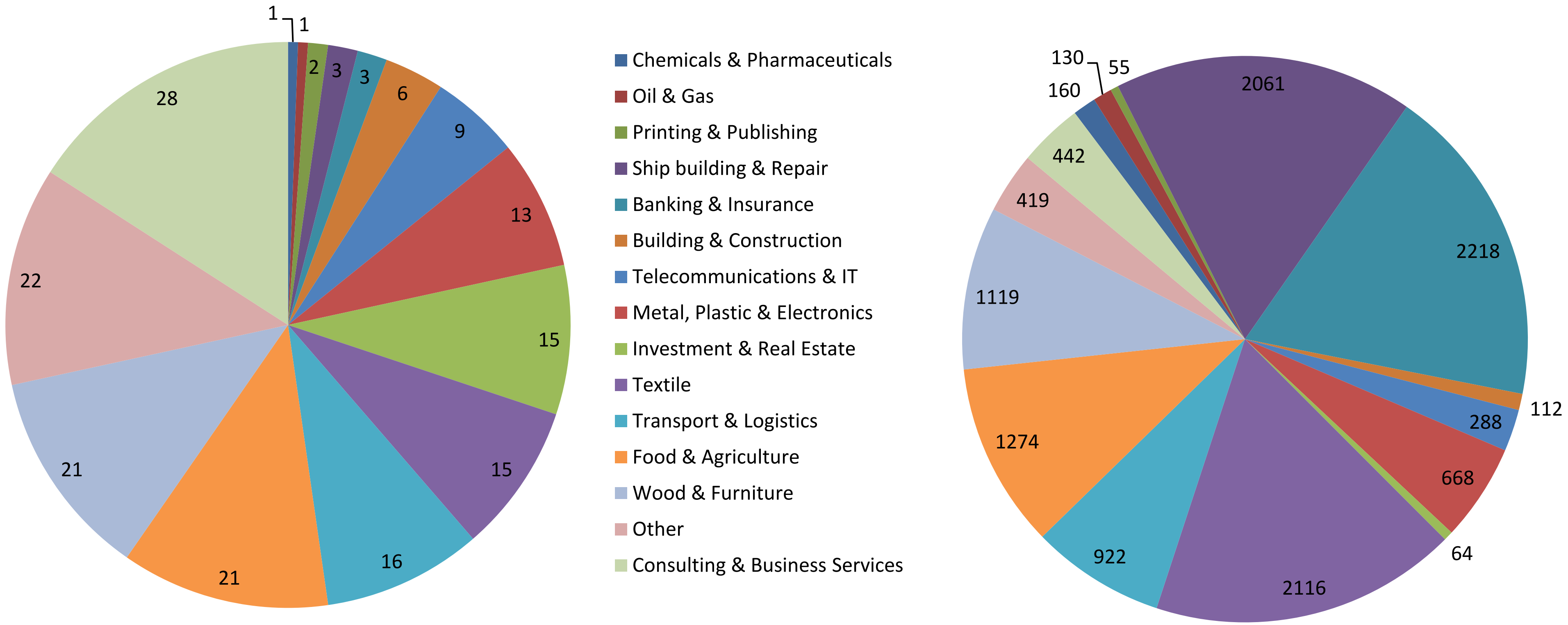
	1991-1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Investors	n/a	48	77	91	116	133	173	190	212	234	234	241	260	264
FDI	n/a	156517	259669	427806	800999	1704242	1982884	2261896	2374357	2465827	3791620	4396400	4491081	2756350



Source: Lithuanian Department of Statistics, 2009

Appendix 6

Danish FDI in Lithuania (by the number of companies – left, and the number of employees - right)



