Strategic investment motives into Finland Case: Austria

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Ville Väkiparta
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Case: Austria

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Approved by the head of department of _______________________
___/___ 2___ and awarded the grade _________________________
STRATEGIC INVESTMENT MOTIVES INTO FINLAND Case; Austria

Objectives of research
The main purpose of this research is to explain the strategic investment motives of Austrian companies when making direct investments into Finland. Typically such investing motives are market, resource, efficiency or risk-reduction seeking motives. The secondary purpose of this study is to examine whether the investments from Austria were done into a Finnish cluster industry. Also identifying the linkage between investment motives and whether the investment was done into a cluster industry.

Methodology
This research is a qualitative study with purposive sample. It aims to explain the investment motives and reasons for investments from Austria into Finland. Structured interviews and questionnaires were used to gather data from the pre-determined sample. Eight of the thirteen Austrian companies that operate in Finland were reached when composing this thesis. In three of the eight companies interviews were conducted with a representative from the Austrian parent company and in the remaining five with the CEO’s of a Finnish subsidiary.

Findings
The main findings of this thesis suggest that clearly the dominant part of the Austrian companies who invest into Finland, invest due to market seeking reasons. The second most likely investment motive was resource-seeking motives, followed by efficiency seeking motives. The least important motive was risk-reduction seeking motive.
In eight out of ten investments looked into in this thesis it has been invested into an industry sector what is defined as a cluster industry in Finland. However only in three cases the company felt that they belong to a cluster. In the remaining cases the investments were simply done in the same industry what are defined as cluster industries in Finland.

Key Words
Strategic investment objectives, Investment motives, Cluster programs, Austria, Finland.
Tutkimuksen tavoite


Metodologia


Havainnot

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1. Introduction

This chapter firstly introduces what this thesis will deal with in the coming chapters. Secondly it will provide the actual research problem of this paper and the research questions, which will be followed by earlier literature and research gap. Finally this chapter will offer the structure of this whole study.

1.1 Background

During the past decade foreign companies have invested more and more into Finland, despite Finland’s, perhaps not so good location in the world markets and its reasonably small size. In 2008, a bit over, 3,100 overseas affiliates operated in Finland. These foreign affiliates made up approximately one per cent of all enterprises located in Finland. Those roughly 3,100 overseas affiliates came from 48 different countries. Looking solely by number, most of the affiliates came from Sweden, followed by US as second and German as third.

Foreign affiliates by country-by-country, data and year

<table>
<thead>
<tr>
<th>Year and number of enterprises</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>All countries</td>
<td>1 895</td>
<td>2 242</td>
<td>2 504</td>
<td>2 807</td>
<td>3 124</td>
</tr>
</tbody>
</table>

Table 1. Foreign Affiliates by Country-by-Country, Data and Year. (Statistics Finland 2009)

Even though the percentage of foreign affiliates in Finland sounds small, their contribution is high. The total earnings of overseas affiliates positioned in Finland were in the region of EUR 89 billion and the foreign affiliates provided work to nearly 243,000 persons. These figures account for 22 per cent of the turnover of all commercial enterprises and around 16 percent of the total personnel in Finland. In contrast to 2007 turnover for foreign affiliates increased 12 per cent and the amount of employed personnel ten per cent. In terms of turnover and
personnel, the most noteworthy foreign investor was Sweden.

Table 2. Foreign Affiliates’ Share of Turnover & Personnel (Statistics Finland 2009)

Most important overseas affiliates measured by turnover were in the industries of wholesale and retail trade. In those sectors the total turnover amounted to over EUR 35 billion, which is 28 per cent of the whole industry in Finland. In relative terms, most of the turnover was generated by information and communication activities, where it rose to 34 per cent of the total turnover activities. In number of employed personnel, manufacturing industry was the biggest sector. They provided work to over 79,000 persons. Again, when measured in relative terms, the most significant employer was the financial and insurance sector, in which over 37 per cent of all foreign affiliate workers were employed.

As the speed of globalization can hardly be seen slowing down, it is important to understand the reasons what make companies to invest into Finland. In future being successful in acquiring foreign direct investment (FDI) and as a consequence improve standards for living via employment, it is important to develop the understanding of companies investing here. That said it is clear that the main purpose of this study is to explain company level strategic objectives as a reason to enter the foreign, namely Finnish, market.

Personally, this thesis has two interests. Firstly, my great interest towards middle-Europe and in particular Austria as at the moment I am living there. Secondly, I also want to keep good ties to Finland and what would be a better way to do that than trying to explain why Austrian companies have invested into Finland and perhaps how to attract more of them there. If I
would be able to enhance the trade relationship and increase the cooperation between two fairly similar and close to heart countries, would be ideal.

1.2 Research Problem

The purpose of this study is to explain and to contribute to the field of international business. To be a bit more precise, the aim is to understand and explain the reasons why Austrian companies have invested into Finland. This research is important, because if Finland tries to keep the pace in acquiring foreign investments, they need to understand why companies invest into Finland. Only when understanding the reasons why overseas enterprises want to devote themselves into Finland, it is possible to strengthen these assets what Finland already possesses and that way to attract more foreign affiliates here to improve employment, standards of living, among others. If these reasons are not understood there is a possibility that overseas investments start to flow to neighbouring countries, which offer better platforms for companies to perform.

Another aim of this study is to explain if the governmental cluster programs played any role in tempting foreign direct investments into Finland. Ministry of Interior introduced the very first cluster program in 1993, which stated what industries are seen pivotal for Finland. Later, in 2006, TEKES updated the cluster programs to match present day’s environment. If these programs have made any difference, it would be logical that investments after 1993 would be mainly in the defined cluster industries, because expertise and know-how in these industries should have been high. Based on that, also investments after 2006 should follow the same pattern. Meaning that companies that have invested after 2006 would belong to the industries what are stated by TEKES as a cluster industry in Finland. Also, a small look is taken into, whether there is a linkage between investment motive and in investing into a cluster industry.

1.3 Research Question

The main research questions what this study seeks to explain is:

1) What are the main strategic objectives for Austrian companies to invest into Finland and what are the secondary?
2) *Were the investments done into an industry what is considered as a cluster industry in Finland?*

The first question aims to explain why Austrian companies invested into Finland on company’s strategic level, not on Finland’s country level. That is because on country level, Finland cannot do too much, as natural resources and location are non-changeable attributes. But when understanding why companies invest into Finland, knowing their reasons and objectives, it is easier for Finland to change the course where to guide this country. If a country does not know why overseas companies invest into their country, it is almost impossible to improve investment conditions to build a higher demand for foreign affiliates. If a country knows why overseas companies invest to their country, it is easier for them to build on that and potentially acquire more foreign investments.

The second question aims to explain if the Finnish cluster programs had any effect of attracting foreign direct investment in specific industries. If the cluster programs have reached their goals, then expertise in certain industries should be very high. Therefore, the resources, meaning technology, know-how, skilled workers, should be high on those specific industries. Which would mean that industries stated in cluster programs would be inviting for foreign firms as the wisdom is there. If the foreign direct investments from Austria do not match at all with the cluster programs, it would suggest that cluster programs have failed to increase expertise in those determined industries, at least on a small scale.

**1.4 Earlier Literature & Research Gap**

Naturally, explaining strategic objectives why companies invest directly to a foreign country is nothing new, neither into Europe (Darskuvienë & Kacergiute 2004; Gornia, Nowaks and Wolniak’s 2007 and Tatoglu & Glaister 1998) nor outside Europe (Tahir & Larimo 2006). Also from Austrian perspective few studies have been made (Bellak & Luostarinen 1994; Altzinger 1998) to explain why Austrian companies make foreign direct investments from strategic objectives point of view.

Unfortunately many of the studies focus on new European Union countries or into so called “not so well developed countries” or into a country that is big in terms of population, economy, etc. The explanation of the main and secondary strategic objectives, when
investment happens between two well-developed countries with high standards of living, is left in the background of researchers. Also explaining investment motives between western countries and big and low cost Asian countries is often very self-evident. In addition country’s cluster programs are almost never taken into consideration when looking why companies invest to another country. That is why there is a research gap in explaining strategic investment objectives between two well-developed small and open economies (smopec) and combining that with country’s cluster programs. A deeper look into smopec-concept will not be taken.

Often the question is why companies go abroad and not why companies invest into a specific country. If a country knows why companies from other countries invest to that specific country, they are able to improve their attractiveness and draw more companies. Furthermore, via foreign direct investment, employment can be improved, which can have an effect to decrease poverty and increase the standards of living.

That said, explaining company level strategic objectives together with target country’s cluster programs are missing. Especially, studies looking why companies come to Finland. In addition, many of the studies looking at strategic objectives concentrate heavily on country level attributes, rather than company level strategic objectives, which is the opposite in this study. This study has a narrower scope than many studies but at the same time it tries to provide a more precise view for a single country.

1.7 Structure of the Study
As this study makes an effort to explain why Austrian companies invest into Finland, it is justifiable and logical first to introduce the two countries this study is covering. That chapter will consist of history, geography, demography and economy of both countries. In addition, FDI from Austria to Finland is looked at.

After giving some basic information about the countries, this study provides a literature review on the field of foreign direct investments, by firstly providing an overview of the various theories followed by perhaps the most well known internationalization theory explaining FDI, the eclectic paradigm. FDI theories will be followed by company’s strategic
objectives why they invest overseas. As third, both of Finland’s cluster programs are presented.

After the literature review, this study presents the methodology used in this thesis. That chapter will provide the research approach, how the companies were selected for this study, how the data was collected as well as study’s validity and reliability.

The fifth chapter will discuss the findings of this research paper. It will deal with all the four different strategic investment motives in detail. It will be followed by a comparison between this study’s results and results from other papers, what have researched the same topic. Also a look into what industries the Austrian companies have invested in is provided.

The last chapter, sixth, will provide a conclusion as well as discussion and suggestions for further research.
2. Countries in question

In this chapter, the two countries what this study will handle, Austria and Finland, are introduced. As first a look into the home country of the investing companies, Austria, is taken. The target country, in this case Finland, will follow that. For both countries geography, demography, economy and FDI are presented.

2.1 Austria

2.1.1 History

According to austrian.info website, Austria’s history is as follows: Austria’s history is very similar to many European countries, as it has a very colourful history behind it. Already in the early days approximately 8000 BC current land of Austria was inhabited. In around 400 BC Celtics came from Western Europe and settled around Austria. A bit later in 200 BC Romans came over the Alps to take control of Austria. Romans were controlling Austria long time, up until the late second century when the Romans were pushed out of Austria by German tribes. In the mid 500s, Germans had the control of almost whole Austria and a half a century later the name of Austria became known in the history books. In 996 the current location of Austria, Ostmark, was first time referred as Ostarrichi, a clear precedent of modern German word Österreich (Austria). After the name Austria was established, Leopold von Babenberg was margrave of Austria. At that time Austria was a part of Babenberg’s feudal possession. Later in the 12th century the duke of Austria Henry II moved his residence to Vienna, which has stayed the capital of Austria ever since. About a century after Vienna was established as capital, perhaps one of the most recognized families in whole Europe took control of Austria, the Habsburgs. During the six centuries of holding the crown Habsburg’s increased their authority and influence inside Europe via strategic alliances and fixed marriages.

