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**ESTONIA AS A TARGET COUNTRY FOR FOREIGN DIRECT  
INVESTMENT: ATTRACTIVE ASPECTS FOR INVESTORS**

Bachelor thesis

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I declare I have written the bachelor's thesis independently.

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## **ABSTRACT**

Foreign direct investment (FDI) is an important factor for economic growth for Estonia. The country is constantly making efforts to attract more of FDI through legislative means, improving the business environment and promotional work. This paper focuses on the reasons why foreign investors or multinational companies have chosen Estonia as the location branch or a subsidiary. The basis of the research are case studies that include interviews, overviews and reports on companies that have expanded their activity to Estonia. The case studies itself are already published work that can be found on [www.investinestonia.com](http://www.investinestonia.com) webpage. The results showed a wide array of motives for investing with the main reasons being low cost environment, quality of labour force, e-services and e-Residency, and people's knowledge of languages.

Keywords: Estonia, foreign direct investment, reasons to invest, multinational companies.

## INTRODUCTION

„National prosperity is created, not inherited“ (Porter 1990) – this thought has been especially true for Estonia in the past three decades. Starting with very little, the small Baltic sea country has had to reform fundamentally and innovate in order to make the transition from socialism to capitalism. This shift was largely helped by inward foreign direct investment (FDI) that brought valuable funding and international companies to Estonia, therefore, helping the economy to grow.

In the past few years, however, the inflow of FDI has decreased reaching a low point in 2015. Therefore it is especially important to review where the efforts of the Public Sector are contributing to and where it would be wise to make corrections. The current research problem is to find what the reasons are that make Estonia an attractive country to invest in. More specifically, it is important to examine the motives of companies that have already established one or more units in Estonia. These will help understand how Estonia has been perceived by foreign investors and give feedback on the efficiency level of applied policies. This leads us to the object of the research which is the perception of Estonia in terms of foreign direct investment. Understanding this will help point out the areas the country is doing well in as well as reveal problematic tendencies. The objective of the research is to map reasons why Estonia was chosen as a location for FDI. These results can be then used as references for further research.

The tasks for achieving the research object were as follows: find data to base the study on, choose a research method to process the data, conduct the analysis, make conclusions based on the results, and make connections to current policies and business climate. When looking for academic material, the question of what makes Estonia attractive for FDI was rarely discussed and there was no conclusive study on the subject. Online articles mostly focused on the positive aspects and other marketing material. In this process, Enterprise Estonia was also contacted to see if they had more information. They provided some reasons why companies chose Estonia themselves, but also referred to the case studies the Estonian

Investment Agency (EIA) had put together. These proved to be a valuable source to conduct a study on. During the period of 2013 – 2017 EIA had published 50 case studies of noteworthy businesses and entrepreneurs in or from Estonia. These include overviews of certain firms active in Estonia, interviews with business people, promotional material advertising Estonia and reports on important events. The reason why they are used in this research is the fact that many of the case studies include the motives to invest in Estonia.

Unfortunately, there are no articles that tell the whole story of how a company has chosen the location, but they do provide some part of relevant information. Articles and interviews can be a rich resource and if looked at closely, they can point policy makers to the right direction. For those reasons, the research questions are the following: „why has Estonia been chosen as the location to invest (in terms of FDI)?“ and „what reasons are mentioned the most?“

In order to draw relevant information from the case studies, qualitative research method is used. The case study and content analysis methods allow for insightful analysis of the perception that investors hold of Estonia. Since these are positive cases for Estonia, they reflect the views of companies that have already invested in Estonia or opinions of people that are active in International business. Some aspects are also mentioned that need more attention from the government, but mostly positives are brought out. Therefore it is necessary to read between the lines on where the areas needing improvement are or where to focus the attention in and for the future.

A little under half (18) contain reasons why Estonia is an attractive country for investing - both from companies that already brought a business activity here and opinions from interviews with business people. These were gathered and categorised in a manner that favoured detailed information over general wide topics. The reason for that was having a better overview on specific subjects that were named as attractive characteristics. These results are not conclusive as they do not represent all FDI flow to Estonia, but the results can be used as a guiding tool for further research and the effects of applied policies.

The first chapter brings out the theoretical background and information about the effects of FDI on a country. It is divided into four parts. In the beginning, FDI is defined and its effect on a country is described. The empirical findings on spillovers are brought out. The second part focuses on multinational enterprises (MNEs) and what determines their choice of location. In the third part, the current situation concerning FDI stock and flow in the world is

described and tendencies are mentioned. Lastly, FDI flows to Estonia are described as well as the local economic characteristics.

The second chapter focuses on the methodology and analysis. Firstly, it is explained why qualitative research methods are used, what their advantages are and how the research was conducted. Secondly, the data is described. It is explained why the case studies were chosen and what is the background of these reports. Thirdly, the results of the analysis are introduced. A list is made of the 14 most named aspects from the case studies. Then the common features are pointed out and quotes from the case studies are added in order to illustrate the reason given. Also, it is indicated why the current categorization is used.

The third chapter takes into consideration the results of the analysis. It goes over the main findings and their implications. Some aspects are looked at together and the possible reasons behind the results are given. In the last subchapter, suggestions are made that could improve the business environment in Estonia relying on respective literature and results of the research. These are mainly focused on education and the continuous development of Estonia's IT environment.

# **1. FOREIGN DIRECT INVESTMENT: THEORETICAL BACKGROUND, GLOBAL TRENDS AND FOREIGN DIRECT INVESTMENT IN ESTONIA**

## **1.1 Definition of foreign direct investment, multinational enterprises and spillovers**

For a long time, FDI has been tightly connected to multinational enterprises (MNEs). Therefore, there is quite a substantial amount of literature on this unison. This overview of literature also contains articles and authors that express such views. However, the international economy is changing and so have MNEs. Now MNEs are able to control value chains without having ownership and this changes the dynamic of traditional effects of FDI. (Narula, Pineli 2016).

United Nations Conference on Trade and Development defines foreign direct investment as it is contained in the Balance of Payments Manual: Fifth Edition as an „investment made to acquire lasting interest in enterprises operating outside of the economy of the investor“. In order to qualify as a foreign direct investor, the document suggests a threshold of 10 per cent equity ownership. (Foreign...) To be even more exact: “an FDI relationship involves a direct investor, a direct investment enterprise, and sometimes a fellow enterprise” (Multinational...). It is also important to distinguish between FDI flow which is the amount of FDI over a period of time (for example one year) and FDI stock which signifies the total level of direct investment at a given point in time (usually the end of the quarter or the end of year) (OECD Data...).