Source: The Royal Danish Embassy to Lithuania, 2009

Appendix 7

Literature* on the FDI in Lithuania

Year	Author (-s)	Main interest	Findings/Conclusion
2002	Tvaronaviciene, M.	Local taxes effect on FDI	Instead of tax concessions on capital invested, Lithuania should concentrate on attracting “green field” investments by guaranteeing stable business conditions once they are implemented, continuity of reforms and, last but not least, reducing bureaucratic hurdles and increasing the transparency of decisions made by civil servants.
2003	Karlavicius, L. Karlaviciene, B.	Investment Climate of Lithuania	30 interviews were conducted between 1998– 2001 in Lithuanian companies with the greatest level of foreign investment. The chief problems were identified: Frequent changes in the tax regime / the lack of clear practice on the interpretation of laws / the absence of accountability for tax inspectors / the slow harmonisation of Lithuanian and European Union tax laws.
2004	Javorcik, B.	FDI effect on spillovers	The analysis, based on firm-level data from Lithuania, produces evidence consistent with positive productivity spillovers from FDI taking place through contacts between foreign affiliates and their local suppliers in upstream sectors. Spillovers are associated with projects with shared domestic and foreign ownership but not with fully owned foreign investment.
2004	Darskuviene, V. Kacergiute, A.	“Push” motives and modes of investment in Lithuania in 1990-2000	The two most important motives to invest in Lithuania in 1990-2000 were the existence of highly skilled employees and access to customers and the local market. For the manufacturing companies low labour cost was also important. Most of the foreign investors chose the Greenfield investment mode, while some also preferred Acquisitions.
2004	Hunya, G.	“Pull” factors of FDI in Lithuania (and Estonia, Latvia)	Two factors, a favourable macro-economic environment and a sound privatization policy, were advanced as the primary reasons for the level of success achieved by these countries.
2004	Runiewicz, M.	The role of FDI in technology transfer and innovativeness	The extent of the FDI impact on the country innovativeness depends largely on the other policies assisting and enhancing the FDI inflows as well as the technological learning and spillover effects on the national companies. The major determinant of the FDI development is the existence of strong technological infrastructure, e.g. science and technology parks, innovation and incubatory centres, qualified labour resource. These will become the most important ones to insure the further FDI flows.
2006	Meyer, K. Ionascu, D. Darskuviene, V. et.al.	FDI patterns in Lithuania, Hungary and Poland	Most investors are motivated by market seeking motivations, thus further integrating markets within the enlarged EU, and providing consumers with increasingly similar product and brand portfolios. The business environment, as seen from the perspective of managers in MNE, is improving, but not at the pace one might have expected.
2005	Ginevicius, R. Tvaronaviciene, M.	The importance of state policies, culture and neighbourhood in attracting FDI	Lithuania was compared to Estonia in terms of the FDI patterns. Cultural similarity and close distance to the investor country were found to be very important when choosing where to invest. Privatization was the most important factor that attracted FDI in Lithuania.

Appendix 7

Literature* on the FDI in Lithuania, contd.

Year	Author (-s)	Main interest	Findings/Conclusion
2007	Rolv, P. A. Randi, L. Ramanauskas, G.	FDI & the transformation from industry to service society: a Lithuanian - Nordic perspective	The cost of labour has played an important role as the factor influencing investments in Lithuania, but we can see an increasing tendency of developing relationships based on the idea of exchanging knowledge and taking advantages of local competence that can be developed to a corporation's advantage.
2007	Tvaronaviciene, M. Grybaite, V.	FDI effect on Lithuania's development	There is a strong positive relationship between FDI stock and GDP growth in Lithuania. FDI, in principle, impacts majority of economic activities, only extent of that impact differs. More "attractive" economic activities with higher FDI intensity display higher concentration.
2008	Tvaronaviciene, M. Grybaite, V. Korsakiene, R.	Comparing Lithuania (and Estonia, Latvia) vs. India in terms of their attractiveness to foreign investors	Different driving forces are not equally important for different investment destinations. The Baltic States and India are not competing, but complementary destinations, when investor is concerned about rather stable growth of market. In case of outsourcing or off-shoring labour intensive production, India is a more attractive investment location. Institutional environment is not so important when choosing India or the Baltics.
2009	Miskinis, A. Lukoseviciute, E.	Why does Lithuania attract less FDI than Hungary or Czech Republic?	FDI finds a stable and well regulated business environment more important than a liberal one. It also flows to faster growing countries. Geographical location and cultural proximity provide a country with many advantages. Taxes are not that important. The delayed economic reforms in Lithuania may be one more reason of low DFI.
2009	Kalasinskaite, K.	The impact of FDI on economic development	FDI has a different impact on the receiving industry and the economy as such. The effect of FDI on Lithuania's development has been changing overtime: in the beginning there are spillovers and after some time competitive foreign capital pushes local businesses out of the industry.