The rise of Napoleon and the French revolution in 1789 posed a threat to Habsburg’s and Austrian territories. After Napoleon’s defeat in Congress of Vienna in 1814-1815 the Chancellor of Austria tried to draw Europe’s political map in Austria’s favour by adding more power to them. Later that decade as middle-class revolution arrived in Austria Emperor Franz I squashed many of the civil rights and tightened censorship. Later in the Biedermeir era growing urbanization took place and lead to new middle class. Eventually Emperor Franz I had to step down and give the power to his nephew Franz Joseph I, who ruled Austria for 68
years together with his wife Elizabeth, perhaps better known as Sisi. Under Franz Joseph I Vienna and Austria became one of the most important countries in whole Europe. At that time Austria’s borders reached from Hungary to north Italy and deep into southern Europe. In June 1916 when Austria’s archduke Franz Ferdinand was assassinated in Sarajevo, it meant the fall of Austro-Hungary monarchy. Due to archduke’s assassination Austria declared a war on Serbia, which marked the beginning of WW I. After the First World War the first republic of Austria was found, what meant the end of a 640-year old Habsburg dynasty. The new republic faced serious problems in its early stages, massive inflation, unemployment, which almost led to economic collapse.

During the Second World War on 12th of March German troops conquered Austria and integrated it to the German Reich. After the World War II, Austria was occupied by victorious Allied forces, which controlled the country for a decade. It was not until May 15th 1955 when the Austrian state treaty was ratified, with declaring permanent neutrality. In 1995, Austria together with Finland and Sweden joined the European Union and in 2002 Austria replaced its currency, Schilling, with Euro.

### 2.1.2 Geography

Austria’s geography is described as following from countrystudies, geography.about and cia’s country factbook: Austria is located in south-central Europe. It is a fairly small, mainly mountainous country with a total land area of 83,859 square kilometres, which is a bit over four times smaller than Finland. Austria is surrounded by eight countries, and has no water border. The neighbouring countries are Switzerland and tiny principality of Liechtenstein on the west side, Germany, Czech Republic and Slovakia on the north, Hungary to the east and Italy with Slovenia on the south side. The most western part of Austria is shaped as a narrow path, between thirty-two and sixty kilometres wide, located between Germany and Italy. The east part of Austria is a bit broader with maximum width of 280 kilometres. The country as a whole spans over 600 kilometres in length, on the west side are the Alps. On the east side the land is fairly flat.

Austria has nine provinces of which seven have long historical traditions. The oldest provinces are: Upper Austria, Lower Austria, Styria, Carinthia, Salzburg, Tirol and
Vorarlberg. The remaining two provinces, Burgenland and Vienna, were found after the First World War. Burgenland used to be part of Hungary, although very German speaking. Establishing Vienna had more political than other reasons. Before Vienna was an own province it was the capital of Lower Austria. Therefore, Vienna was made an independent province for administrative and ideological reasons. All the provinces, except Vienna, have their own capital.

2.1.3 Demographics

According to CIA country factbook, Austria’s demography can be summarized as following: Although Austria is over four times smaller than Finland it has clearly more inhabitants. Today the population of Austria is around 8.215 millions. Of this a bit over 8 million inhabitants 67 per cent live in urbanized areas. German is clearly the dominant language and it is also the official language in the whole country, with 88.8 per cent speaking it. The remaining citizens speak several minority languages such as Slovene, which is an official language in the province of Carinthia. Hungarian and Croatian are also often spoken languages and they are official languages in Burgenland. Sex ratio in Austria is pretty much even. For the total population there are 0.95 males for every female. The age structure looks also healthy. From the total population 14.3 per cent are aged less than 15 years whereas 18.1 per cent are aged over 64 years. This leaves 67.6 per cent of the population for the working class. The median age in Austria for males is 41.5 with life expectancy of 76.4 years. The same figures for females are 43.6 and 82.7. Religion wise 73.6 per cent of Austrian belong to the Roman Catholic church, 4.7 per cent are Lutheran, 4.2 per cent Muslims, 3.5 per cent belong to other religions and 2 per cent are unspecified. 12 per cent does not belong to any religion.

Austria can be seen as a homogenous nation, despite strong immigration over the last several decades. In 2006 approximately 814,000 legal immigrants lived in Austria, which represents 9.8 per cent of the total population and is one of the highest rates in whole Europe. The main flow of foreign citizens comes from former Yugoslavia (Croats, Slovenes, Serbs and Bosnians), Turkey, Germany, Poland and Czech Republic.
2.1.4 Economy

Based on the figures of CIA Country factbook, Austria economy looks as following: From Austria’s 8.215 million inhabitants 3.7 million belong to the working force, which constitutes 45 per cent of the total population. Of the working force only amazingly low 4.8 per cent are unemployed. That figure is clearly one of the lowest in the European Union. Labour force is divided by sectors as follows: 5.5 per cent in agriculture, 27.5 per cent in industry with main sectors in construction, machinery, food, metals, paper, lumber and tourism. The remaining 67 per cent of the whole labour force work in the service sector. Austria has a moderately high country debt level, it is 69.3 per cent of GDP and with that figure Austria ranks Austria on 21st place in the whole world.

Austria’s economy could be described as well developed, with living standards one of the highest in European Union. Its economy is closely tied to its strong neighbouring country, Germany, with a staggering 43.6 per cent of Austria’s total imports come from there. Other main importing countries are Italy with 6.9 per cent Switzerland with 5.1 per cent and Netherlands with 4.1 per cent. Typical imported products to Austria are machinery and equipment, motor vehicles, chemicals and metal goods. Austria biggest export partner is, naturally, Germany as 28.9 per cent of total export goes there. Other big exporting countries are Italy with 8.4 per cent, United States of America with 4.2 per cent and another neighbouring country Switzerland with 4.2 per cent. Austria typically exports such goods as machinery and equipment, motor vehicles, paper and paper goods, metal goods, chemicals, iron and steel. Trade balance for Austria is slightly negative with total exports adding up to $129 billion and imports $136 billion. (CIA Country Factbook). Austria exported into Finland for amount of EUR 629 million in year 2008 (WKÖ 2009.)

2.1.4.1 FDI

According to Austrian National Bank (Österreichische Nationalbank), which is the only institute what collects data of Austrian direct investment according to mail correspondence with Statistics Austria and Ao. Prof. Dr. Bellak from University of Wien. The Austrian National bank states that in year 2007 there are 3,588 fully owned overseas direct investments with personnel climbing up to 573,300. That is a 13 per cent growth in the number of
companies and a 19.7 per cent growth in personnel compared to the previous year (OeNB 2009,6). Table 3 shows the distribution between industries.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Enterprises</th>
<th>Yearly Profit in Mio €</th>
<th>Personnel in 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Forestry</td>
<td>9</td>
<td>0,00</td>
<td>0,2</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>45</td>
<td>395,00</td>
<td>8,7</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>53</td>
<td>113,00</td>
<td>13,5</td>
</tr>
<tr>
<td>Clothing</td>
<td>33</td>
<td>-20,00</td>
<td>10,0</td>
</tr>
<tr>
<td>Wood Processing</td>
<td>28</td>
<td>50,00</td>
<td>4,6</td>
</tr>
<tr>
<td>Paper, publishing &amp; printing</td>
<td>75</td>
<td>135,00</td>
<td>18,6</td>
</tr>
<tr>
<td>Chemical, rubber &amp; minerals</td>
<td>177</td>
<td>1 102,00</td>
<td>41,7</td>
</tr>
<tr>
<td>Glass &amp; stoneware</td>
<td>147</td>
<td>282,00</td>
<td>23,6</td>
</tr>
<tr>
<td>Metal</td>
<td>157</td>
<td>252,00</td>
<td>22,5</td>
</tr>
<tr>
<td>Machine building</td>
<td>172</td>
<td>151,00</td>
<td>31,3</td>
</tr>
<tr>
<td>Electronics</td>
<td>181</td>
<td>79,00</td>
<td>45,0</td>
</tr>
<tr>
<td>Vehicle construction</td>
<td>55</td>
<td>72,00</td>
<td>9,2</td>
</tr>
<tr>
<td>Furniture, sports &amp; recycling</td>
<td>27</td>
<td>54,00</td>
<td>5,1</td>
</tr>
<tr>
<td>Energy &amp; Water supply</td>
<td>31</td>
<td>23,00</td>
<td>6,8</td>
</tr>
<tr>
<td>Construction</td>
<td>134</td>
<td>73,00</td>
<td>20,7</td>
</tr>
<tr>
<td>Trade</td>
<td>812</td>
<td>1 176,00</td>
<td>97,9</td>
</tr>
<tr>
<td>Accommodation &amp; eating</td>
<td>33</td>
<td>11,00</td>
<td>3,1</td>
</tr>
<tr>
<td>Transport, storage &amp; communication</td>
<td>95</td>
<td>355,00</td>
<td>10,0</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>361</td>
<td>3 439,00</td>
<td>153,3</td>
</tr>
<tr>
<td>Real estate</td>
<td>857</td>
<td>1 898,00</td>
<td>38,8</td>
</tr>
<tr>
<td>Public &amp; other services</td>
<td>106</td>
<td>52,00</td>
<td>8,6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,588</strong></td>
<td><strong>9 692,00</strong></td>
<td><strong>573,3</strong></td>
</tr>
</tbody>
</table>

Table 3. Austrian Affiliates Abroad by Industry in 2007 (OeNB 2009, 42-44, Tables 7,1 & 8,1)
Of these 3,588 enterprises 70 per cent are inside EU-27 whereas the remaining 30 per cent are outside European Union borders. The five most common countries were Austrian companies have made direct investments in 2007 were:

**Austrian Affiliates Abroad by Number of Enterprises in 2007**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>491</td>
</tr>
<tr>
<td>Hungary</td>
<td>381</td>
</tr>
<tr>
<td>Czech</td>
<td>360</td>
</tr>
<tr>
<td>Slovakia</td>
<td>175</td>
</tr>
<tr>
<td>Switzerland</td>
<td>173</td>
</tr>
</tbody>
</table>

Table 4. Austrian Affiliates Abroad by Number of Enterprises in 2007 (OeNB 2009, 40, Table 6.1)

Austrian overseas affiliates offered work to a total of 573,300 workers. Typically, Austrian-owned enterprises offered work in the Banking and Insurance sector followed by Trade and Electronics. Countries where Austrian affiliates offered the most work are:

**Austrian Affiliates Abroad by Personnel in 2007**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>73,200</td>
</tr>
<tr>
<td>Hungary</td>
<td>68,300</td>
</tr>
<tr>
<td>Romania</td>
<td>60,500</td>
</tr>
<tr>
<td>Germany</td>
<td>49,600</td>
</tr>
<tr>
<td>Slovakia</td>
<td>35,100</td>
</tr>
</tbody>
</table>

Table 5. Austrian Affiliates Abroad by Personnel in 2007. (OeNB 2009, 40, Table 6.1)

Personnel wise Austrian overseas affiliates employ close to 70 per cent inside EU-27. When looking at Austrian companies’ yearly profit, the most important activities take place in Czech Republic. Total yearly profits from overseas activities for Austrian companies’ rose up to €11.404 Billion, of which close to 67 per cent came within EU-27.
### Austrian Affiliates Abroad by Yearly Profit in 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Yearly Profit in Mio EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>1 366</td>
</tr>
<tr>
<td>Romania</td>
<td>854</td>
</tr>
<tr>
<td>Hungary</td>
<td>840</td>
</tr>
<tr>
<td>Germany</td>
<td>689</td>
</tr>
<tr>
<td>Slovakia</td>
<td>622</td>
</tr>
</tbody>
</table>

Table 6. Austrian Affiliates Abroad by Yearly Profit in 2007 (OeNB 2009, 44, Table 8,1)

Unfortunately Finland is too small country that Austrian National Bank would include it to their calculations. Therefore, data from previous years cannot be provided.