There has been a long debate on whether FDI is “good” or “bad” and whether or not the government should encourage it. On one hand, multinational enterprises (MNEs) are welcomed as they bring wealth and knowledge, but on the other hand seen as a threat to



national wealth and identity. (Barba Navaretti et al. 2004) Historically, the perception of the FDI inflow has changed from being something potentially threatening towards a view of a more positive and even essential addition to the economy. In the 1960s and 1970s both Great Britain and France made efforts to regulate FDI inflows because of concerns about economic sovereignty. In France that meant carefully monitoring FDI inflows, restricting foreign takeovers and setting conditions on FDI projects. In the 1980s the rhetoric about FDI started to change and in 1990s the global discourse had moved towards liberalism. Both Britain and France started actively creating state programs to attract greenfield FDI and liberalising their takeover regulations. (Linsi 2016)

Today, FDI is considered to be the key driver of economic growth. It boosts capital formation and can enhance the quality of the capital stock. That is why most governments nowadays have set attracting FDI as a priority. (Görg, Greenaway 2004) The hope is that there will be spillovers to the host country. One way MNEs influence the local market is by increasing competitiveness. This can have a positive outcome when the additional competitor forces domestic firms to increase efficiency and with weaker competitors leaving increasing the average efficiency of the industry. (Barba Navaretti et al. 2004) Another benefit of FDI is the economic expansion, especially if the level of domestic savings is not sufficient (Mencinger 2003). The positive effects of FDI can also come through employment – the jobs the local MNE's subsidiary creates as well as those generated through the value chain. (Narula, Pineli 2016)

In fact, a problem that some countries are trying to solve by attracting FDI is regional structural unemployment. The idea is that if MNEs establish themselves in the area, people will be employed thus decreasing the unemployment. Spillovers are often seen as secondary in those cases. (Driffield, Taylor 2000) Impacts from inward FDI may also include an increase in fiscal revenues, exports and gross domestic product (Narula, Pineli 2016).

In the case of innovation, evidence suggests MNEs are more innovative than domestic companies. For example in the Canadian manufacturing sector, foreign-controlled plants were found to be more innovative, more R&D intensive and use more advanced technologies than domestic-controlled plants. (Baldwin, Gu 2005) MNEs have also been more innovative in the Netherlands where a sample of 4780 firms was examined (Sadowski, Sadowski-Rasters 2006).

The reason why governments are interested in innovation may be found in “The Competitive Advantage of Nations” where it says that innovation is key for international success. According to the text mentioned, the competitive advantage of a country depends on national values, culture, economic structures, institutions and history. It is also argued that nations will succeed in certain industries if the home environment is forward-looking, dynamic, and challenging. Being successful does not always mean using the latest technology or finding a new product, the innovative idea could be serving a market segment others have ignored. For example, the Japanese auto and home electronic industry gained their momentum by producing smaller and lower capacity models when other competitors deemed these less attractive and less profitable. (Porter 1990)

The question, however, is the probability of knowledge transfer to the host country. MNEs may have incentives to use older technologies in new locations. They also may be very protective and thus limit spillovers to protect their ownership advantage. (Masso et al 2012) Empirical research has produced mixed results about the effect of FDI to the host country. There is evidence that spillovers from FDI exist, but the exact nature and magnitude remain to be unclear. Research suggests that the spillovers from FDI vary between countries and industries. Moreover, „the positive effects of FDI are likely to increase with the level of local capability and competition“. (Blomström, Kokko 1998)

Evidence of positive productivity spillovers has been found only in a few cases. After surveying a wide sample, it was found that 12 studies about spillovers reported a negative impact, the existence of productivity spillovers was not confirmed in 31 cases and only 17 studies found evidence of a positive impact. (Crespo, Fontoura 2007) Furthermore, not all FDI has the same influence on the host country. The effect depends largely on the domestic market and its ability to absorb and internalise spillovers. (Narula, Marin 2003) It also appears that the FDI spillovers are greater in the more developed regions (Crespo, Fontoura 2007).

In Estonia, some evidence of spillover effects was found when looking at the linkage between FDI presence in an industry and the productivity or innovativeness of domestic firms. The researchers also found that there is a hindrance to innovation and suggested that it is to do with the small size of the local market and local skills. (Masso et al. 2010)

Analysis done of Estonian labour market suggests there has been positive spillover. According to an analysis, the experience workers gain from multinational companies and productivity of a domestic company are positively related. The regression model showed that

one percent increase of the ratio of employees that had MNE experience lead to an increase of productivity in the domestic company by 1,2 percent. (Parts 2014)

Another research that looked at Estonian manufacturing sector was unable to find any conclusive evidence of the effects of FDI on productivity. However, the positive correlation was found between sector-level penetration of FDI and product innovation activities. This may be because of competition effects on innovation or knowledge transfer. (Vahter 2011) It is difficult to distinguish the pro-competitive effects from technological spillovers from the empirical point of view because the increase of efficiency, as well as competition, have the opposite effects on profit margins (Barba Navaretti et al. 2004).

## **1.2 Attracting foreign direct investment: policies and the choices of multinational enterprises**

There are many aspects an investor has to consider before deciding if and how to expand the company. The often referred OLI framework by John Dunning suggests there are three main aspects that an MNE considers before expanding abroad:

1. Ownership-Specific Advantages,
2. Location-Specific Advantages,
3. Internalisation Incentive Advantages.

(Dunning 1981)

Ownership Specific Advantages include proprietary assets owned by the company that are capable of yielding rents that exceed the costs of entering the new market. Location-Specific Advantages mean there are advantages in production in the other country or else the company would produce and export from where they are already operating. Internalisation Incentive Advantages signify reasons why a company would carry out an activity within the firm instead of market transactions such as licensing the company's brand or technology to a third party. (Narula, Pineli 2016)

Most policy makers do not have a clear understanding of initial and sequential investments. In the interest of truly making use of FDI to aid development requires recognising MNEs as complex organisms that do not have the same interests in each location. It also important to realize MNEs are ever-evolving which means they are constantly

evaluating their options and the result may be an increase or decrease of involvement in a given location. (Ibid.)

Quantitative studies using country-level data have pointed out the factors which determine inward FDI. They are similar to those that commonly explain a country's GDP level. These include availability of human capital and infrastructure, good institutions and governance, political stability, sound macroeconomic fundamentals. At the firm-level the location choice is influenced by important factors such as market characteristics, production costs and availability of resources. (Ibid.)

A sound policy is suggested to not only focus on attracting MNEs and therefore FDI, but should also make sure that MNEs are truly embedded locally. This is essential because MNEs are complex and subject to change with the changing economic environment. That means the involvement in a location can increase, but also decrease and therefore it is essential for the local government to understand this dynamic. It is not only important to attract MNEs, but to keep creating an attractive environment for them to stay and evolve locally. (Ibid.) Therefore it is important to focus on different levels of what makes a country attractive. Countries that have successfully attracted FDI are those that have a „comprehensive approach to high value-adding foreign companies.“ This means focusing on different areas from business tourism to making the higher education more international. (Estonia – the business...)

The challenge for policymakers is to encourage MNEs to establish most value adding activities in their territory without causing distortions such as reducing efficiency of the economy or the MNE. For example, an MNE may only hold a few headquarter functions in the home country and most value adding operations elsewhere. That is an opportunity to attract more of those activities into the host country hence making policy choices an important factor. (Meyer et al. 2011)

It is also important to note that the benefits from FDI do not only come from spillovers. Even if the MNE activity provides low-level employment or tax revenue stream, these in themselves can be reasons to attract investments, but it depends on the needs of the host country. Therefore, it is necessary to understand the potential influence of FDI projects to the local economic and social environment and create policies to accommodate such choices. (Narula, Dunning 2010)

A study on global competition on FDI also suggests that costly investment incentive packages may prove counterproductive if the fundamentals (economic stability, quality of labour, necessary infrastructure etc) fail to meet the requirements of a long-term investor. The incentives may attract the investor with interests contrary to what would contribute to the economy in the long perspective. They also tend to have an effect on the policy-making process by making it more vulnerable for rent-seeking behaviour and possibly corruption. (Oman 2000)

The decisions on policies are made even more complicated with the growing influence that MNEs can have without FDI. In a more globalised world, both control and coordination can be achieved through minority ownership and even through non-equity means. (Narula, Dunning 2010)

When it comes to small countries, there needs to be a careful consideration of the available resources. It is difficult to compete with large economies when it comes to the market size and scale-oriented investors, but smart policies can help a small country stand out. One direction the state can take is to expand the market size by with regional and international arrangements. Another way to increase attractiveness is to promote location-specific advantages or tax incentives. (Best Practices...)