* Exclusive of student papers, commercial articles, reports (e.g. OECD)

Source: own

Appendix 8

Introduction to the respondents

Dear Mr./Ms. XXX,

My name is Akvile Barsauskaite and I am writing on behalf of the Department of Innovation and Industrial Economics in Copenhagen Business School.

We are conducting a research on the Danish Foreign Direct Investment in Lithuania. The aim of the study is to find out why Danish investors enter the Lithuanian market and what problems they come across when doing business in this country.

It would be highly appreciated if we could borrow 10-15 minutes of your time. We kindly ask you to provide us with the date, time and phone number for a telephone survey or fill out the attached questionnaire.

We would like to emphasize that all answers are completely anonymous and will not be published, as it is only the overall survey results that are interesting. Should you be interested, you will receive the results of the survey.

We are looking forward to hear from you!

Best Regards,
Akvile Barsauskaite

Appendix 9

Questionnaire design

1. Name of your company

2. Which industry do you operate in? Please choose industry

3. When did you establish in Lithuania? Please choose year

4. Why did you decide to establish your company abroad?

5. Please describe your activities in Lithuania

6. Did you consider other countries for these operations? Please choose answer

Which other countries did you consider?

7. What were the most/least important reasons to choose Lithuania and not another country?

Please indicate the importance of the below factors: 1-not important, 5-very important
OR use the answer OTHER to provide your own answer

	1	2	3	4	5
Cheap, abundant labour pool	☐	☐	☐	☐	☐
Skilled, innovative people	☐	☐	☐	☐	☐
Cheap land & real estate	☐	☐	☐	☐	☐
Cheap, abundant raw materials	☐	☐	☐	☐	☐
Cheap, abundant natural resources	☐	☐	☐	☐	☐
High quality of infrastructure	☐	☐	☐	☐	☐
Low cost of transportation, other services	☐	☐	☐	☐	☐
High local demand, high market growth	☐	☐	☐	☐	☐
Low competition	☐	☐	☐	☐	☐
Presence of industry clusters	☐	☐	☐	☐	☐
Good universities, laboratories, R&D centres	☐	☐	☐	☐	☐
Presence of business parks	☐	☐	☐	☐	☐
Proximity to suppliers & customers	☐	☐	☐	☐	☐
Proximity to home market (Denmark)	☐	☐	☐	☐	☐
Gateway to other markets (e.g. Russia)	☐	☐	☐	☐	☐
Low taxes	☐	☐	☐	☐	☐
High government support	☐	☐	☐	☐	☐
Favourable laws & regulations	☐	☐	☐	☐	☐
Low bureaucracy, high transparency	☐	☐	☐	☐	☐
Political, economic stability & fast development	☐	☐	☐	☐	☐
Easy access to local decision makers	☐	☐	☐	☐	☐
Personal relation with Lithuania	☐	☐	☐	☐	☐
Cultural, historic, language proximity	☐	☐	☐	☐	☐
Other (please specify)					

8. What are the main problems that your business has come across in Lithuania?

Please indicate the importance of the below factors: 1-not important, 5-very important
OR use the answer OTHER to provide your own answer

	1	2	3	4	5
Expensive, short, inefficient labour pool	☐	☐	☐	☐	☐
Lack of skills, knowledge, innovativeness	☐	☐	☐	☐	☐
Expensive land & real estate	☐	☐	☐	☐	☐
Expensive, lacking raw materials	☐	☐	☐	☐	☐
Expensive, lacking natural resources	☐	☐	☐	☐	☐
Low quality of infrastructure	☐	☐	☐	☐	☐
High cost of transportation, other services	☐	☐	☐	☐	☐
Low local demand	☐	☐	☐	☐	☐
High competition	☐	☐	☐	☐	☐
Lack of industry clusters	☐	☐	☐	☐	☐
Poor universities, laboratories, R&D centres	☐	☐	☐	☐	☐
Lack of business parks	☐	☐	☐	☐	☐
Remote suppliers & customers	☐	☐	☐	☐	☐
Bad geographic location	☐	☐	☐	☐	☐
High taxes	☐	☐	☐	☐	☐
Low government support	☐	☐	☐	☐	☐
Inflexible laws & regulations	☐	☐	☐	☐	☐
High bureaucracy, low transparency	☐	☐	☐	☐	☐
Political, economic instability	☐	☐	☐	☐	☐
High inflation	☐	☐	☐	☐	☐
Difficult access to local decision makers	☐	☐	☐	☐	☐
Cultural, historic, language differences	☐	☐	☐	☐	☐
Other (please specify)					

9. Would you recommend other firms to establish in Lithuania? Please choose answer

If YES, why?
If NO, why?