### 2.2 Finland

#### 2.2.1 History

Based on historyworld’s website, Finland’s history is as following in brief: The first people hunter-gatherers moved up north into Finland to seek food and reindeers, consequent of the latest ice period. The survivors of these hunter-gatherers in the Scandinavian region nowadays are called the Sami or Lapps. Their language resembles a little the language what Finns speak, who pushed the Sami northwards towards Arctic, as they came to Finland via Baltic in 100AD.

As the Finns raided so much on the Scandinavian coasts it provoked the Swedish king, Eric IX, to occupy Finland in 1157. This meant that Finland became a part of Sweden and the people were converted to Christians. Although the converting did not happen in a second, it took many missionary activities during 12th, 13th and 14th centuries.

Even though Finland remained under the control of Sweden, it was always a separate territory. During that time Finland absorbed more and more the sophisticated Swedish culture. In 1581 Finland’s dignity was recognized by Sweden and the king granted Finland a status of a grand duchy. During the next century the new distinction was removed, as Gustavus II Adolphus wanted to integrate Finland to the fast enlarging Sweden. But the majority of Finns
were handicapped due to their own language. At the same time increasingly powerful eastern neighbour Russia started to threaten the Finnish soil.

As Russia started to build its presence in the Baltic, it meant difficulties for Finland, as Finland was a so-called buffer zone between Sweden and Russia. During the wars in 18th century Finland was briefly, for eight years, under Russian empire during the Northern War in 1700-1721.

Finally in 1809 in the treaty of Hamina, Sweden ceded Finland to Russia. A year prior to that Finland was guaranteed by the Tsar, Alexander I, of Russia that Finland would have autonomy as a grand duchy under Russian protection. All the way through the 19th century Finland flourished under Russian empire. The Finnish language is taught in schools and used in government offices. Later that century in 1878 Finland gets its own army.

Very early in the 20th century Russia attempted to close tighter ties with Finland, meaning uniting armies, languages, etc. Finland became unhappy with the situation and during the World War I when the March revolutionaries of 1917 overwhelmed Russia, Finland saw an opportunity to separate themselves from their unpleasant occupants and declared independence on 6th of December 1917.

Infoplease continues: when the Second World War broke out and Russia declared a war to Finland, because Finland did not meet Russia’s demands of giving territories to them. Although Finns were able to produce a solid defence line they lost the battle and had to turn over parts of eastern territory to Russian occupants. Later, Finland joined the Nazis to fight against Russia in 1941. Also this time the outcome stayed the same and Finland was, once again, forced to cede some of its land to Russia. After the World War II Finland signed a friendship and mutual assistance treaty with Russia and pursued foreign policy of being independent throughout the Cold War.

In January 1995 Finland became, same time with Sweden and Austria, a member of European Union. Later that decade on January 1999 Finland, together with ten other European Union countries, including Austria, adopted Euro as its currency. Although it was not until 2002 that Euro became a part of everyday used currency.
2.2.2 Geography

CIA’s factbook describes Finland’s geography in following words: Finland is located in the northeast Europe. When looking at the size of the country Finland is one of the biggest countries in Europe, with a total land area of 338,145 square kilometres of which 34,300 square kilometres is water. Finland’s size is slightly over four times the size of Austria. Finland has borders with three different countries, Russia on the east side, Norway on the north and Sweden on the northwest. Furthermore, Finland is bordered by water, surrounded by Baltic Sea, Gulf of Finland and Gulf of Bothnia.

Finland’s shape resemblances, at least to some point, a woman with one hand raised. Therefore, the country is sometimes referred as the maiden of Finland. Lengthwise Finland exceeds over 1,000 kilometres, more precisely 1,160 kilometres. On average Finland’s width is around 540 kilometres. Southern part of Finland is clearly wider than the north and middle part, which is the thinnest.

Currently, from 1.1.2010 onwards, Finland has six regional administrative agencies, compared to six provinces (Southern Finland, Western Finland, Eastern Finland, Oulu, Lapland and Åland) between the years 1997 and 2009 and 12 provinces prior to that. As the provinces were removed the regional administrative agencies basically continued their work and act as local representative for different Ministries. Their main tasks are; social and healthcare services, education and culture, police administration, rescue services, traffic administration, competition and consumer affairs and judicial administration.

2.2.3 Demographics

According to CIA country factbook, Finland’s demographics are as following: Although Finland is over four times bigger than Austria, it has clearly smaller population. Today the population of Finland is around 5,255 millions. Of slightly over 5 million inhabitants 63 per cent live in urbanized areas, only few per cents less than in Austria. Finnish is clearly the dominant language it is also the official language in the whole country, with 91.2 per cent speaking it. The second most spoken language is Swedish 5.5 per cent, which is also an official language in the whole country. Sami- and Russian-speaking minorities speak the remaining 3.3 per cent.
The sex ratio is pretty much even. When looking at the total population there is 0.96 males for every female, only 0.01 more male per female than in Austria. The age structure is also quite healthy, 16.2 per cent of the whole population is under 14 year olds. Whereas 17.2 per cent is over 65 years old and the remaining 66.6 per cent are between 15 and 64 years. The median age for Finnish male is 40.7 with life expectancy of 75.6 years. The same figures for females are 44 and 82.7. Religion wise, 82.5 per cent of Finland’s population belongs to Lutheran church. Only 1.1 per cent are Orthodox’s and another 1.1 per cent Christian’s. 0.1 per cent belongs to other religions. Amazing 15.1 per cent does not belong to any religious group.

Finland is a very homogenous country despite joining the European Union and opening up its borders. 93.4 per cent of the whole population is Finns. Biggest non-Finn ethnic group are Swedes with 5.6 per cent of the population. That can be explained by the long Swedish occupation for several centuries. Other ethnic groups are Russian 0.5 per cent, Estonians 0.3 per cent Gypsies 0.1 per cent and Sami 0.1 per cent.

2.2.4 Economy

Based on CIA Country Factbook Finland’s economical figures are: 5.1 million inhabitants of which 2.6 million belong to the working force, which constitutes 50.9 per cent of the total population. The figure is over 5 per cent higher than in Austria. From the working force 8.2 per cent are unemployed. That figure is pretty much in line with the whole European Union unemployment rate but clearly higher than 4.8 per cent in Austria. Finland’s labour force is divided by sectors as follows: 3.6 per cent in agriculture, 30.3 per cent in industry with main sectors in metals and metal products, electronics, machinery and scientific instruments, shipbuilding, pulp and paper and chemicals. The remaining 66.1 per cent of the whole labour force work in service sector. Finland has a fairly low country debt level only 44 per cent of GDP that figure is clearly one of the lowest in the whole European Union.

Just like Austria’s economy, also Finland’s economy can be described as well developed with high living standards, one of the highest in the European Union. Finland’s economy is almost as dependent on its neighbouring countries as Austria’s is. 16.2 per cent of the imported products to Finland come from Russia and 15.6 per cent from Germany, which used to be the biggest import partner for many years. Sweden is the third biggest importer with 13.5 per cent
followed by Netherlands 6.3 per cent, China 5 per cent and United Kingdom with 4.2 per cent. Finland’s import partners are clearly more wide spread than Austria’s. Typical imported products to Finland are food, petroleum and petroleum products, chemicals, transport equipment, iron and steel, machinery and textile. Finland’s biggest export partner is, not so surprisingly, Russia with 11.6 per cent followed by Sweden 10 per cent, Germany 10 per cent, United States of America 6.4 per cent, United Kingdom 5.5 per cent and Netherlands 5.1 per cent. Typical export products from Finland are electrical and optical equipments, machinery, transport equipment, paper and pulp, chemicals, basic metal and timber. The trade balance for Finland is a bit on the positive side with total exports adding up to $62.93 billion and imports $58.98 billion (CIA Country Factbook). Finland’s exports to Austria are worth of EUR 649 million in year 2008 (WKÖ 2009.)

2.2.4.1 FDI

According to Statistics Finland’s latest data regarding Finnish affiliates overseas in 2007 we can see that Finnish enterprises had nearly 5,000 overseas affiliates with 588,879 workers. The main industry sectors in which Finnish enterprises made foreign direct investments are:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of enterprises</th>
<th>Turnover (EUR million)</th>
<th>Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and quarrying</td>
<td>18</td>
<td>198</td>
<td>1 189</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2 865</td>
<td>133 633</td>
<td>428 020</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>92</td>
<td>4 705</td>
<td>7 837</td>
</tr>
<tr>
<td>Construction</td>
<td>163</td>
<td>3 340</td>
<td>24 451</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>477</td>
<td>14 015</td>
<td>40 510</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>193</td>
<td>2 502</td>
<td>10 614</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>33</td>
<td>1 004</td>
<td>11 056</td>
</tr>
<tr>
<td>Information and communication</td>
<td>386</td>
<td>17 663</td>
<td>32 255</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>43</td>
<td>330</td>
<td>691</td>
</tr>
<tr>
<td>Real estate activities, professional, scientific activities et al.</td>
<td>360</td>
<td>2 745</td>
<td>21 726</td>
</tr>
<tr>
<td>Education, human health and</td>
<td>31</td>
<td>85</td>
<td>2 082</td>
</tr>
</tbody>
</table>
social work activities, arts et al.

<table>
<thead>
<tr>
<th>Other</th>
<th>82</th>
<th>5 764</th>
<th>8 448</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4 743</td>
<td>185 982</td>
<td>588 879</td>
</tr>
</tbody>
</table>

Table 7. Finnish Affiliates Abroad by Industry in 2007 (Statistics Finland 2009)

Of that figure, over 60 per cent were placed inside the European Union. Whereas in Asia were located close to 10 per cent and in North America 5 per cent. Table 8 provides the five most important countries where Finnish companies have made direct investments.