There is also the concern of what might happen if there is too much FDI inflow to a small country. This can pose a problem on the supply side, particularly the need for skilled labour and necessary infrastructure. If those issues are not addressed, it could limit benefits to the economy and “discourage further FDI.” (Ibid.)

### **1.3 The global foreign direct investment trends**

The effect of globalisation can be felt through many developing and emerging economies to seek actively to attract FDI. This has raised a concern whether the increasing global competitiveness will not have negative effects on the parties involved. The main worry is that global competition for FDI may be producing a situation where the investment incentives weaken public finances, create market distortions and are putting excessive pressure on the global standards of environmental regulations or workers’ rights. On the other hand, when governments strive to attract FDI, there may be beneficial effects. These include

policies that enhance the supply of modern infrastructure, improve education for a better quality of labour force, advance greater macroeconomic and political stability etc. In fact, improving the areas mentioned will contribute to the development of the economy even without the effect of FDI. (Oman 2000)

The global FDI flows are a remarkable economic force reaching USD 1,76 trillion in 2015. Cross-border mergers and acquisitions (M&As) made up USD 721 billion of the total while greenfield investment (when a new plant is built from scratch) reached USD 766 billion. Inward FDI flows to developed economies were measured to be USD 962 billion with strong growth in inflows reported in Europe. The global FDI flows are estimated to resume growth in 2017 and surpass USD 1,8 trillion in 2018. (World Investment Report 2016)

As seen in Figure 1, the Global inward FDI stock in 2014 accounts for USD 26 trillion. Almost two thirds (64%) of global FDI stock were services. This was followed by manufacturing (27%) and the primary sector (7%) with 2% unspecified. (Ibid.)

The top five host economies for FDI inflows are USA (USD 380 billion), Hong Kong (USD 175 billion), China (USD 136 billion), Ireland (USD 101 billion) and the Netherlands (USD 73 billion).

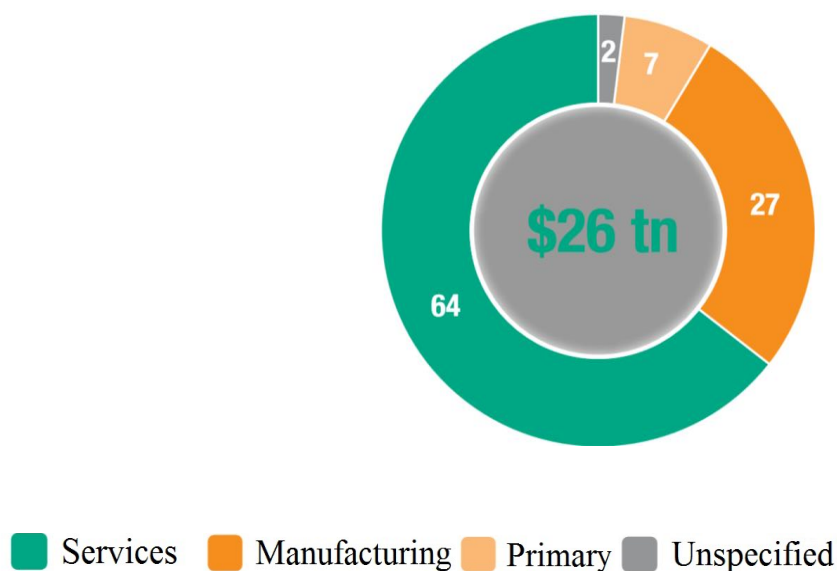


Figure 1. Global inward FDI stock by sector, 2014

Source: (World Investment Report 2016)

In 2015, investments by MNEs from developed economies surged with Europe becoming the world's biggest investing region. The outward FDI from European MNEs rose 85% in 2015 to USD 576 billion. This is a reflection of the increase in cross-border M&A purchases. It is suggested that the more stimulus measures of the European Central Bank were among main reasons for the surge. (World Investment Report 2016)

The five main countries in terms of outward FDI in 2015 are USA (USD 300 billion), Japan (USD 129 billion), China (USD 128 billion), The Netherlands (USD 113 billion) and Ireland (USD 102 billion). (Ibid.)

The global investment policy trends show that most new policy measures are aimed at liberalisation and promotion. In 2015, 96 policy measures were adopted by 46 countries and economies. Most measures focused on liberalisation, promotion and facilitation of investment and fewer were new regulations or restrictions. Privatisation was another policy measure that mostly developed countries used. This was especially true for infrastructure services such as transport and telecommunications. It is also important to note the fact that national security is becoming more and more important factor in investment policies. This means that governments need to balance national security regulations with investors' need for transparent procedures. (Ibid.)

#### **1.4 Estonia: the country profile for foreign direct investment**

Estonia is a small highly open economy and is greatly affected by the world and European economic fluctuations. It is one of the leading countries in the Eastern and Central Europe in terms of FDI per capita. (Estonia Foreign Direct Investment) Estonia's policy toward foreign investors has been welcoming. Since 1991, foreign investors have been able to invest in "any areas of business open to the private sector and take up to 100 per cent ownership." (Best Practices...)

After regaining independence many investments were made through privatisation, but that quickly changed towards receiving investments to enterprises and new establishments. The largest share of investments come from Sweden (33%) through the ownership of the largest operating banks in Estonia, but also investments in telecommunications and many other projects. Finland follows closely by 24% of FDI having invested in banking as well as

trade and industry. Additional FDI comes from other European countries such as Norway, the UK, Germany, the Netherlands. The USA also has many investments in Estonia. (Estonia Foreign Direct Investment)

The inward FDI flows to Estonia are shown in Figure 2. It is evident that FDI flows are subject to substantial volatility. Starting out modestly in the beginning of the 1990s, the inward FDI flows increased reaching the peak in 2005. After that year, the incoming investments have fallen and risen and fallen again reaching a low point in 2015. (UNCTADstat) The analysis of why there has been such a decrease in recent years deserves more attention and further research, but as this is another subject, the current study will only point out the latest trends in FDI inflow. Most recently the FDI inflow has decreased from USD 507 million in 2014 to USD 208 million in 2015. Also, the number of greenfield investments have gone from 31 in 2014 to 11 in 2015. (Estonia: Foreign Investment)