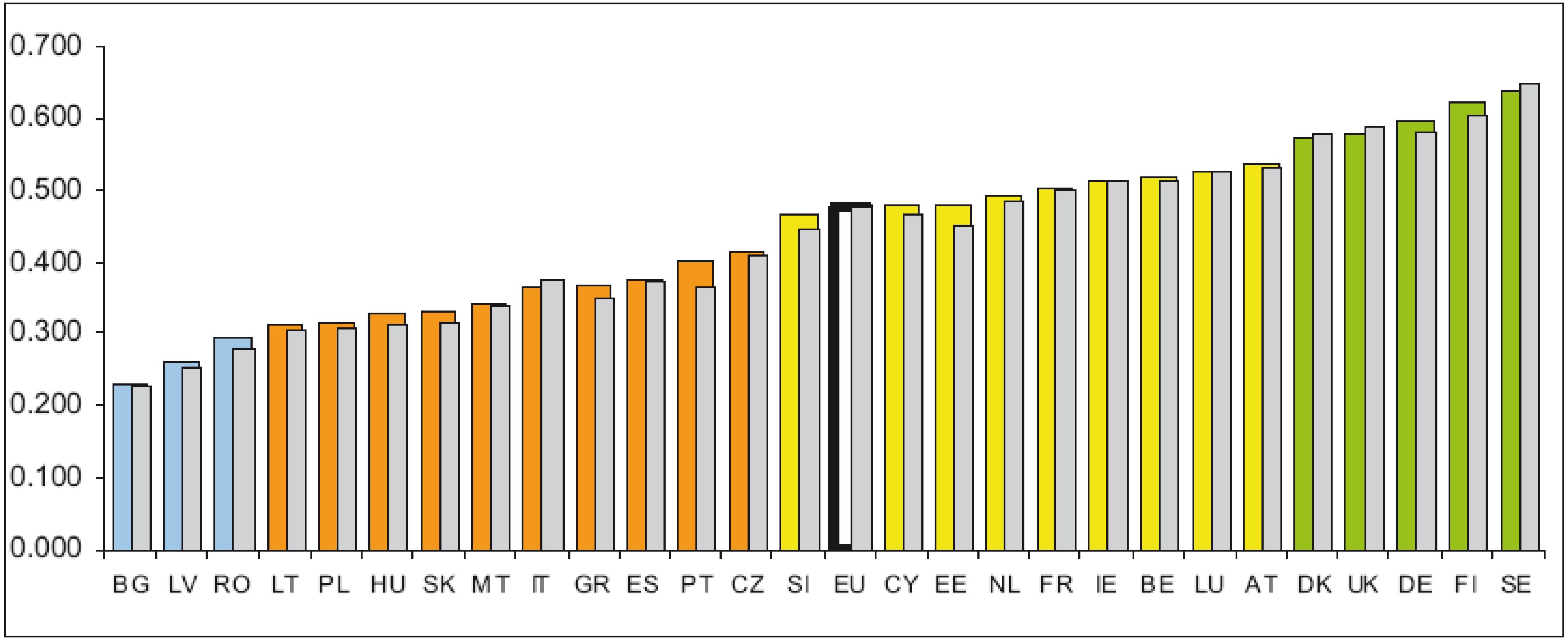
10. Are you planning to re-invest / expand in Lithuania in the future? Please choose answer

11. If you have other comments regarding the business climate in Lithuania or the most necessary improvement, your input will be highly appreciated:

THANK YOU FOR PARTICIPATING IN THE SURVEY!