**Finnish affiliates abroad by number of enterprises in 2007**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>598</td>
</tr>
<tr>
<td>Estonia</td>
<td>466</td>
</tr>
<tr>
<td>Russia</td>
<td>383</td>
</tr>
<tr>
<td>Germany</td>
<td>285</td>
</tr>
<tr>
<td>United States</td>
<td>221</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Austria</td>
<td>47</td>
</tr>
</tbody>
</table>

Table 8. Finnish Affiliates Abroad by Number of Enterprises in 2007 (Statistics Finland 2009)

Finnish overseas affiliates provided work to 589,000 persons. Typically, Finnish-owned enterprises offered work in manufacturing industry. As seen from table 9 the countries where Finnish enterprises offered most work are in:

**Finnish affiliates abroad by personnel in 2007**

<table>
<thead>
<tr>
<th>Land</th>
<th>Number of Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>77 644</td>
</tr>
<tr>
<td>China</td>
<td>57 165</td>
</tr>
<tr>
<td>Germany</td>
<td>48 551</td>
</tr>
<tr>
<td>Russia</td>
<td>39 261</td>
</tr>
<tr>
<td>United States</td>
<td>35 811</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Austria</td>
<td>5 707</td>
</tr>
</tbody>
</table>

Looking into Finnish affiliates overseas by turnover, the most important activities take place in Sweden. Calculating the tangible asset investments in overseas affiliates, the figure is nearly EUR 8,700 million, of which 80 per cent were made inside Europe. Turnover wise the most important Finnish affiliates were in:

**Finnish affiliates abroad by turnover in 2007**

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount of Turnover in Mio EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>44 483</td>
</tr>
<tr>
<td>Germany</td>
<td>21 328</td>
</tr>
<tr>
<td>United States</td>
<td>16 141</td>
</tr>
<tr>
<td>China</td>
<td>9 622</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9 386</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Austria</td>
<td>2 521</td>
</tr>
</tbody>
</table>


### 2.3 FDI from Austria to Finland

As Austrian National Bank did not include Finland to its calculations the figures of Austrian FDI into Finland is taken from Statistics Finland. According to Statistics there are 21 Austrian affiliates in Finland. These 21 affiliates offered work to 1,875 persons in Finland. The total turnover of Austrian affiliates in Finland was EUR 869 million

**Austrian Affiliates in Finland by Numbers**

<table>
<thead>
<tr>
<th>Turnover in Mio EUR</th>
<th>Personnel</th>
<th>Amount of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>560</td>
<td>1778</td>
</tr>
<tr>
<td>2005</td>
<td>705</td>
<td>1875</td>
</tr>
<tr>
<td>2006</td>
<td>850</td>
<td>1849</td>
</tr>
<tr>
<td>2007</td>
<td>898</td>
<td>1932</td>
</tr>
<tr>
<td>2008</td>
<td>869</td>
<td>1875</td>
</tr>
</tbody>
</table>

Table 11. Austrian Affiliates in Finland by Numbers. Statistics Finland 2009.

As we see from table 11, Austrian overseas affiliates’ turnover has increased almost throughout the observation period. Also the personnel have grown during the examined years
but not with such a rapid speed. Excluding the significant jump in the number of enterprises between 2004 and 2005 the figures have been quite steady on both sides of 20.
3. Literature review

Obviously, researching why companies invest overseas is nothing new but what is noteworthy is that no study prior to this looks at the relation between strategic investment motives and country’s cluster programs. Typically and the closest related, studies nowadays and in recent years have explained investment motives for developing economies in far Asia, South America, new eastern European countries or to countries that have opened up their borders for trade. Hardly ever studies have included two well-developed countries in one continent. What is also typical is that often the strategic investment motives are linked either with investment mode or country specific factors, which is not done in this study. Here the investment mode and country are given, therefore there is no need to reinvestigate factors specific to them.

Chapter 3 will first start with introducing the main FDI theories and their differences in brief. After that, a bit closer look to perhaps the most comprehensive FDI theory is taken, the eclectic paradigm (OLI-paradigm) from John Dunning. Secondly the strategic motives for FDI from various authors are looked at. Combining Dunning’s eclectic paradigm with the presented strategic motives will follow that. As a result of strategic investment motives the first research question is provided, which is not immediately answered. As third in the literature review clusters and more precisely cluster programs in Finland will be discussed. After providing Finland’s cluster industries the second research question is provided, which will neither be answered immediately.

In addition to the theories four probably the closest related research papers to this study are discussed. The first research paper is from Gorynia, Nowaks and Wolniak’s (2007) “Motives and modes of FDI in Poland: An exploratory qualitatite study”. In that study the authors tried to find answers why seven manufacturing foreign MNEs from close by countries invested into Poland in the early 90s. The study investigated with which FDI modes the MNE’s invested into Poland and was there a pattern between the investment motive and mode. The paper was based on collected data via structured questionnaires using a member of a company’s management team.

The second research paper what will be used as an example is from Darskuviené & Kacergiute (2004) “Foreign Direct Investment Trends in Lithuania: Motives and modes of investing during the transition period”. The paper researched 104 overseas firms from five different sectors (manufacturing, utilities, finance, trade/distribution and other), which
invested in Lithuania between 1990 and 2000. The study looked into the motives of foreign investments in relation to the modes of investing companies. Interviews were done with CEOs of the companies in question.

As a third study a research from Tahir & Larimo (2006) called: “Strategic motivations of Finnish FDIs in Asian countries” is presented. That is another research paper what bears some resemblance to this thesis. The authors of that study investigated how location-specific variables together with strategic motives influence the ownership strategies in South and Southeast Asia. Tahir & Larimo conducted their study using 135 Finnish manufacturing firms that invested in South or Southeast Asia within a time horizon between 1980 and 2000.

As fourth and last a study from Tatoglu & Glaister (1998) called: “An analysis of motives for western FDI in Turkey” is presented. That study investigated the motives of western FDI to undertake overseas activities in Turkey. The survey consists of 98 foreign companies. The authors used semi-structured interviews with senior management to collect their data. The time horizon for this study was investments between 1954 and 1994.

From these four surveys can be distinguished what strategic investment motives are seen as most common. In addition, also two studies from Austria are introduced. In those studies the investment motives for Austrian companies to undertake overseas activities were investigated. These studies are from Bellak & Luostarinen (1994) called “Foreign Direct Investment of Small and Open Economies – Case of Austria and Finland”. The Austrian side of the study where foreign direct investment motives were introduced was based on the statistics from Industriewissenschaftliches Institut (IWI) 1990 survey called “Foreign Direct Investment of Austrian Manufacturers”. That study provided the five most important motives for Austrian firms to engage into overseas investments.

The second survey what gives insight to investing motives for Austrian companies is from Altzinger (1998) called “Structure and Objectives of Austria’s Foreign Direct Investment in Four Adjacent Central and Eastern European Countries”. In that research paper, the author gave insights on why Austrian companies have invested into neighbouring countries since 1989. The year is set at 1989 as on that year the Soviet Union collapsed and opened the Central and Eastern European countries. The questionnaires itself were conducted in 1997 with 147 responding companies from various industry sectors. The aim why these studies are
presented is to give and compare the results from different decades. It is also important to see whether the strategic investment motives for Austrian companies have changed over the years. In addition, these four surveys from various countries and two surveys from Austria will give some empirical evidence next to the theoretical work built up in the literature review.

3.1 FDI theories

According to Cantwell (1991, cited by Korhonen 2005) there are basically three different analysis-levels of FDI theories. They are: i) macroeconomic, which is based on traditional trade and location theories on national and international scale. ii) mesoeconomic, concentrates on industry level analysis and relies heavily on organization economics, and iii) microeconomic, which focuses on the firm level. As this study’s goal is to explore the firm-level strategic motives it is therefore obvious that the microeconomic approach is taken.

The academic interest towards FDI grew after the Second World War, when the US based companies started to invest more and more overseas in particular to Western Europe (Bennett 1999). Researchers started to see effort in answering, why firms prefer to own value-adding activities outside their country of origin instead of engaging themselves trading with foreign firms (Rugman & Brewer 2001). Since the mid-1940s seven main theories have been developed to analyze how firms choose between FDI alternatives (Tahir 2003). These theories are:

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Theory</th>
<th>Focus of the Theory</th>
<th>Main Criticism on the Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hymer (1960)</td>
<td>International Production (Partial)</td>
<td>Characteristics of FDI, FDI in general</td>
<td>It assumes a completely static view of the firm's advantage along with a limited range of applicability in today's context</td>
</tr>
<tr>
<td>Vernon (1966)</td>
<td>Product life cycle</td>
<td>Explained FDI from developed to developing countries</td>
<td>Its applicability appears to be limited to highly innovative industries and it was originally based on American experiences</td>
</tr>
</tbody>
</table>
**Internationalization theory**  
Knowledge of a firm grows gradually over time and therefore it should also gradually increase its resource commitment  
The relative importance of psychic and business distance has decreased since 1970s after the advances in information technology. It is found in many studies that now firms move faster in this internalization path and may by-pass some stages of the model.

Davidson & McFettridge (1985)  
**Location theories**  
Explain the impact of host country location-specific factors on a firm's FDI choices  
These theories however do not generate other attributes associated with the firms.

Williamson (1975), Buckley & Casson (1976)  
**Internalization theory**  
It is primarily concerned with identifying the situations in which markets for intermediate products are likely to be internalized, and hence those in which firms own and control value-adding activities outside their natural boundaries  
In this theory, it is too difficult to estimate a cost-benefits point to understand and this makes the testability of the models uncertain.

**Transaction theory**  
Cost of hierarchies as an alternative way of transactions  
It has been criticized for being quite static, treats the investment decision as a discrete phenomenon and does not take into account changes in the environment.

**Eclectic theory**  
The eclectic theory consists of ownership-specific, location-specific and internalization advantages  
It is criticized for not sufficiently theorizing the relations between the three advantages, particularly for not making a clear distinction between the internalization and ownership advantages.

| Table 12. FDI Theories. (Tahir, R. 2003, 48) |

**International production (partial)** argues that if a company has a monopolistic advantage in product or factor markets, the company has an extra incentive to commit itself with international operations. As this monopolistic advantage creates imperfect markets in the host country and therefore an entry mode what gives an opportunity for best return on investment
is chosen. Hymer’s theory still has three basic assumptions: i) the possession of monopolistic advantage is mandatory for overseas operations, ii) the market for company’s advantage is imperfect, and iii) returns of investment to be above average is dependent upon the reduction of company’s competitors. Hymer’s theory has been criticized for presuming a too static view of company’s advantages together with a limited range to nowadays’ context. (Tahir 2003)

**Product life cycle theory**, developed by Raymond Vernon, is the best-known and best-established theory of the saturation of markets (Yoo 2009). The theory suggests that in the early stages of a product’s life cycle, the product is produced and exported from the country where it was developed. As the product becomes internationally accepted, the production will start in other countries too and it could happen that the product itself is exported back to the country where it was developed (Hill 2009). The theory has three basic assumptions. They are: i) Products constantly go through changes in their life cycles, ii) When company loses competitive position in a market, they start FDI operations, iii) Domestic firms have advantage over overseas firms due to cost free information flow. The theory is criticized for over-simplifying company’s decision-making process and that it is only applicable in highly innovative industries (Tahir 2003).