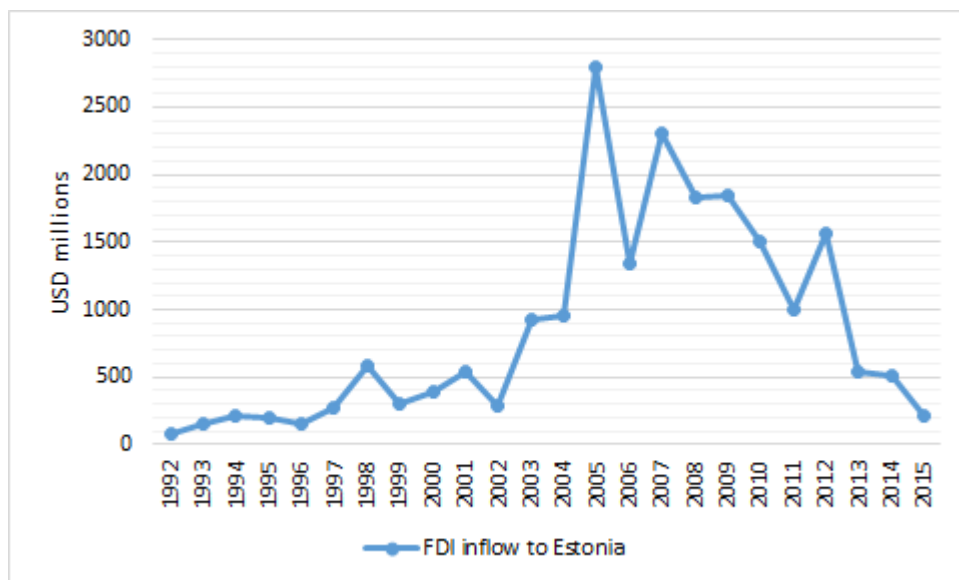


Figure 2. FDI inflow to Estonia, 1992-2015 (USD current prices)

Source: (Compiled by the author using data from UNCTADstat)

When looking at OECD statistics on Estonia's FDI flows, the data differs from UNCTAD's data. The difference comes in especially for the past few years and is probably due to changes in calculating FDI flows. However, since the aim of this research is to evaluate



the attractive components of Estonia as a host country for FDI and the difference in data is not so significant, this paper will not focus on that.

According to a paper examining the causal nexus of FDI and growth in the three Baltic countries in the period of 1993-2014, Estonia has been the most successful in doing structural reforms and therefore encouraged FDI inflow. In the 1990s all three Baltic countries attracted FDI mainly because of relatively low-cost resources (manufacturing sector). Qualified and relatively cheap labour force attracted labor-intensive industries such as food, wood and textile products. Public utilities and banking sector were also the recipients of significant FDI inflows. Another factor that has made the Baltic countries attractive for FDI have been successful structural reforms and improving the business climate. An example of that is the Estonian corporate tax system reform which reduced the tax rate for reinvested earnings to zero. (Irandoost 2016)

Inward FDI in the manufacturing sector has been low for in the last decade and is concentrated on low value added production. Collaboration between domestic and foreign firms does bring some transfer of knowledge and economic growth, but in a limited way. (OECD Economic...)

Since the business environment is essential when trying to attract foreign direct investment, there are a few global indicators that reflect how a country is doing in comparison to other states. One of them is the World Bank's Economy Rankings that measures the "ease of doing business". In 2016, Estonia stands at 12<sup>th</sup> place out of 190 countries which means having a high ease of doing business or more specifically "the regulatory environment is more conducive to starting and operation of a local firm." (Economy...)

Estonia has also a relatively high ranking in the Global Innovation Index 2016 which is co-published by Cornell University, the graduate business school INSEAD and the World Intellectual Property Organization, which is an agency of the UN. The score of 51,7 ranks Estonia in the 24<sup>th</sup> place out of 128 economies. The elements that reduced the overall score were to do with business sophistication (knowledge workers, innovation linkages, knowledge absorption), and human capital and research (education, tertiary education, R&D). (GII 2016...)

Another important aspect in choosing a location for investments is the level of corruption. In the annual study by Transparency International, Estonia ranks 22<sup>nd</sup> of 176 countries in the Corruption Perceptions Index 2016. The score of 70 out of a 100 places

Estonia among the higher-ranked states which indicates better access to information about public expenditure, higher standards of integrity for public officials, independent judicial systems and stronger freedom of press. (Corruption...)

In the Global Competitiveness Index 2016-2017, Estonia ranks 30th. This is behind countries like the Netherlands (4), Finland (10) and Ireland (23), but ahead of Czech Republic (31), Lithuania (35) and Poland (36). Latvia was ranked 49th. The Global Competitiveness Index combines 114 indicators striving to measure productivity and long-term prosperity. These reflect aspects such as institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. (The Global Competitiveness...)

According to OECD survey, Estonia has seen a decline in competitiveness in the past years. There is a large productivity gap and challenges in the labour market (outmigration of young people, skills not matching demand). These tendencies could reduce the growth prospects. (OECD Economic...)

## **2. METHODOLOGY**

### **2.1 The case study method**

The decision to invest is a highly complex subject that involves many factors. On one side there is the investor with its interests and needs and on the other, the country with its economic environment, policies, regulations, labour market etc. Since the aim of this research is to understand the reasons behind investments, a qualitative research method was chosen. The methodology follows case study method with slight modifications due to the character of chosen data and incorporates techniques from the content analysis method.

The reason for using this method is that case studies help to construct a valid theory or refine a received theory (Odell 2001). In this instance analysing cases can help determine whether the policy instruments work to attract FDI. The case study method is also generally better in documenting processes than large-n statistical methods, because the latter tends to bias toward structures. Therefore it a good fit to analyze the political economy which is constantly in progress. Odell also argues that „the case methods allow for a stronger empirical grounding for a hypothesis for the cases studied“ than a statistical method. A thorough case study by definition preserves and reports more information about that case than a statistical study and that can be a basis later for a quantitative study. There is richer evidence and reasoning of the instance studied and that helps to understand the processes deeper. (Ibid.)

The case study method is one that considers questions such as how and why. This is exactly the aim: to find out why foreign companies have chosen Estonia for their expansion. As described by Ghauri and Grønhaug the case study method follows four steps: idea, draft, prognosis and confutation. The idea phase includes exploring the subject at hand, drafting means planning the research strategy, in the prognosis stage the researcher is able to systemize and analyze the data and in the confutation phase the results are applied to other cases in order to check their validity. (2004) The analysis follows this method as much as

possible, but takes into account the subject of this research and the character of chosen data. Usually when the case study method is used, the researchers collect data by themselves through different means that may include observations, interviews etc. Since the data for this research are articles that are already published (a detailed description of the data is given in the next subchapter), this step in the research process is omitted. The step of confutation is likewise left for another research in the future because of the labour-consuming nature of different data collection and analysis.

Considering that the basis of this research are articles published online and in a magazine, this study also incorporates certain techniques from the method of content analysis. Content analysis is a research method that uses text whether it be written, oral, audio-visual or otherwise. Firstly it is important to decide which part of the communication is to be noted, what information is to be looked for. Secondly, categorising is in the center of the analysis. This helps to organise information to make conclusions. Thirdly, the results should be compared with other studies to check their reliability. (Mayring 2000)

Therefore, when reading through the articles, the aim was to find reasons why a certain company would invest in Estonia. These arguments were then written out and categorized. The categories were created wide enough to fit similar reasons into one group, but narrow enough to allow for details to stand out. Since the number of reasons mentioned in the article was manageable without coding the information, this was not used in the data analysis. MS Excel was used for the analysis.

## **2.2 Data from case studies by Enterprise Estonia's Estonian Investment Agency in cooperation with the Life in Estonia magazine**

In order to investigate why Estonia is chosen as a place to invest or to find out points of improvement it is best to hear straight from the companies or people who have made that decision. Also, valuable knowledge can also be drawn from people who have experience in international business and see Estonia's position compared to other countries. Enterprise Estonia's Estonian Investment Agency has published case studies on different success stories

of exactly such people and companies on their webpage [www.investinestonia.com](http://www.investinestonia.com). Some of the case studies have also been printed in the Life in Estonia magazine.