Appendix 10

European Innovation Index 2009

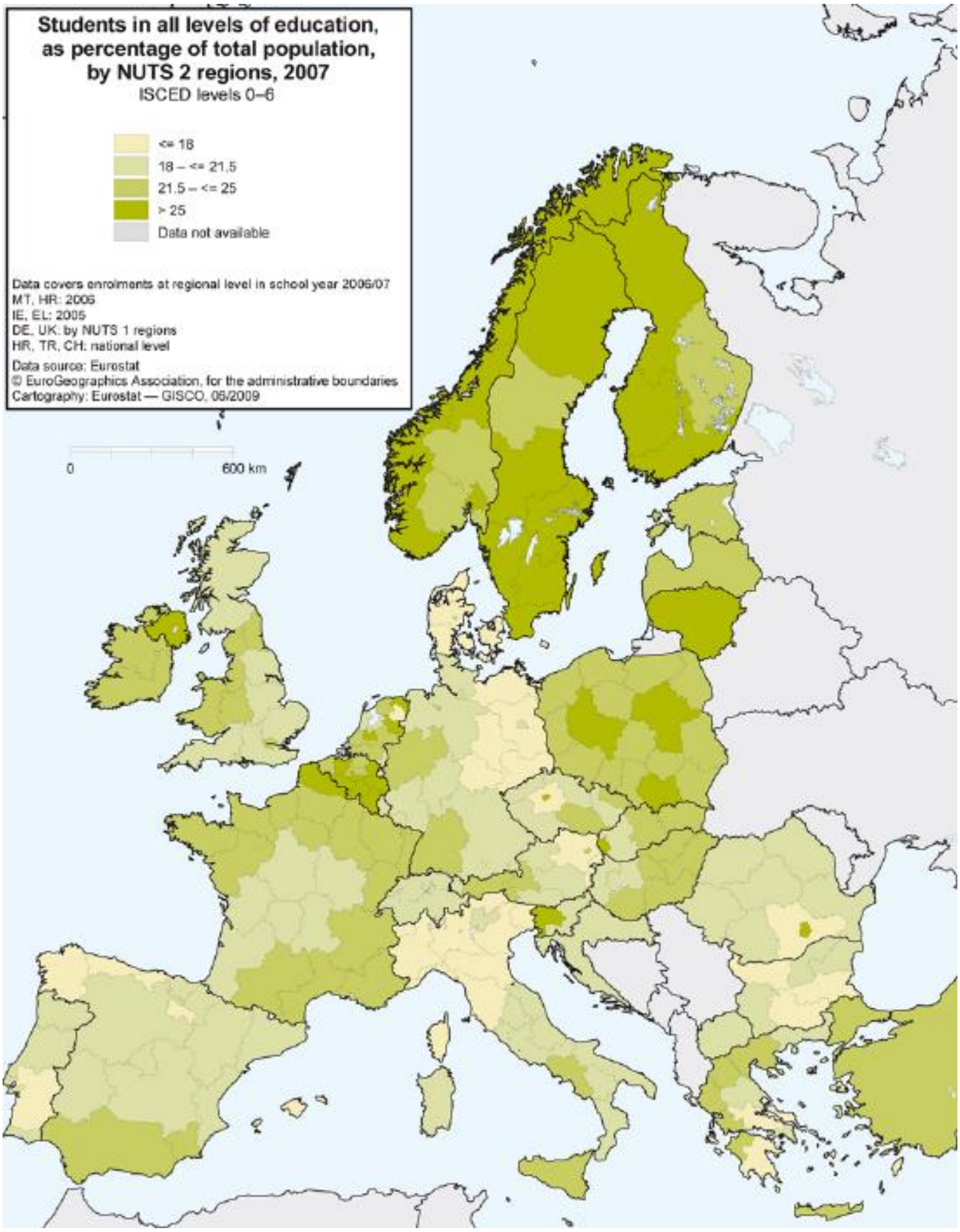


*Lithuania's abbreviation – LT

Source: Pro Inno Europe Paper No. 15

Appendix 11

Students in all levels of education, 2007



Source: http://epp.eurostat.ec.europa.eu

Appendix 12

The research findings

	Year established in LT	Type of operations in LT	Motives to internationa-lise (push)	Motives to choose Lithuania (pull) (back in time)	Main problems in Lithuania (current status)	Overall LT business climate assessment	Future plans
Building & Construction	2003-2008	Design; Construction; Building. *Environmental projects, buildings, ships*	67% Market seeking 33% Network seeking	• LT growth & development • Cheap, abundant labour • Semi-skilled labour pool • Proximity to Denmark • Cheap land, real estate • Proximity to customers	• Inefficient, expensive labour • Lack of skills, old knowledge, poor educational background • Cultural, language differences • Bureaucracy, connections • People tend to avoid responsibility for their actions and are not quality oriented.	If you are patient, there are many business opportunities in LT within building and construction industry.	Unsure due to current economic situation.
Information technologies	2006-2009	Software design; Service centres; Online payment solutions.	67% Strategic asset seeking 33% Network seeking	• Personal relation with LT • Good university education • Cheap, skilled labour • Proximity to customers, partners, home market • Fairly good IT infrastructure • Growing EE market • Low operating cost	• Inflexible laws & regulations • High bureaucracy • Low transparency, corruption • High inflation • Very high taxes, low government support • Compared to other countries-still poor education level, lack of innovativeness, leadership and language skills	A member of EU, close to Scandinavian customers, many export opportunities. However, it is difficult to find well qualified personnel and cope with high, often changing taxes.	Unsure.
Metal, Plastic, Electronics	1993	Plastic production.	Network seeking	• Influence made by others	• Business culture is very "Russian" style: win or lose, no trust	18 years of good experience	Expand.
	2000-2003 2006	Cable systems manufacturing; El. equipment assembly.	Efficiency seeking	• Cheap, abundant labour pool • Favourable tax & regulation • Semi-skilled labour pool • Political stability, country development	• Inflexible laws, regulations, very quickly changing legislation, high taxes • High inflation, economic instability • Bureaucracy, corruption • Big lack of realistic approach to business from the government • Language differences	Would recommend investing in other countries with low cost, but more flexible business environment, support to exporting companies. A lot of internal problems in LT (see 4.1.3.)	Disinvest; No expansion.
Investment & Real Estate	2001-2002	Development of real estate proj. Investment in real estate.	Market seeking	• Cheap land, real estate • Low competition • High demand • Proximity to Denmark	• Low local demand • High inflation, economic instability • Lack of capital market • Lack of transparency, good corporate governance • Lack of highly educated professionals	There are many business opportunities in Lithuania, provided that there are changes in the corporate governance, transparency, legislation, education areas.	Expand after current financial crisis.