**Internationalization theory** claims that there is a gradual pattern for a company to increase this commitment with overseas operations. Companies often start off by exporting to overseas markets, then setting up sales or distribution subsidiaries. Followed by establishment of overseas production subsidiaries, which are wholly owned or joint ventures. That is due to company’s uncertainty as they tend to invest into overseas countries with what they are familiar with. This way the company sees it reduces its risk in the overseas operations. This theory is seen too static, often companies skip some of the stages of expansion what are supported in this theory (Li & Rugman 2007).

**Location theory** explains FDI choices using host-country’s location-specific factors. These factors are grouped into two categories, first being Ricardian endowments, which include raw materials, population, potential markets, etc. The second category is environmental variables. That category consists of political, cultural, legal and infrastructural factors of the target country. A Company uses these attributes to analyze the most favourable host country for their overseas activities. The theory is criticized for generating attributes related to the countries only and not related to companies. Another criticism is that it only provides a partial
explanation of FDI as it only looks at the location attributes (Tahir, 2003). The location theory has three phases: i) Industrial revolution-phase where transport and labour costs played a significant role, ii) 1950 onwards-phase in which proximity of markets were seen pivotal and iii) 1990 onwards-phase where governments’ quality and knowledge were seen as key issues (Assink & Groenendijk 2009).

**Internalization theory** means, that companies arrange bundles of activities internally, so that they are able to develop and exploit their firm specific advantages in knowledge, technology and in other types of intermediate products what are unique to the company. In other words, companies are trying to replace markets with themselves. This theory is constituted on two pillars, market failure and firm specific advantages. Foreign direct investments therefore only take place when the benefits of exploiting the firm specific advantages exceed the costs of doing business abroad. The criticisms for internalization theory are information costs when facing foreign firms, discriminatory treatment of governments in home and abroad together with foreign exchange risks (Rugman & Verbeke 2008).

**Transaction cost theory** is a good explanation why certain activities are performed by the company and other activities by the markets (Yigitbasioglu 2010). A company may look for tangible or intangible assets outside its resources to i.e. complete its product line. Another company already possesses this needed resource and may be willing to exchange it (Hennart 2010). This is the transaction between companies where costs are determined whether to produce products themselves or via markets. When the specificity of the needed asset is high it cannot be transferred or redeployed to other usages. And if the specificity of the needed assets is low then the asset could be redeployed to more beneficial means. Transaction cost theory is criticized for being too static and not taking changes in the environment into account (Tahir 2003).

**Eclectic Paradigm**, also known as OLI-paradigm, is perhaps the best known, most widely accepted and most comprehensive FDI theory that views the FDI process from microeconomic level. (Larimo 1993 and Tahir 2003). The framework was invented in 1977, after that it has been refined and developed in 1981, 1988, 1993 and 1995 as well as by Gray in 1996 (Ekström 1998). The framework tries to explain international production from three main and inter-related advantages. These advantages are: i) Ownership-specific advantages, ii) Location-specific advantages and iii) Internalization-specific advantages. These advantages
are fundamental in understanding international production (Markusen 1995, Dicken 1999 & 2003 and Tahir 2003) by themselves and not using arms length cooperation (Dunning 1993).

As long as OLI advantages are not spread out evenly around the world, between overseas locations and home market, they have an effect on MNEs activities. International production, just like international trade, can have an influence on economic structures but it is more likely that international production has a bigger influence than trade (Dunning 1985). Björkman (1989) stresses that eclectic paradigm attempts to give an explanation that the FDI decision is a rational answer from the company to the three advantages it possesses. According to Dunning (1988) eclectic paradigm’s hypothesis is built on that companies undertake value adding overseas activities only if the three conditions of the advantages are met:

1. A company has ownership advantage in comparison with firms of different nationalities who also act in that particular market, which are, for a certain time, explicit for the company to possess. The advantages can be asset or transaction based.
2. After the first condition is met, for the company it has to be more valuable to use these advantages by themselves than selling or leasing them to overseas companies. This advantage is named internalization advantages.
3. Assuming the first two conditions are met, it is in the company’s agenda to take benefit of these advantages by going abroad. If not, then the overseas markets would only be satisfied by arm's length operations. This is called location advantage.

Ownership advantage is the first condition to be satisfied for a company to be beneficial in overseas FDI. According to Young et al. (1989) a company has to have an ownership advantage that is greater than the costs of operating overseas with local competitors. Dunning (1993) explains that an ownership-specific advantage refers to company’s internal assets. It is possible for the company to create or even acquire such assets if they do not possess them at the moment. Tahir (2003) agrees with Dunning as they both state that ownership advantages can be tangible like products or intangible like trademarks. Markusen (1995) puts it a bit differently; ownership advantage can be a company’s process or plainly a product that they produce, which is not available to competing firms. This ownership advantage grants MNEs
very important cost advantage or market power that removes the disadvantages of operating overseas. Dunning (1993) ends by saying that a company has to internalize its ownership advantage to succeed. The bigger the ownership advantage is in a company, the more likely they will try to exploit the advantage themselves (Dunning 1988). Dunning (1985) states, the bigger the ownership advantage is, then ceteris paribus, the more probable that international production will follow.

But opposite what Dunning has stated, the author feels that a company must not possess ownership advantage prior to the investment. That is because perhaps the ownership advantage is the reason why a company engages itself to overseas activities.

**Location advantage** is the second OLI-paradigm advantage but the last condition to be met for a company to beneficially set up a manufacturing unit in a foreign country (Young et al. 1989). According to Dunning (1993), the location element is external to a company and is available to all the interested companies. Possible location advantages are: labour, social, legal and business environment. Markusen (1995) writes, the location advantage means that the host country offers easy access to customers, cheap manufacturing related prices and perhaps dodging some trade barriers in example tariffs and quotas. Such advantages attract foreign companies to invest overseas instead of exporting. Tahir (2003) agrees with previous authors and states, the location advantages decide where the company invests. Meaning where value adding overseas activities take place and potentially influence ownership strategies. Typically, the host country should offer one or more advantages over the home country (Young et al. 1989).

According to Dunning (1985), if location advantages support overseas companies, then ceteris paribus, it is likely that international production will happen. When thinking Finland as target market, it is hard to see that cheap manufacturing prices would play any role in the decision phase, as there are no trade barriers between EU members. Therefore no difference can be offered there. That is why the location advantage what Finland might potentially offer is potentially skilled labour related or geographical issue, which also sounds a bit dodgy as Austria too has very strong relationships with eastern countries due to its close geographical proximity together with historical and cultural connections (Altzinger 1998).
Internalization advantage is the last of the advantages but second to be fulfilled for a firm to engage in value-adding foreign activities. According to Young et al. (1989) and Markusen (1995), internalization refers to a company, which benefits of its ownership-advantages by themselves, instead of using other parties such as licensees, franchisees, etc. Young et al. (1989) continues saying, when looking at all the costs, then internalization has to be a better option for the company than using arm’s length transactions. Markusen (1995) adds the benefits of internally transferring assets to another country are based on multiple factors i.e. corporate governance and costs relative of using third party together with market failures and knowledge. Dunning et al. (1990) ends this by summarizing, always when a company sees that they can gain more when they produce goods overseas, than exporting or any other form that requires cooperation with another party, companies will choose to do it themselves. Tahir (2003) ends saying internalization advantage is seen as cost of market malfunction in relocating assets inside a company instead of using the market. According to Dunning (1985), the bigger the internalization advantage is, then ceteris paribus, it is more expected that international production will happen.

A company engaging itself in overseas activities with foreign direct investment should possess all the OLI-advantages to be successful, as the OLI-advantages are inter-linked. In this study all these requirements are already met, as the Austrian companies have made direct investments into Finland. In other words the companies already possess these advantages and
no deeper investigation is taken on the companies’ ownership and internationalization advantages and neither on Finland’s location attributes.

3.2 The Strategic Objectives of FDI Location

Björkman (1989) argues that the basis for strategic approach of the location choice for FDI is built upon that companies knowingly assess their strategic planning process. This contains an analysis of the company’s strengths and weaknesses but also possibilities offered by company’s surrounding environment. Dunning (1993) adds that the availability of professional, technical and skilled labour is the fundamental location factor.

Even though viewing strategic objectives is useful, it is hardly ever so simple. Companies internationalize for various reasons and actually never the decision is made due to one factor. Typically MNEs try to achieve several objectives and combine the motives behind them. Also the motives are not carved in stone, they may change over time but still the most important and noteworthy strategic objective, which guides the FDI decision, can often be distinguished (Loewendahl 2001).


1. Market seeking
2. Efficiency seeking
3. Risk-reduction seeking
4. Resource seeking

In addition to these four main motives there are numerous other motives inside the studies i.e. raw material seeking, knowledge seeking and export platform seeking. In this study only the already identified four main strategic objectives are used, as they are vast and comprehensive enough to cover the smaller ones. Still a small insight to the not so popular motives is also given. Table 13 shows more clearly what motives each researcher has emphasized.
Market seeking

According to Tahir (2003) the most important reason for market seeking FDI is to sustain and protect company’s existing markets or to promote possible new markets. In other words, market size and market growth are stated as the key reasons for market seeking FDI. Dunning (1993) and Tahir (2003) have identified five factors that can quickly engage a company to FDI for market seeking reasons. These five factors are:

1. To maintain customer and business relationships, companies need to follow their customers and main customers abroad by being present
2. To match local needs and taste through modification and native resources and capabilities
3. Supplying abroad is costlier than movement of production and logistics
4. Regulations by government, such as import control, trade policy and barriers
5. Competitors’ physical presence in the primary markets

Also Ekström (1998) identifies quite similar factors influencing a company’s decision to engage to FDI for market seeking reasons. He defines that vital factors for FDI are to be close to customers, need to adapt to local preferences, transportation costs and trade barriers. Dunning (1993) and Ekström (1998) say that an increasingly important market-seeking objective is to stay close to the customers. If significant customers or partners move abroad, the company needs to act. To retain their business, firms are logically willing to establish or relocate their production. Also Shaukat & Hafiz (1996) found in their study that the most important strategic motive for a company was to stay close to the customers.
In addition to Tahir’s reasons why companies engage themselves to foreign markets due to market seeking objectives, Czinkota et al. (1998) argues that one reason for market seeking FDI is to fulfill the demand in the target country, either on national or regional scale. These target markets can currently be already served by export activities but they can also be brand new markets for the company. Fulfilling the demand in regions does not necessarily mean only on national scale, it can also mean a broader perspective. Using a country as a gateway to satisfy needs for various countries from one location. Basically, there are two types of gateway theories. First one called natural geographical location. That means that the gateway is a nodal point between two or more markets with good logistics, infrastructure and connections (Lintu et al. 1993 and Kivikari 1995). The second version is that two very different business environments, due to political, economical, cultural or any other reason, can still do business together using a middleman between them to reduce possible risk (Kivikari 1995 and Kojo & Köngäs 1995). As according to past studies companies choose the entry mode to its markets based on their familiarity of the host markets (Chung & Enderwick 2001). This could explain the usage of gateways. Because of Finland’s good geographical position between east and west, many Finnish companies do business in former communist countries to reduce the gap between the countries (Kalsta 1995 and Hyyryläinen 2000). In example, according to Hilletofth et al (2007), many overseas companies have invested into Finland rather than into Russia as they have seen Finland as a more safe, reliable country with short distance to Russian markets.