Enterprise Estonia is the national agency that promotes business and regional policy. Established in 2000, it provides financial assistance, counselling, cooperation opportunities and training for entrepreneurs, research institutions, the public and nonprofit sectors. After Estonia joined the European Union, Enterprise Estonia became one of the main allocators of the EU Structural Funds in Estonia. In 2007-2013 Enterprise Estonia was responsible for the allocation of over EUR 700 million. (Mihkelson et al 2014)

The Estonian Investment Agency (EIA) is a part of Enterprise Estonia that is working to attract foreign investments in Estonia. The goal of EIA is to raise visibility of Estonia internationally and assist international companies with finding business opportunities in Estonia by providing consultancy services. The activities are focused on the target markets where the EIA has foreign representations which include Finland, Sweden, China, Singapore, USA and others. In order to fulfil their purpose, EIA organises business missions, advises foreign investors personally and sets up awareness and reputation-creating events. (About...)

Life in Estonia is a quarterly magazine produced by the publishing house Positive Projects and published by the Estonian Investment Agency. The funding for that comes from Enterprise Estonia. The first issue was printed in the summer of 2012. The subjects that are covered include Estonia's economy, culture, tourism, interviews and other topics about the country. It is meant mostly as a promotional media publication to introduce Estonia or to help interested parties have a better understanding about the local life and business environment. The target audience for the magazine are internationally active representatives of the business sector which includes potential investors, trade partners, foreigners visiting Estonia for business or pleasure and specialists that are considering Estonia as a place to work. Each issue has an emphasis on a chosen topic e.g. ICT, personal medicine, energy etc. The Life in Estonia is distributed mainly through Enterprise Estonia partner organizations, foreign representatives, Embassies of Estonia and promotional events abroad. (Life in Estonia..., Appendix)

The case studies that are on the webpage range from 2013 – 2017 (as of March 2017), There are 49 written pieces and they can be found on [www.investinestonia.com](http://www.investinestonia.com) under Publications and Case Studies. All in all, there are 50 links with one being a video material that is not part of the sample in this research. The case studies can be divided into two groups:

the short descriptions of projects that are written by The Estonian Investment Agency and the articles that were written for a Life in Estonia issue. The latter are written by a journalist hired by EIA or done by an editor on the basis of different sources of material. (Appendix)

The topics of the case studies are the success stories of Estonian entrepreneurs and companies, startups that have done well and foreign companies that have invested in Estonia. There are interviews and pieces that are written on the basis of interviews or other source materials. These were of most interest for finding incentives to invest Estonia. Among the 49 case studies, there are also descriptions of companies that have built their subsidiaries in Estonia, reports on events and their outcomes as well as promotional texts on how EIA is able to help investors.

For the purpose of this research, the case studies had to be sorted. The criteria for choosing the suitable articles, was that it had to contain some explanation about the investment decision. If there was a report on a company investing in Estonia, but no reasons stated, this item was left out. Also, if the writing described only a successful Estonian enterprise, but gave no further information about Estonia as a target country for foreign investment, this also was discarded. Additionally, it was important that the described criteria for investment was as objective as possible. Therefore, if the piece was clearly promotional or represented the views of Enterprise Estonia and not the words of the investor or interviewee, they were discarded.

All in all, 17 articles remained in the sample. In four cases there were two articles about the same company. That was the case with Teligent, OpusCapita, Stora Enso and Kuehne + Nagel. Since every case study gave additional reasons for investments, all stayed in the sample, although if one reason was stated more than once, it was still counted only once. Also, in order to get a more comprehensive overview, a few articles that contained a credible opinion from entrepreneurs that have not invested in Estonia as foreign investors, but are able to describe the overall sentiment around it, were also used as a source. For the purpose of this research they will be called expert opinions. Therefore the final sample contained case studies of 20 companies and 3 expert opinions. These case studies are shown in Table 1.

The sample contains companies that have invested in Estonia starting from 1991 until 2014. 18 of those companies have a shared service centre, R&D, management or other office in the country. Some firms have also other functions in Estonia, but the common thread in the sample are the service centres.

Table 1. The titles and subjects of case studies

Title of case study	Company or opinion
Stora Enso - Pioneering its accounting shared services	Stora Enso
Itella Information - Financial process innovation as a service	OpusCapita
Navionics - electronic navigation charts and systems R&D center	Navionics
Danpower – Warming to Estonia	Danpower
Kuehne + Nagel finds its IT sweet spot	Kuehne + Nagel
Statoil Fuel & Retail Builds Its High-Octane Back Office	Statoil Fuel & Retail; opinion
e-Estonia Hosted the Techiest Week in Europe, ICT Week 2015	Opinion
Two World-Renowned Companies Chose Estonia	Acronis, Parallels
Sten Tamkivi: Tallinn Is a Great Place for Building a Startup	Opinion
Successful Shared Services in Estonia: Kuehne + Nagel, Tieto, Stora Enso, Finnair, Axinom, etc	Kuehne + Nagel, Tieto, Stora Enso, Finnair, Axinom, JELD-WEN, Perfect Home AS, Rentalwise
OpusCapita Offers Automated Financial Services From Estonia	OpusCapita
e-Drive Retro Rebuilds Classic Sports Cars into Unique Electric Vehicles	E-Drive Retro
Tallinn – Daetwyler’s First Choice Location for 20 Years	Daetwyler
If Estonia were a Company, it would be Malwarebytes	Malwarebytes
Teligent Chooses Estonia as their Beachhead to the EU	Teligent
U.S. Pharmaceutical Company Teligent Opened a Development Lab in Estonia	Teligent
Bo Henriksson: The Great Reputation of ABB Estonia Creates Growth Opportunities	ABB Estonia

Source: (Compiled by the author)

When looking at the numbers, EIA has mapped over 70 shared service centres in Estonia which together employ over 5000 people (Nergi 2016a). Many companies in the case studies belong to either Manufacturing or Information and Communication sector following the ISIC 4 (International Standard Industrial Classification of All Economic Activities, Rev. 4) classification. Eventhough it is mentioned a few times, the current research does not focus on the sectorial association for three reasons. Firstly, as most companies in the sample have a shared service center here, this facet is more important to look at. Secondly, a sectorial analysis needs another approach (for example analysing the FDI inflows sectorially). Thirdly, in some cases a more comprehensive research is needed in order to classify the companies correctly due to several activities in Estonia and abroad.

After the case studies were chosen they were read again one by one picking out specific reasons why Estonia had been chosen as the location for their investment. In the case of expert opinions, the named incentives for investment were also added to the data. Each pointed out reason was then noted and added to an Excel table which made the analysis possible. Many attractive characteristics named were easy to note like cost efficiency or quality labour force, others needed more attention as they described the IT environment or local mindset. In the end, the characteristics describing a similar notion were grouped and most reasons were categorised. Those mentioned aspects that described a trait, but did not fall under a category are named at the end of the chapter on analysis. The idea was to describe the current perception with as much detail as possible and therefore the categories named are not made too general. Therefore there is also a long list of items mentioned separately.