	Year established in LT	Type of operations in LT	Motives to internationa-lise (push)	Motives to choose Lithuania (pull) (back in time)	Main problems in Lithuania (current status)	Overall LT business climate assessment	Future plans
Textile	1991 2001	Production of a range of textiles	Efficiency seeking	• Cheap labour pool • Skilled within textile production • Proximity to home market and customers • Low operating costs • Political stability	• High bureaucracy • A lot of hidden agendas, not equal rights to all business players • Low government support for exporting industries • No qualified management with an understanding of international sales and marketing, poor education system	It is a good FDI location for textile production companies, because the staff is loyal, careful, handy. No perspectives to develop the industry in the near future due to poor education, low competitiveness.	Unsure.
Transport Logistics	1993-1995	Passenger transportation; Ship management; Logistics.	75% Market seeking 25% Network seeking	• Proximity to home market • High quality of infrastruct. • Gateway to other markets • Low operating cost • Country development	• High bureaucracy, low transparency - personal interest instead of public interest • Inflexible laws and regulations, system is not made for servicing, but more for controlling businesses • Poor education system, lack of skills and innovativeness • Low local demand, high competition • Economic instability, high inflation	Overall -skilled workforce, loyal workforce, good infrastructure, relative low salaries in the transportation and logistics sector. Lithuania is a gateway to the Russian market.	Expand.
	2001-2004	Transportation; Cross trade.	75% Network seeking 25% Strategic asset seeking	• Country development, growth of demand • Proximity to customers • Low cost of transportation and other services • Cheap, abundant, skilled labour pool			
Food & Agriculture	1997-1999	Production of pet food ingredients; Pig breeding; Food sales & distribution.	33% Network 33% Market 33% Resource seeking	• High local demand • Existing partners in Lithuania • Cheap, abundant labour	• High bureaucracy, impossible to trust public people, unless you bribe them • Inflexible employment law • Constantly changing rules, unstable political and economic system • Very poor production staff language skills • Impossible to find qualified managers, leaders, finance personnel.	Would not recommend others to invest in LT because of bureaucracy, unstable political situation, and poor transparency. If you want to have a clean business you have to fight hard.	Looking to move into other countries.
	2001-2005	Production, sales of beverages; Food processing; Export of agricultural products.	60% Resource seeking 20%Efficiency 20% Strategic asset seeking	• Cheap, loyal labour • Low cost of land • Proximity to suppliers & customers • Skilful staff	• bureaucracy and corruption at all levels • lack of one window approach in public institutions, poor public services • huge shadow economy • “Soviet style” labour regulations • Cultural, language differences	Food processing - now Lithuania would not even make it on to the list of possible places to invest. Other companies – neutral opinion.	Strongly considering disinvesting. Agriculture – expand.