Whereas Dunning (1993) and Ekström (1998) noted that exporting costs to serve overseas markets compared to subsidiary production can explain the presence of market seeking FDI. Typically market-seeking FDI replaces importing to a specific country, as markets are then satisfied locally. Meaning the company has substituted importing to local production. Other incentives for FDI, instead of exporting or other form of entry modes can be market size in terms of GDP, population or purchasing power. In addition potential market growth is one potential reason.

According to Gorynia, Nowaks and Wolniak’s (2007) survey, five out of seven firms stated that they were investing into Poland due to market seeking reasons. Market seeking motives were ranked high as companies wanted to gain access and build long-term positions in the fairly big market of Poland. As such a high number stated market seeking reason as their main
motive to enter the Polish market could partially be explained, that the companies were able to choose two main motives. Therefore, market-seeking motive got an extra boost, as it also received secondary motives as main motive.

From Darskuviéné & Kacergiute’s (2004) survey we can see that market-seeking FDI flowing into Lithuania is seen as third most important motive, with 14.4 per cent of the answerers favouring it by stating that local markets are behind the selection. This is an interesting finding as Lithuania is, if not very small, a fairly small country. Therefore, seeing that such a small market can attract overseas FDI is astonishing. Unfortunately the authors do not provide any deeper explanation to this.

In Tahir & Larimo’s (2006) survey 77 of 135 Finnish firms, which operate in the manufacturing sector and invested into South or Southeast Asia named market-seeking motive as their main motive. Such a high number for market-seeking motives can be explained that companies were able to choose two motives as their main motive. All of the 77 companies who stated market-seeking motives as their main motive also chose efficiency seeking as their main motive. One explanation for market seeking investors was an attempt to achieve large market share by producing huge quantities and to have benefit of economies of scale. Therefore, it could be seen that efficiency and market seeking motives go hand to hand, at least close to that. Large market size in the area was justified as a reason for the popularity of market-seeking reasons.

Tatoglu & Glaister (1998) stated in their survey that the main motive for overseas companies to come to Turkey was to gain access to new markets. This reason can clearly be seen as market seeking motive. Other important motives to enter the Turkish market were also heavily linked with market seeking motives. Explanations provided by authors for high market seeking reasons were fairly big market size in Turkey but also that Turkey started to open its autarkic inward-oriented economy in the 80s. Also Turkey’s location as a cross point between two continents was seen as pivotal.

Bellak & Luostarinen’s (1994) study stated the five most important motives for an Austrian company to engage itself to overseas activities. The first, third and fourth most important motives are linked with market seeking motives. The most important motive above all for an Austrian company to expand abroad was market size. Followed by development of new
markets as third and as fourth, exports promotion. When looking Finland as the target country, the market size, smaller than in Austria, seems to be a fairly unlikely reason to come to Finland. Although if one of the main motives to enter Lithuanian market was its local markets, it could be argued, that Finland’s markets are neither too small to enter. Also the income level in Finland is fairly high and therefore the purchasing power could play a pivotal role over countries with higher population. Regarding export promotion, both countries have very good relationships with eastern European countries and Russia. Therefore, using Finland in something what the Austrian are already good at appears doubtful. If Austrian companies were to use Finland as export platform to Scandinavia, would make a bit more sense although Finland is officially not a part of it. Also geographically for Scandinavian markets Finland is not the best located, but neither worst.

Altzinger’s (1998) study shows that market-driven factors are evidently the main objectives for the investments of Austrian companies to adjacent countries. Typically, first mover advantage was emphasized as the main reason. In the study the highest ranked reason was market potential, followed by the second highest ranked motive, being close to the customers. As third came export platform reasons. All of these motives are clearly market-seeking motives. Finland’s market potential is a double-sided sword, on the other hand the market size is quite small compared to other European Union countries but purchasing power is one of the highest what could compensate what is lost in population. Altzinger’s motives also follow very closely to the results of Bellak & Luostarinen’s study, which was done four years earlier. This implies that during those years the logic of thinking in companies has not changed when planning to expand operations overseas.

Knowing the characteristics of market seeking FDI and the results from older studies why Austrian and also companies from other countries have invested overseas, we can assume the following. If Austrian companies would come to Finland for market seeking reasons it could be to maintain customer and business relationships. As Finland and Austria both have strong metal and forest industries it would be logical that some cooperation would be there. Nevertheless neither of the studies from Austria supports this view. Matching local needs is a bit harder to say. Although Finland’s purchasing power is very good, the lack of population might make Finland as an unattractive place to invest, despite the promising findings from Darskuviené & Kacergiute survey. Transferring from exporting to production is naturally a valid reason to enter Finnish market, although like said, the small market size could prevent
this from happening. Governmental regulations should have no effect to this as both of the countries are part of the EU and therefore under the same regulations. Also none of the studies supported that argument. Physical presence of competitors can naturally be a reason to enter Finnish market, especially for Austrian firms, as they are known to avoid risks and securing markets according to previous studies (Bellak & Luostarinen 1994, Altzinger 1998).

Efficiency seeking

Behrman (1981) stated that the most economic source of production to supply a homogenous region is the reason behind FDI projects that seek efficiency. Typical strategic options for such an operation are economies of scale but in addition benefits of being present in multiple product markets. Korhonen (2001) continues by saying efficiency seeking FDI looks for factors where manufacturing is relatively cheaper. Korhonen adds low labour, raw material, transportation and energy costs with skilled labour are advantages searches by efficiency motivated FDI. Although Korhonen places skilled labour under efficiency seeking motives, in this study it falls solely under resource seeking motives. That is as skilled labour is considered as a resource of the company and not only a tool, which makes a company more efficient. Tahir (2003) includes by stating that typically efficiency seeking FDI projects are connected with taking advantage of economies of scale.

According to Dunning (1993) and Ekström (1998) another reason for efficiency seeking FDI projects is structural rationalization of company’s existing manufacturing units; production, distribution and marketing through universal governance and synergies. Loewendahl (2001) states that the rationalization is the point of efficiency seeking FDI, as firms’ production activities are concentrated to limited countries. Loewendahl continues that due to this reason efficiency seeking FDI is typically located near major transportation areas where fast deliveries are achievable i.e. airports and harbours. Also Tahir (2003) confirms this by saying that the rationalization of a company’s structure of already existing manufacturing units in a way that the company is able to achieve common governance between its activities in different locations. Tahir continues by clarifying that whether the company seeks local or international markets with its FDI, the efficiency-seeking factor focuses on decreasing operational costs or to increase sales. Cost advantages achieved by concentrating manufacturing makes it lucrative for a company to export its products wider. In particular because transportation and communication costs have sunk, it has made possible for companies to concentrate on manufacturing. This requires that the markets are open and
developed and due to that reason efficiency seeking FDI prospers in integrated areas as the EU (Loewendahl 2001).

Behrman (1981) stated that in efficiency seeking FDI projects the location decision is made at the headquarters of a company. In addition, there are numerous decision factors that are taken into account, such as the market of the host country, technology skills, probability of return on investment, science community, political stability and labour stability. All these factors are more host country determinant related than explaining the reason why. Loewendahl (2001) says that efficiency-seeking FDI is generally located in urban areas as infrastructure, purchasing power and educational facilities are in place.

Based on Gorynia, Nowaks and Wolniak’s (2007) survey, six out of seven companies invested into Poland due to efficiency seeking reasons. Efficiency seeking reasons gained such popularity in this survey due to cheap labour in Poland but also because of poor positioning of the survey questions. The authors suspected that some resource seeking motives were bundled with efficiency seeking motives. Unfortunately the authors did not provide any other explanation than cheap labour why companies enter Polish market.

Darskuvienė & Kacergiute’s (2004) survey of FDI into Lithuania state, that efficiency-seeking motives are ranked as second and fourth most important motives. Possibility to take advantage of low labour costs and basis efficiency are explained as the reasons behind efficiency seeking motives. Sadly, the authors of this study did not provide any extra discussion why efficiency seeking ranks so high in the survey. Therefore we do not know, is the FDI into Lithuania specialized in to one or two fields of industry or does it spread more evenly. If the FDIs are done only into few selected industries, did cluster programs of which is discussed more in detail in chapter 3.3, have any effect on that.

In Tahir & Larimo’s (2006) survey 78 of 135 Finnish manufacturing firms who invested into South or Southeast Asia invested there with efficiency seeking strategic motives as their number one motive. The main single efficiency-seeking motive was economies of scale. Also economies of scope, meaning low labour and production costs, played a pivotal role when deciding to enter Asian markets with efficiency seeking motives in mind. As in Tahir & Larimo’s study companies were able to choose two motives as their main motive. In that study we can see that 77 out of 78 companies who chose efficiency seeking motives as their
main motive also chose market seeking motives as their main motive. Only one company solely stated that efficiency seeking motives was their main and only motives.

In Tatoglu & Glaister’ (1998) survey efficiency seeking motives were considered as fifth most important motive to enter the Turkish market. In addition efficiency seeking motives received also lower ranked places in the survey. The fifth most important motive was a search of economies of scale and better usage of resources and capacity. The authors do not provide any explanation why efficiency seeking motives did not rank so high in their survey compared to the dominance of market seeking motives.

Neither Bellak & Luostarinen (1994) nor Altzinger (1998) found out that Austrian companies would go abroad due to efficiency seeking motives. In neither of the studies efficiency seeking motives reached the main reasons what were provided. Although Altzinger stated that in some industries such as metal and electronic, low labour costs received high importance. Despite that efficiency seeking motives were seen as unimportant in a greater picture, as they were not ranked into the top reasons why Austrian companies invest overseas.

Considering that Austrian companies would come into Finland with efficiency seeking motives in their mind seems very unlike in the light of previous studies. Also Finland’s wage level, although a bit lower than in Austria, is well above EU’s average and therefore cannot be considered low or an unattractive incentive to invest into Finland. To reach economies of scale it could be more beneficial for a company to seek for cheap labour force in a country that has better transportation connections than Finland does. Naturally, if the target markets are only Finland, Scandinavia, Baltic or Russia, Finland is not to be considered a poorly located country. Therefore, the motives of investments into Finland are perhaps not due to efficiency seeking reason, unless the investment is not the initial investment into Finland. That is because typically the following investments are often done based on efficiency seeking motives as one of the main reasons.

**Risk-reduction seeking**

Ekström (1998) and Tahir (2003) state that risk-reduction seeking FDI could be for example that company wants to lower its total risk with hedging its operations from various threats. They continue that these threats could be disadvantageous changes in macroeconomic
variables, fluctuations in supply and demand in markets as well as changes coming from competitors and also from government are types of risks companies seek to reduce.

One way how companies reduce their risk is either they move their production to a different location or they create operational flexibility between their production units in different countries. Sometimes companies go forward with FDI projects just because competitors may actually or potentially move to certain markets. Therefore, companies often perceive that being close to their competitors is a way of hedging its operation from marketing strategy and production point of view (Ekström 1998 and Tahir 2003).