### **2.3 Analysis of case study articles' content**

For the purpose of this research, only articles that mentioned reasons why someone had seen Estonia as a suitable place for investments, had been picked. These were articles about specific companies or interviews with people who had certain expertise on the subject. One interview in particular focused on Statoil Retail & Fuel, but the interviewee also gave his expertise on the reasons why to invest in Estonia and that is why this article is accounted for as the representative of both views. There was also one interview that covered the narrative of two separate companies that had expanded to Estonia. An article about a joint company



between Estonians and Japanese remained in the sample because recounted how Estonia was chosen after looking for partners in Asia and USA. The articles that reported a company investing in Estonia, but did not bring out any specific reasons for it, were discarded. The 18 case studies left in the sample were a representative of 20 companies active in Estonia and 3 expert opinions. In several cases, there were two articles about one and the same company. In that case the reasons for investing were counted only once.

After finding and categorizing the statements which included a reason for investing in Estonia, a list was created. This list is based on the information from the case studies that are named in Table 1. When the article noted a reason why a company had brought its activities to Estonia and therefore contributed to inward FDI, these were counted and ranked. Those reasons that were mentioned 1-2 times are not included in the list. The most influential factors for deciding to come to Estonia were:

1. quality of workforce (mentioned 11 times),
2. relatively low cost of labour or rent or living (10),
3. people's knowledge of languages (7),
4. innovative/IT environment (6),
5. being part of Eurozone/EU/access to EU markets (6),
6. E-services, e-Residency (5),
7. proactive government (4),
8. cultural similarities (4),
9. geographical location (4),
10. favourable tax environment (3),
11. infrastructure (closeness of port, airport) (3),
12. sound financial and legal framework (3),
13. ease of doing business (3).

The reason number one why companies chose to invest in Estonia was the quality of workforce. This was named by 10 companies and one expert. All 10 companies have a shared service center or similar in Estonia. Six of the 10 companies also identifies relatively low cost as an incentive to build their office in Estonia. Five mentioned the language skills people have. The quality of labour was named as such in most cases, but also pointed it out as “there was already a great level of talent in Estonia” (Roonemaa 2016) or “Estonians are very effective and diligent in both digitizing and in accounting” (OpusCapita...).

The second most mentioned incentive to expand to Estonia was the relatively low cost environment which meant either labour force, rent or cost of living. This was named by nine companies and one expert. The relatively lower cost environment was especially influential when compared to northern neighbouring countries and arguments such as “work in Estonia costs less than it would be in Finland” (OpusCapita...) or “Scandinavian countries were eliminated [as potential locations - edit.] due to their higher cost level” (Statoil...) were pointed out.

Foreign language skills is not strictly brought out as a reason to expand to Estonia in every article, but as it was mentioned many times, the author found it important to take note every time it was brought up. In the case of Teligent for example, Estonia and Tallinn in particular, was chosen because of certain features and people’s knowledge of foreign language was one of them. In some cases this reason comes up as an added value after the company has already settled in Estonia, for example Danpower’s managing director said of finding German speakers easily: “It was very surprising for us because we didn’t think so many people in Estonia could speak such good German...” (Danpower...). Other languages mentioned were English, Finnish, Russian as well as Nordic languages Swedish, Danish and Norwegian.

Innovative environment, passion for IT or openness to development was brought out in the case studies six times - by five companies and one expert. All the companies were either active in the IT sector or had built a shared service centre in Estonia. Three of the five companies belong to the Information and communication sector according to ISIC 4 classification. This is a characteristic that was described using different wording, but which all expressed the overall mindset towards IT in Estonia. This was important to name separately because of the emphasis on not only what the government is doing to improve IT sector, but it gives a reference of the society’s sentiment towards IT solutions. In one case study, it was described as having a “vibrant and all-encompassing tech culture” (Kuehne + Nagel...). “You can almost breathe in IT in the air in Estonia,” another one said (Successful...).

The ties to the European Union and specifically the benefits of the open market or being part of the Eurozone were mentioned as decisive characteristics when choosing Estonia. This is something that created added security: “the country was using the euro, which eliminated any risks from currency fluctuations” (Danpower...) or gave the company more

flexibility where they could “support the Russian consumer market while simultaneously maintaining the stability of operating within the EU” (Successful...).

The next significant arguments for investment can be grouped under e-Services and e-Residency. The three times out of five when e-Services or e-Residency was mentioned, it was by an expert while the other two were found in connection to a certain company. These were combined into one category because they were mostly mentioned in relation to each other. One opinion stated that “e-Residency seems like a great and modern way to resolve all kinds of bureaucracy and reduce ridiculous, outworn systems” (e-Estonia...). All three experts had a personal connection to Estonia (either born in Estonia or lived here at some point) and two had previously worked for Skype. One company uses its office here as a beachhead to the EU and stated that “four of our management team members are now e-residents (sic!) of Estonia, and it makes it easy to do things” (Teligent...).

Proactive government was spoken about four times - twice in an opinion and twice in an article about a company. Three of the four pieces also mentioned e-government solutions as reasons. The fact that things move fast when it comes to development is a big plus for entrepreneurs and this is also recognized abroad. When a global logistics firm was looking for a place for their service centre, they noticed that “everything from e-government solutions to mobile parking were implemented here in such a short time” (Kuehne + Nagel...).

In four articles, it was said that having similar cultural background was important. In three cases, it was told the culture was similar to Western Europe or the Nordic countries and in one case it was said that “the similarity of its business culture to other locations” where the firm operates is important (Successful...). All four sources also indicated that the quality of labour was an important aspect.

The advantageous geographical location was mentioned four times. One company stated that “Estonia was chosen because of its strategic location at the interface of the Western European, Nordic and Russian markets (Successful...).” Another case study indicated that Estonia is a “strategic location as a link between East and West (Itella...).”

Favourable tax environment was named as a reason to bring business to Estonia three times. That was named that as an attractive factor by two companies and one expert in three articles. In one case “more favourable tax regime” won Estonia the investment before other Baltic countries (Statoil...). In another article the “structure relating to corporate tax” was explicitly acknowledged (Teligent...). This refers to the regulation on Corporation and

Capital gains taxes where the tax rate is zero upon reinvesting and payable only when distributed.

In three cases the closeness to the port or airport or the fact that logistically goods can be moved by the sea were pointed out as important aspects. One entrepreneur noted how Tallinn is geographically close to Moscow and how he can fly in in the morning, go to the office in Ülemiste, leave at night and end the day at his Moscow home. Another case study stated “Tallinn is also logistically ideally based for the company, as all freight can be carried by sea“ (Successful...).

Sound financial and legal framework was named three times as an attractive attribute. This was found in the two articles of companies and one opinion. The expert pointed out that having the legal environment harmonized with EU law “gives added security to foreign investors” (Statoil...). From another company’s point of view, it was a positive surprise to find that Estonian legal and commercial systems were “almost identical to what they were familiar with in Germany” (Danpower...). Even though this argument has some connection to the aspect of “favourable tax environment”, the decision to name it separately comes from the fact that it refers more to general legislation than one specific regulation.

The reason “Ease of doing business” in essence covers all topics, it is still worth noting it separately. The logic behind it is differentiating the investor’s or experts sentiment when describing their observation about Estonia’s business climate. The words that implied to their opinion of an environment where they can run a business easily were: “simplicity of how we can run our business here”, “smoothness of doing business here” and “business environment here is good“ (Teligent..., Roonemaa 2015, Saarmann 2015).