<table>
<tr><th></th><th>Year established in LT</th><th>Type of operations in LT</th><th>Motives to internationa-lise (push)</th><th>Motives to choose Lithuania (pull) (back in time)</th><th>Main problems in Lithuania (current status)</th><th>Overall LT business climate assessment</th><th>Future plans</th></tr>
<tr><td rowspan="2">Wood & Furniture</td><td>1991-1999</td><td>Production
Furniture, upholstery, wood pellets, other components</td><td>40%Efficiency
40% Resource
20% Network seeking</td><td rowspan="2">• Cheap, abundant wood
• Low cost of labour
• Skilled labour
• Low operating cost
• Cheap land, real estate
• Proximity of suppliers, customers, other partners</td><td rowspan="2">• A lot of bureaucracy and corruption,
• Inflexible employment law
• Lack of educated middle level managers
• Problematic supply of raw materials, very ineffective use of it, rigid sourcing terms and conditions
• Reluctance to change and improvement</td><td rowspan="2">It is easy to do business here because people are careful and have good technical skills; LT is close to Scandinavia and main customers. However, the climate for FDI is unfriendly; bureaucracy and corruption are not getting any better.</td><td>Unsure.</td></tr>
<tr><td>2005-2008</td><td>Production, development, sales of furniture</td><td>Network seeking</td><td>Expand.</td></tr>
<tr><td rowspan="3">Consulting & Business Services</td><td>1996-2000</td><td>Consulting
Engineering, insurance, risk management</td><td>50% Market
25% Network
25% Strategic asset seeking</td><td>• Proximity to home market
• Political stability and country development
• Danish funded projects in support of Lithuania
• Privatisation process</td><td rowspan="3">• Corruption and bureaucracy, rigid public procurement laws
• Too complicated labour law and system in general
• Constantly changing taxes and regulations, no stability
• Ineffective development of business life
• Lack of business culture, trust and ability to work in teams, focus of quality, long-term sustainability
• Poor universities, lack of well educated managers, leaders, people with a driving force, initiatives, and innovative people</td><td rowspan="2">Recommend foreigners to open their production, service facilities, or other, not knowledge intensive operations. The labour is relatively cheap, land is cheap, infrastructure is good, LT has a great central location. To establish in LT Danes must send their local management.</td><td>No expansion plans.</td></tr>
<tr><td>2002-2004</td><td>Staffing
Rescue services
Business consulting</td><td>50% Network
25% Resource
25%Efficiency seeking</td><td>• High local demand
• Low local competition
• Low labour cost
• Family in Lithuania</td><td>Unsure.</td></tr>
<tr><td>2006-2009</td><td>Courses & conferences
Business consulting
Market research</td><td>67% Market seeking
33% Network seeking</td><td>• Proximity to home market
• Existing contacts in LT
• Lithuanians' diligence
• EU membership</td><td>Not the best FDI destination: Local market is underdeveloped for high level services/products; there are too few good things produced in LT that can be sold abroad (a little wood is not enough).</td><td>Expand.</td></tr>
<tr><td>Other</td><td>2000-2005</td><td>Assembly of machinery
Sales of wines and pipes.</td><td>67% Market seeking
33%Efficiency seeking</td><td>• Personal relation with LT
• Proximity to Denmark
• Proximity to suppliers
• High local demand
• High quality of infrastructure</td><td>• Rigid custom regulations
• Decreasing local demand
• Not improving infrastructure
• Low demand for high quality products and services, competition only on price
• Poor educational background</td><td>Overall, it is a good business environment.</td><td>Unsure.</td></tr>
</table>