Based on Gorynia, Nowaks and Wolniak’s (2007) survey risk-reduction seeking motives played no role when investing into Poland. That is because the authors did not have risk-reduction seeking FDI as an option for companies to choose from. This naturally leaves some questions hanging over the survey, as the answering possibilities were so limited. This could also mean that although risk-reduction seeking was a motive for a company they were not able to express it to the authors.

Also the lack of risk-reduction seeking motives in Darskuviene & Kacergiute’s (2004) survey is explained that the authors grouped their own motives into six groups of which none included risk-reduction seeking motives. The groups only represented market, efficiency and resource seeking motives. Therefore, it is impossible to say if companies who invested into Lithuania to stay close to their competitors, invested there due to market-seeking reasons or risk-reduction seeking reasons.

In Tahir & Larimo’s (2006) survey market and efficiency seeking motives stole the headlines and risk-reduction seeking motives were left in the background. It only collected a modest 32 of possible 135 votes as the main motive to enter the south or Southeast Asian market. Risk reduction seeking motives were mainly argued by safe and secure countries, which had small country risk.

Tatoglu & Glaister’s (1998) survey show that risk-reduction seeking motives were not considered very important by the answerers, as in the eight most important reason only one, ranked eight, was due to risk-reduction motive. That motive was the risk of dissipation of knowledge and potential difficulties and problems with agents and licensees. Other risk-
reduction seeking motives were ranked well worse than number eight, although they still existed. The authors, Tatoglu & Glaister, did not provide any arguments to explain the unimportance of the risk-reduction seeking FDI.

In Bellak & Luostarinen’s (1994) study the second on the list of the five most important motives to enter overseas market for Austrian companies was securing foreign markets. In that study Austrians were seen to expand their overseas activities with risk-reduction reasons in the back of their mind. Also the fifth most important reason can be considered as a risk-reduction motive, improving services abroad. Although the market size in Finland is small, securing foreign markets and improving the services means caring and holding on to the customers. This basically means that Austrian companies reduce the risk of losing its Finnish customers to other companies. On the other hand improving services abroad could also be categorized under efficiency seeking FDI.

In Altzinger’s (1998) study risk-reduction seeking motives did not make the list of the most important motives at all, which is a bit surprising as the study was done only four years after Bellak & Luostarinen’s study. As these studies otherwise matched pretty good it is unusual that one of the highest ranked motive in the other study is not present at all in the other. Perhaps, entering neighbouring countries is therefore not seen as reducing risk but merely acquiring markets and expanding outside the neighbouring countries is considered to lower the risks.

Even though risk-reduction seeking FDI is not seen as too important motive by various researchers it should not be played down as most of the studies did not even include risk-reduction seeking motives in their list. Also as the only survey where risk-reduction seeking motives were ranked reasonably high was where the investments were done to far away countries. That does not support the view that Austrian companies would invest into Finland due to risk-reduction seeking reasons. As Austrian companies do invest overseas with risk-reduction seeking motives in their mind it could mean that risk-reduction seeking investments are only done to far away countries. That is because to neighbouring countries risk-reduction seeking motives were not seen important at all. Therefore, investments inside EU where regulations are fairly similar could reduce the possibility of risk-reduction seeking FDI. If Austrian companies were to invest into Finland with intention of reducing risk it would most
likely, in the light of other studies, be due to being present on the market, following competitors or to improve services.

**Resource seeking**

Dunning (1993) stated that benefiting from relative advantages offered by an individual country in example low labour costs and raw materials do often represent resource-seeking FDI. Therefore, resource-seeking FDI takes place when a company discovers a location, which has appealing resources to the company at lowest cost. Dunning identified three kinds of resources that companies look for, they are: i) physical resources such as raw materials and agricultural products, ii) labour, meaning cheap and well motivated unskilled or semi-skilled work force, and iii) technological capability seeking and also management expertise together with organizational skills. Resource seeking FDI based on physical resources looks for raw materials but as these are often spread randomly inside a nation or over countries, the MNEs tries to locate themselves close to these areas (Loewendahl 2001). Therefore, typically labour and technological capabilities are concentrated in city areas. In cities infrastructure and educational facilities are in place. Although Dunning does not include skilled labour under resource seeking motives, it is included in this study. Skilled labour is as much a resource for a company than unskilled or semi-skilled. One could argue that skilled labour is an even better resource for a company than not so skilled as it is a more scarce resource to find. Even though Korhonen (2001) placed skilled labour under efficiency seeking FDI, in which it could as easily belong, in this study it is placed together with other levels of labour force. According to Zitta & Powers (2003) the other main reason for a company to engage in FDI, along with market seeking factors, is resource seeking. They say that companies hunt for such resources, which can contribute to the company’s operations domestically, where the FDI is done but also on international level. In resource seeking FDI, together with Market seeking FDI, two different motives can be distinguished:

- External Market Factors
- Internal Company Factors

Human resources, market size, political climate and capital markets are characteristics of external market factors, whereas growth, profits, new technology and global orientation are typical internal company factors. (Ibid.)
According to Ekström (1998) resource seeking FDI projects typically aim to minimize costs of production or securing supply sources via establishing overseas manufacturing facilities. Low prices are the most typical factor what attract FDI close to the basis of workforce or natural resources. Tahir (2000) adds resource seeking FDIs do not typically try to serve the local market as market seeking FDI does. Instead they are often assigned to be more export oriented, meaning supplying vital resources to other places. Dunning (1993) ends by saying that resource seeking, just like market seeking motives represent the initial FDI and efficiency seeking motives explain the forthcoming FDIs.

According to Gorynia, Nowaks and Wolniak’s (2007) survey none of the firms in the survey indicated that resource seeking motives were their first or second most important reason when investing into Poland. Although the companies stated that resource seeking motives had some part in the decision-making it had only a small part. The low score of resource seeking motives were mainly due to authors’ lack of good positioning of questions in the survey, as some of the resource seeking motives were put under efficiency seeking motives.

In Darskuviené & Kacergiute’s (2004) research paper clearly the most important motive to enter the Lithuanian market for overseas companies were resource seeking motives. Also the fifth most important reason was a resource-seeking motive. These motives were high skilled labour force and access to natural resources with 34.6 per cent and 3.8 per cent and the total results. Authors argued that the lack of natural resources in a small country such as Lithuania cause such motives to be less important if at all important motive when investing. Reasons why highly skilled labour force was the most important motive the authors did not provide any explanation. Sadly, the authors did not give examples if skilled labour was favoured in cluster programs (if there are such in Lithuania), which are discussed more in detail in chapter 3.3, to attract overseas investment. If there were cluster programs that attracted overseas investments due to skilled labour force, it would mean that any country that has high-developed cluster programs that include highly skilled labour force could be subject to overseas direct investment with resource seeking motives.

As in Tahir & Larimo’s (2006) survey motives were done by Dunning’s old 1993 motives, it meant that resource-seeking motives did not have a place in their study. That straightforwardly explains the lack of resource seeking motives, which is a shame as Asian countries attract a lot FDI. It would have been interesting to know did labour force or natural
resources have how much to do with the investments, or were the investment mainly due to market size and economies of scale.

Also in Tatoglu & Glaister’s (1998) survey resource-seeking motives did not come forward, which was due to the reason that the motives in the survey were also ranked by Dunning’s 1993 and not by 1998 motives. Therefore, the lack of resource-seeking motives is missing from that survey.

In Bellak & Luostarinen’s (1994) study and also in Altzinger’s (1998) study none of the most important motives to expand operations overseas were resource based. The studies saw, that Austrian firms are very eager just to acquire more and more markets and to lower their risk by being present on those multiple markets.

Knowing that resource seeking motives can roughly be divided into three groups we see that the first group; natural resources are a fairly unlikely reason to enter Finland. That is because natural resources are quite limited except perhaps in forest industry, which is a strong industry sector as well as a natural resource in Austria. Therefore it would be quite unlikely that an Austrian company would invest into Finland to benefit from something they can have in their own country. Neither one of the previous studies supports this view. The second resource-seeking motive is unskilled, semi-skilled or skilled labour. Unskilled and semi-skilled labour as a reason to enter the Finnish market seems unlikely, as the work force is small and also costly. Skilled labour is perhaps the only logical although not empirically proven option based on the previous studies. The third group, technological capabilities and managerial skills is something what previous studies, at least from Austria, do not support. Perhaps, enough time has gone by, as nowadays there are cluster programs, discussed more in detail in chapter 3.3, that build expertise on technological capabilities, managing them and also training skilled labour for that industry. Therefore, if Austrian companies would invest into Finland with resource seeking motives, the investment should be done into cluster industries. If these cluster programs have succeeded they should have build attractive, almost exclusive, know-how that arises interest overseas.

Next to the four main motives presented above also the remaining four strategic motives identified in table 13 are introduced. From these motives the first two knowledge seeking and strategic-asset seeking are placed under resource seeking motives in this study. The third
motive, export platform seeking is considered as market seeking motive. Whereas the fourth and last, political safety seeking motive is considered as a part of market seeking motive.

Knowledge-seeking FDI according to Gray (1979) states that the design expertise and marketing know-how in specific areas and productive technologies are forms of knowledge what companies seek. Gray continues saying, the competitiveness of the firm may rely on new technologies that are accessible only abroad. Randøy (1994 cited from Tahir 2003) wrote the idea why knowledge seeking FDIs are undertaken. That is to sustain or to develop a competitive advantage for certain products or geographies by obtaining knowledge capabilities in the technological sector and/or expertise of management. Ekström (1998) and Tahir (2003) had the same view arguing that the main reason why a company undertakes a knowledge seeking FDI is to acquire technological knowledge. Those capabilities are able to improve company’s competitiveness or expertise of management to sustain or to develop its competitive position in specific geographical markets. Improving a competitive position for certain products is also a possibility for knowledge seeking FDI. Hedlund & Kverneland (1984) makes a distinction to the Ownership attribute in the OLI-Paradigm stating that knowledge seeking FDI projects, which aim to obtain new technologies, cannot be explained by ownership advantages from OLI-paradigm. That is because they do not exploit the existing ownership advantage but instead their task is to create new ownership advantage.

Knowledge seeking FDI can be seen as a really potential reason for Austrian investments as well as investments from any other country into Finland. Due to the cluster programs what were designed in the beginning of the 1990s should have an effect on knowledge building in specified industries and therefore attract resource-seeking (knowledge seeking) FDI.

Strategic-asset seeking FDIs are nowadays more and more popular. That can be seen from the increased cross-border mergers and acquisitions. It has also emphasized the MNEs will to locate their operation from market access to accessing knowledge (Dunning 1993). Dunning (1993) continues saying that firms that engage in FDI aim to prop up their strategic objectives. Loewendahl (2001) and Rugman & Brewer (2001) continue that acquisitions, mergers and joint ventures seek to build synergies between the firms, which is the foundation to strategic asset seeking FDI. Loewendahl (2001) adds that therefore firms often think that when investing to overseas country they are able to access the desired knowledge or technology. Nevertheless nowadays it is not so clear to distinguish strategic asset seeking
investment motives from other motives. Dunning (1993) ends with stating that strategic asset seeking investments are more important now than never as location needs of companies have changed from accessing new markets or natural resources to acquiring knowledge intensive assets and learning experiences.