The other reasons that were mentioned included cutting-edge ICT infrastructure, supportive services like schools and kindergartens, feeling welcomed in Estonia, the presence of international accounting firms and banks, double tax treaties, transparency indexes, overall efficiency, rapid and innovative banking system and business register, stable economic environment, support for startups and the local working culture. Even though the advantage of ICT infrastructure contributes to the overall IT environment, it is brought out separately to emphasize this particular feature. The last reason of local working culture could be added under quality of labour or even cultural similarities, but since it was a distinct mention of the culture when it comes to work, this remained as a separate category.

Something that did not appear on the list, but was an essential contributing factor in a company bringing its business to Estonia was an Estonian employee in a foreign firm that saw an opportunity and suggested it to the management. Without that tip off the company probably would not have discovered the option of doing business in Estonia.

The case studies included many remarks on different governmental institutions being involved in the process of introducing Estonia as a location or helping the company settle in the country. This is an essential aspect of attracting foreign investors. However, since the case studies are written by or on the request of the same agency that does this work, it cannot be taken as an impartial source. Therefore, even though highly important, the efforts of the governmental sector are not included in the list above.

Furthermore, the articles brought out a few aspects that can be categorized as negative and that can be areas of improvement in the future. An IT company named three weak points: the social tax (“there needs to be a ceiling there, so that salaries can rise”), getting more of the youth interested in IT and better IT education (Saarmann 2015). A manufacturing firm that has been in Estonia since 1995 stated that “the State should take a more active role in [...] and appreciate vocational education much more” (Nergi 2016b). An expert opinion pointed to the shortcoming on the side of e-Residency benefits which is not being able to “open an Estonian bank account without physically showing up in the bank” (Roonemaa 2015).

### **3. THE DISCUSSION ON THE RESULTS AND RECOMMENDATIONS FOR POLICIES**

#### **3.1 The discussion on the results**

The results of the analysis of the articles point out many important aspects of the perception of Estonia as a target country for foreign direct investment. Since the substance of the articles researched was of companies that had already made the decision to invest in Estonia or opinion of experts who have experience with different firms, the current paper is only able to judge the results on the basis of positive outcome cases. Therefore this does not include the views of those companies that might have looked at Estonia as a possible location and decided on another country.

The outcome of the analysis mostly reflects the reasons behind building shared service centres or similar offices in Estonia because there were so many of them represented in the sample. Nonetheless, these centres created jobs mostly for the highly skilled and highly educated, which is positive for Estonia. Therefore it is important to map the reasons why those MNEs decided to invest in Estonia.

The results show that the main two reasons for bringing a subsidiary or a branch to Estonia are the quality of the labour force and relatively low cost environment. Those both together indicate that skilled Estonian people can be hired for less compared to certain other countries. Even though it is wonderful that Estonians are valued for their skills and work ethic, the problem lies in finding the right balance between efficiency and the level of income. As a country, the aim is to rise the well-being of the people living there and a higher level of income is one of the ways to make life better for the residents. If, however, the salaries rise too fast and too much, the country may lose investments, particularly FDI, because hiring

local workers may become too costly. The IMF also concluded in its 2016 report on Estonia that the rapid wage growth is hindering competitiveness (IMF...).

Another reason that came out many times was people's knowledge of foreign languages. This is the advantage of a small country that it is common to know at least one, but often more than one foreign language. This knowledge combined with the geographical location in the proximity of many different countries with their own languages gives Estonia an advantage in attracting businesses that want to build support centres. When it comes to advancing language skills, the cultural exchange that commonly encourages people to learn another language seems to be working well.

The fact that many companies that were active in the IT sector brought out the innovative and/or IT environment in their comments is a testimony of the influence of the efforts made by the Estonian IT sector and the government. Since this was a characteristic that in almost every case was named differently, either "technology environment" or "innovative economic environment", it shows that there is an overall sense of openness to IT solutions and that the efforts in that sphere are valued by the society. As IT has and is gaining more and more prevalence in the world economy, an image of a tech savvy country is something Estonia can continue to benefit from.

The fact that Estonia is in the EU and part of the Eurozone gained the country quite a number of FDI. This shows the results of past decisions. For many companies, the currency risk is an important one to weigh, so adopting the euro made Estonia more attractive as a country. Another aspect that especially the promoters of e-Residency like to emphasize is that Estonia can be a gateway to EU markets. This was pointed out distinctively in one case study, but indirectly referred to in more pieces. However, on the basis of the current results, this opportunity has not become one of the main incentives to invest in Estonia. It may be that Estonia has not received enough attention in this case, that the information has not reached certain potential investors or that companies who are aware of e-Residency already have enough access to EU markets.

E-Residency and e-Services were important to two companies in the sample, but mentioned by all three experts. This may give the idea, that even when people are aware of these opportunities, but there is still a gap between knowing that the opportunity is there and using it. It may be that e-Services/e-Residency do not play such a big role in the decision of

whether to expand or not. This can also mean, that the e-Services/e-Residency are not so well-known, yet, to be the attractive component in doing business in Estonia.

A favourable tax environment most probably refers to the zero tax on Corporation and Capital gains. It is surprising that this was not mentioned in more articles since the regulation was introduced to encourage business activity. The reasoning behind it may just be that since the sample mostly consisted of supportive departments, the zero tax on Corporate gains does not appear among first arguments. The result may be different when looking at firms that produce goods in the country for example.

Some companies noted how fast things can move in Estonia. That is to do with a proactive government and the fact new legislation can be created, changed, passed and implemented in a relatively short amount of time. In a way it is commending the policy makers for their ability to notice what needs to be done and taking action. It is also noting the opportunity to access people that are responsible for certain decisions in the country. This is also something that contributes to “good governance” which is brought out in the first chapter.

Cultural similarities were important to three companies from which all had a service center. It is positive to have “a common language” with both Nordic and Western European countries, but culture can also in some ways impede the incoming investments. For example, the local low tolerance for cultural differences can make a location undesirable.

The geographical location was also mentioned in a few cases. Being close to certain countries, situated between East and West (both figuratively and physically) and having access to the sea were important factors for some companies. This is a factor Estonia cannot change, but is able to make the most of. Two IT companies from Russia were in the sample and one brought out the fact that Estonia is very close by along with other reasons for their choice of location. In actuality, there is potential for more investments from Russia. The political situation is strained and should not be understated, but if done wisely, Estonia could gain more of an image of a valuable partner and a door to Europe. The argument here can also be political and economic stability that is currently lacking in Russia.

The infrastructure was named only three times, two named the proximity and opportunity to use a port and one relied on having the airport so nearby. All of them named structures of transportation. This can imply the importance of developing the transportation infrastructure so that investors may rely on travelling comfortably and fast. According to



surveys and studies as pointed out in the first chapter, the infrastructure objects are very important in attracting investments.

It is not surprising that sound financial and legal framework would be important for attracting investments. As Estonia follows EU directives, it is easier for firms in the EU to adapt to local regulations. Germany was explicitly mentioned as having similar legal system and thus making the transition into Estonia smoother.

The ease which to do business in a country is important in the global competition. This usually includes the time it takes to start a business, register property, taxation, but also other aspects. This was mentioned three times in the case studies, which is not much, but it shows the perception of the business sphere.

### **3.2 Suggestions for policy makers and further research**

The results show that the main reasons why a foreign company invested in Estonia were low costs and quality labour force. Combined with the problem of decreasing productivity, this poses a complex challenge to address. On one hand it benefits the people when salaries rise, on the other hand the employers may take their business elsewhere if it gets too costly at a certain location.