Source: survey results

Appendix 13

Results' triangulation

	Survey	LT Development Agency	Investors' Forum
Reasons to choose Lithuania	PUSH: • Network seeking • Market seeking • Efficiency seeking PULL: • Cheap, abundant labour • Semi-skilled / skilled labour • Geographic location • Political, economic stability, country growth & development • Cheap land and real estate • Low cost operating cost • Good infrastructure • Low taxes • Personal relation with LT	PUSH: • Network seeking: partnership in political and defence areas pushed a lot of businesses to Lithuania too • Strategic asset seeking: privatisation process. PULL: • High quality and cheap labour force • Good infrastructure • Geographic proximity • Political stability	• Cheap labour • Cultural, geographic, demographic & historic proximity: Denmark has always been the "big brother" for Lithuania.
Change in FDI factors over time	• In the 1990s a newly opened marked and the fast country development were the most attractive factors to invest in Lithuania. This was further supported by the availability of cheap and skilled labour pool, especially in the traditional industries. Also, good infrastructure and DK-LT proximity were important. • In the last decade the labour cost became the most important factor, followed by peoples' skills (also in more knowledge-intensive areas). Country location and low operating cost continued to be important, while relationship and networks started playing a much bigger role.	• In the beginning it was 1) market seekers who came to Lithuania; 2) efficiency seeking companies realised that they can have the same productivity at a much lower cost if they combine own technologies with local cheap labour. • Later on, when the average labour price increased, fiscal and financial support became more important in promoting foreign investment.	• When Lithuania became part of EU / NATO / Schengen agreement, its market became more liberalized, double taxation barriers were removed and foreign investment promotion became more intensive. • No opinion on the change in "push" motives on the Danish companies' side.
Knowledge about opportunities in Lithuania	First of all, Lithuania is not very well known in the broad sense. Investors rarely include Lithuania when considering where to establish a subsidiary. They are not aware of the development level in Lithuania, also the business opportunities and possibilities. Second, the country does not have a clear brand and even the authorities do not communicate about LT properly and often enough.	Lithuania was known better in early 1990s, when it gained its independency or when it became a part of NATO and EU. Now countries like China are much better known than the near-shore Baltic countries.	Lithuania is not very well known in the world. There is a need to promote it, build a stronger brand, and especially focus on Lithuania's economic image.

	Survey	LT Development Agency	Investors' Forum
Most necessary improvement in LT	• Fight corruption, increase transparency • Reduce bureaucracy • Modernise public services • Initiate changes in the employment law • Review the business taxation system, the social tax set-up • Provide more support for start-up companies and make the process easier • Reform the education sector • Increase the quality and quantity of languages taught and spoken • Bring business closer to authorities in terms of communication and cooperation • Follow a sustained country development strategy, build trust, focus on quality, avoid frequent changes in the legislation • Promote business opportunities in LT • Stabilise Lithuanian economy	• Focus on developing the priority industries (mainly knowledge-intensive) and attracting investors from priority markets (incl. DK) • Financial and non financial support to preferred foreign investors • Decrease bureaucracy • More flexible laws, incl. territory planning law, infrastructure development regulation • Increase education quality • Improve public services • Progress in corporate governance • Increase transparency	• Liberalise the employment law • Introduce the social tax cap and hence make the high-qualified workforce cheaper to the company • Decrease corruption • Fight shadow economy • Eliminate various bureaucratic procedures
Overall assessment of LT investment climate	Overall, Lithuania is still most attractive for Danish companies with low value adding operations, also MNEs taking advantage of Lithuania's geographic location. Many companies would like to move up the value chain and offshore / start some more knowledge intensive operations to Lithuania, but due to current knowledge gaps and regulatory barriers they do not have the possibility to do so or do not trust the success of these plans.	Agriculture companies (e.g. pig farms) and alternative energy companies might be have the most negative experience in Lithuania, but other than that Danish companies should be very positive about investment opportunities in Lithuania.	The Managing Director in Investors' Forum thinks that most of the Danish companies would recommend other MNEs to open a subsidiary in Lithuania, especially in telecommunication, transport & logistics and service sectors.

Source: survey results