One solution to retain FDI that was originally attracted by low labour costs, is to increase immigration for labour intensive work. Importing workers may give the MNE time to settle and upgrade their activities to more value-added production. This also means the state has to contribute more attention to education and vocational training. (Best Practices...)

That leads to next essential topic, which is education. If Estonia wants to attract more FDI in the light of raising salary level, it has to make sure there is enough qualified workers in the country. The main shortage of labour is currently in machinery and metal-working as well as ICT sector. There is also a problem in health care where there are not enough medical doctors, but this is a problem not so tightly connected to education, but other aspects. (Bottleneck...) Providing better education is also a way to address the problem of decreasing productivity. If employees are well-qualified, they are able to contribute more in higher value-adding work, and that means the productivity can rise. Therefore, higher education and vocational training should be the first areas to look at and improve.

The higher education has been under discussion for the past few years and it has undergone major reforms. Still, the average university program can be unchallenging for some students, which means they do not reach their potential. In other words, there is plenty of talent undiscovered, untrained and unused. Another possibility is that the brightest minds just leave and stay where they can improve their knowledge base and skills better. A solution to that was suggested by Karoli Hindriks, the founder of a job hunting company Jobbatical. She brought out the experience of another small country Singapore, saying “they send their best brains to study abroad with a string attached that they have to come back.” (Shank Tamkivi 2016) That means the country does not lose the talent it needs to grow the economy.

The aspects that were not named as often may point to several weak points. For example, the zero tax on Capital gains was created to encourage entrepreneurship and it has promoted more local reinvestments. The question is however, why was this not mentioned more in the case studies? Based on the sample size and data, a conclusive answer cannot be given, but it may refer to the fact that it is not sufficient on its own to attract FDI or that it is not so widely known abroad. A more comprehensive study would be able to give a reliable answer.

On the positive side, proactive government, the IT environment and e-Services together with e-Residency were pointed out several times. This suggests the efforts of the public sector in integrating new solutions has borne fruit. Why this is mentioned in the suggestions chapter is that since the IT sector is a rapidly changing and developing area, there needs to be continuous push for development and implementation. Also, improving the e-Services is very important in order to gain visibility globally and attract FDI.

The results from this research primarily came from the accounts of shared service centers and therefore reflect that area the best. In the future, it would be beneficial to undertake a research that would include more companies from various industries and sectors. This would give a better overview on the positives and indicate where to improve. It would also be valuable to have an understanding of which sectors or activities are better “covered” by FDI and which are not.

## CONCLUSIONS

Foreign direct investments are important in the development of an economy and that is the reason why most governments implement measures to attract more of it. The benefits the states are seeking include knowledge spillovers, economic growth and additional jobs. Even though the empirical findings do not always indicate connections between FDI and the benefits mentioned earlier, the research on Estonian market suggests there have been spillovers. In the light of this positive notion it is useful to know how better attract FDI to Estonia. Along with that, determining the motives for inward foreign investments became the central research problem.

The aim of this paper was to find the reasons why foreign direct investments have already been made to Estonia. That is why understanding the motives of companies that have already invested in Estonia, is important. The data came from case studies published on the Estonian Investment Agency's website. Considering the data and the aim of the research, the main research questions were „why has Estonia been chosen as the location to invest?“ and „what reasons are mentioned the most?“

When reading through the case studies, all arguments on why a company had expanded to Estonia were noted and counted. In order to maintain details, the categories of reasons were created with as little generalisation as was reasonable. For example, „the quality of labour force“ was in almost every instance named as such whereas the sentiments toward Estonia's IT environment were stated in many different ways.

The aim of finding what investors have thought as attractive aspects of Estonia was reached. The case studies contained many accounts of inward FDI situations and reasons for it. This research did not, however, cover the whole spectrum of industries and investor opinions and should, therefore, be taken more as an advisory study into the perception that foreign direct investors hold. Even though the companies were from different sectors and the opinions came from different sources, the common theme were the shared service centers. That is why the results mostly reflect their views and preferences.

The most mentioned characteristics that make Estonia attractive for foreign investment were quality of labour force and low cost environment. The low cost could mean either low cost of labour, rent or living. Other arguments that came up many times included the people's knowledge of languages, innovative or IT environment in Estonia, connectedness to European Union and using the Euro as well as e-Services or e-Residency. What were pointed out fewer times, but are still important were having a proactive government, certain cultural similarities with the home country and geographical location.

The main reasons that were named do point towards a possible problem. If low costs are attractive to a foreign direct investor, the country should either keep the costs low or find other solutions. Since the labour costs, for example, are rising, this could impel companies to change location. On the other hand, quality of labour was mentioned the most in this sample. Even though low cost and quality labour tended to go together, it is still possible to make most of this preference. Since Estonia lacks labour force or quality labour force in some areas, the situation can be improved by two main measures:

- developing higher and vocational education in order to match the demand,
- importing both low and high skilled workers.

The next significant arguments can be connected to one another – the proactive government, innovative or IT environment and e-Services/e-Residency. These are mostly public sector efforts that have caught the eye of investors and attracted them to invest in Estonia. This is also an opportunity for the future and that is why the public sector should:

- Continue to develop or encourage the private sector to develop the e-Services in order to gain more visibility globally.
- Continue developing and implementing new technical solutions in governance.
- Continue working closely with the private sector in order to maintain the level of innovative and IT environment.

This subject would greatly benefit from a larger study to map the perception of Estonia better. A wider spectrum could then be analysed in order to gain a broader overview of different components that make Estonia attractive for foreign direct investors.

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## **APPENDIX**

### **The questions sent to Enterprise Estonia and their answers, unedited, in the original language (Estonian)**

**Kes on otsene Life in Estonia väljaandja? Internetis otsides on märgitud kirjastus Positive Projects. Samas on ajakirjas märgitud: "powered by Enterprise Estonia". Kas see tähendab, et rahastus tuleb EASilt?**

Välja annab EAS (sh rahastus), teostaja on Positive Projects.

**Millised on peamised kohad, kus ajakirja levitatakse? Teiste sõnadega, milline on peamine sihtgrupp, kelleni tahetakse jõuda?**

Ajakirja sihtrühmaks on laia silmaringiga rahvusvaheliselt aktiivsed ärisektori esindajad, täpsemalt potentsiaalsed investorid, kaubanduspartnerid, Eestit töö- või puhkuse reisil külastavad välismaalased, Eestit töötamise sihtkohana kaaluvad spetsialistid. Ajakirja levitatakse peamiselt EASi partnerorganisatsioonide, EASi välisesindajate, EV saatkondade kaudu ning Eesti mainekujundus- ja kontaktüritustel välismaal.

**Case study'sid lugedes on osadel kirjas autor, kuid on artikleid, kus seda kirjas ei ole. Kelle poolt on kirjutatud artiklid, kus pole autorit?**

Veebis leiduvad case studyd jagunevad kaheks:

- 1) meie tiimi kirja pandud lühikirjeldused töövõitudest/projektidest, millele ei panegi autorit külge, kuna on enamasti erinevate tiimiliikmete panus;
- 2) Life in Estonia tarvis kirjutatud case studyd/edulood, mille tarbeks oleme võtnud ajakirjaniku või on selle erinevate materjalide põhjal toimetaja kirja pannud.