Strategic-asset seeking motives are very closely related to resource and knowledge seeking motives. When meaning expertise in a particular field, like accessing knowledge or accessing natural resources, strategic-asset seeking motives can be considered as one of the main motives to enter Finnish market.

**Export platform seeking** FDI can also be seen as opposite to market seeking FDI, because the country location is not necessarily the primary market to be fulfilled. In other words the target market is external to the FDI location. Manufacturing factories fulfilling external markets can be located anywhere, not considering the domestic market demand or potential (Woodward & Rolfe 1993, cited by Tahir 2000). In fact, the host country where the production is placed is used as a stepping-stone for other markets (Tahir 2003). Actually, several countries prohibit or limit to some extent the total amount of manufacturing what can be sold in domestic markets by export-oriented investors (Woodward & Rolfe 1993, cited by Tahir 2000). An Ideal country for export platform seeking FDI is a country that offers big enough domestic markets to justify the investment but at the same time a launching pad to surrounding regional markets (Michalet 1997).

Due to Finland’s not so favourable location compared to many central European countries it is hard to see that Finland is seen as an export platform country. Especially for Austrian firms as both countries have very strong relations to eastern European countries due to historical reasons. Therefore, satisfying i.e. Russian or Baltic markets seem highly unlikely via Finland. Regarding the Scandinavian market area, although Finland’s location there is not the worst it’s neither optimal, seem also quite unlikely. Also the lack of empirical evidence that Austrian companies invest to an overseas country to satisfy a need in another country does not support export-platform seeking FDI into Finland.

**Political safety seeking** FDI pursues to minimize expropriation risks and is undertaken in a form of disinvestment from politically unsafe countries. In other words, political safety seeking FDI goes to countries where the country itself will most likely not interfere with
MNE operations (Korhonen 2001). Factors that are typically related to political safety seeking FDI are; danger of war, danger of revolution, expropriation risk, risks over property rights and risk over remittance of profits. Considering that both of the countries, Austria and Finland, are part of European Union, political safety reasons should basically be non-existing. Therefore, it will be more than highly unlikely that Austrian companies would invest into Finland due to political safety seeking reasons.

Based on the previous studies we see that clearly the most important reason for expanding operations overseas is market-seeking objectives. In four out of six studies market-seeking motives were selected as the most important reasons to go abroad. In addition to many number one positions, market-seeking motives also collected several second, third, fourth and fifth positions. Overall, no other strategic objective to go overseas did come even close to reaching the same importance as market-seeking motive did. Regardless of what the target country of the investment was, market seeking reason was always in top-2. That is astonishing and gives little indication of how firms think when they expand their operations.

Efficiency seeking motives collected the second most votes, with receiving one first place, second place two times, a third, a fourth and a fifth place one time. The only study where efficiency seeking motives played the most important role was when firms invested into Asia. Inside Europe it got only little support. Typically when investment was based on efficiency seeking reasons, low labour costs had a significant role. Studies do not provide great support that Austrian companies would invest overseas cause of efficiency seeking motives in their mind, as it got only a fifth place in one study. Therefore it is very unlikely that Austrian companies have invested into Finland due to efficiency seeking motives.

The lack of importance for resource seeking motives is remarkable. Only when investing into Lithuania it received the highest importance. In addition, some support was received for certain industries when investing from Austria. Whereas in most of other studies resource seeking reasons were left very much in the background. Knowing that Austrian companies invest due to resource seeking reasons into some industries gives a little hope and makes it plausible that Finland would also be able to attract FDI from Austria due to its technological capabilities and know-how build on the cluster industries.
Risk-reduction seeking motives received steady importance in the other studies where it was present. Typically it was regarded as second or third most important motive when investing abroad to low labour cost or strategically important countries. Although risk-reduction reasons received some empirical support from the Austrian studies, it lacked consistent presence in most of the studies and therefore cannot be considered a driving force when going overseas. Below in table 14 are presented the most common strategic investment motives found from other studies presented in this thesis.

<table>
<thead>
<tr>
<th>FDI into Poland (Gorynia, Nowaks and Wolniak)</th>
<th>MS</th>
<th>ES</th>
<th>RS</th>
<th>R-RS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI into Lithuania (Darskuviénė &amp; Kacergiute)</td>
<td>I, IV</td>
<td>II, III</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FDI into South and southeast Asia (Tahir &amp; Larimo)</td>
<td>II</td>
<td>I</td>
<td>-</td>
<td>III</td>
</tr>
<tr>
<td>FDI into Turkey (Tatoglu &amp; Glaister)</td>
<td>I</td>
<td>II</td>
<td>-</td>
<td>III</td>
</tr>
<tr>
<td>From Austria (Bellak &amp; Luostarinen)</td>
<td>I, III, IV</td>
<td>V</td>
<td>-</td>
<td>II</td>
</tr>
<tr>
<td>From Austria (Altzinger)</td>
<td>I, II, III</td>
<td>-</td>
<td>(I*)</td>
<td>-</td>
</tr>
</tbody>
</table>

MS=Market seeking, ES=Efficiency seeking, RS=Resource seeking, R-RS=Risk-Reduction seeking,

*In some industries

Table 14. Importance of Strategic Objectives Based on Empirical Studies by Author

Already in 1993 Dunning considered the correlation between his OLI-paradigm and strategic motives for overseas activities. Table 15 will provide Dunning’s views on that matter.

<table>
<thead>
<tr>
<th>Ownership advantages (The why of MNE activity)</th>
<th>Location advantages (The where of production)</th>
<th>Internalization advantages (the how of involvement)</th>
<th>Strategic goals of MNEs</th>
<th>Illustration of types of activity that favour MNEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>Possession of natural resources and related transport and communications infrastructure; tax and other incentives</td>
<td>To ensure stability of supplies at right price; control markets</td>
<td>To gain privileged access to resources vis-à-vis competitors</td>
<td>a) oil, copper, bauxite, bananas, pineapples, cocoa, hotels b) export processing, labour-intensive products or processes</td>
</tr>
<tr>
<td>Market seeking</td>
<td>Material and labour costs; market size and characteristics; government policy (e.g. with respect to regulations and to import controls, investment incentives, etc.)</td>
<td>Wish to reduce transaction or information costs, buyer ignorance or uncertainty, etc., to protect property rights</td>
<td>To protect existing markets, counteract behaviour of competitors; to preclude rivals or potential rivals from gaining new markets</td>
<td>Computers, pharmaceutical, motor vehicles, cigarettes, processed foods, airline services</td>
</tr>
</tbody>
</table>
Regarding ownership advantages the most important points for resource seeking FDI are capital, technology, access to markets or any other that could build synergies with existing assets. Sometimes Dunning has expressed that companies must possess these advantages prior its engagement to overseas activities, but perhaps these ownership advantages are the reasons why the companies engages themselves abroad. For market and efficiency seeking motives ownership advantages are pretty much the same with addition of economies of scale and scope and country diversification.

Naturally, for location advantage the target country for resource seeking motives should according to Dunning include natural resources, resources in technology and markets, transportation, communication and infrastructure. As Finland’s natural resources are fairly limited beyond forest, the technological know-how should be the driving force for the location advantage in Finland. For market and efficiency seeking reasons the location advantage should include low material and labour costs but also incentives from local government. Unfortunately Finland’s pay level for overseas companies is among one of the highest in the world, as well as taxation is. Therefore, the outlook for market and efficiency seeking FDI in Finland seems a bit bleak.

For internalization advantage the most important points regarding resource seeking FDI is to ensure stability of supply and economies of common governance. These points seem quite
straightforward, as if investment happens to overseas common governance and stability of supply should be guaranteed to ensure smooth future without any logistics problems. Basically the same internalization advantages dominate market and efficiency seeking investments, as reducing transaction costs and property rights were seen important. They seem clear-cut attributes for internalization advantages for FDI as well as for any other case i.e. opening a subsidiary in a country. One never wants to complicate things and bring difficulties to transaction and common governance inside a company as it only means more costs. Dunning’s list for internalizing advantages seem more like the main reasons why companies engage themselves in overseas activities i.e. to ensure stability of supply, to reduce transaction costs, etc.

Dunning also presented examples what types of activities MNEs favour. These are for resource seeking almost any natural resource, oil, copper, etc. and for other than natural resources he recommends industries that bring high margins and substantial economies of scale together with synergies. What Dunning has left out of the resource seeking motive list are industries in a country where they have competitive advantage over other countries or they have substantial know-how due to governmental cluster programs. For market seeking objectives he states computers, pharmaceuticals, etc. and for efficiency seeking reasons vehicles, business services, clothing, etc. When looking at this list we have to remember that the list is close to 20 years old and therefore perhaps a bit outdated at least to certain extent as the world has changed quite a lot during those years.

Based on the FDI theories and on Dunning’s OLI-paradigm’s together with the main strategic objectives from various researchers, for a company to engage themselves in overseas activities and their correlation the first and main research question of this thesis is stated as follows:

**Question 1: What is the main strategic objective for Austrian companies to invest into Finland and what are the secondary?**
3.3 Cluster

“A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities “ (Porter 1998).

Although cluster theory has not been on the lips of the researcher all the time, its roots date long back. Alfred Marshall and Walter Isard are seen as the founding fathers of nowadays quite extensively investigated cluster phenomenon. Marshall became known for his concept behind localization economies, also known as cluster based economic development, in his well recognized book: Principles of Economics, published in 1890. In his book Marshall stated that for companies to perform better they need to be geographically near to other companies in that specific industry in which they operate. Whereas Isard continued Marshall’s pioneering work and expanded it to examine regional economies. But it was not until 1990 when Michael Porter popularized the theory in his work The Competitive Advantage of Nations, which became the established theory in business field (Martin & Sunley 2003).

Porter’s (1990) cluster theory demonstrates how clusters draw competition by enhancing efficiency to themselves, via innovations and inspiring new businesses. Porter continued by saying clusters help companies to create synergies in to such extent that they would not be able to accomplish alone. Therefore centres of excellence could be the word to describe a cluster. Hernesniemi et al. (1995) defines an efficient cluster and its most important characteristics; they are growth in productivity, capability to innovate and strategic ability. Effective clusters should also show synergies in these features. Hernesniemi et al. add, when enough participants jointly develop their cooperation they can reach economies of scale without the burden of a heavy organization. Porter (1998) confirms this by saying that a business cluster, also known as agglomeration cluster, attempts to improve the productivity of the companies so they can better compete on national and global scale. Also Simmie (2004) agrees with previous researchers’ views and states that high productivity, growth, profitability and innovation are advantages that companies are able to obtain from clusters. Hervás-Oliver & Albors-Garrigós (2008) pushes the view a bit further by stating that a collective learning base where new knowledge is found via dialogue between local SMEs and MNE is offered in clusters. Dunning & Cantwell (1987) also believed in that, according to them when locals
constantly innovate, it will draw MNEs towards the domestic firms. It could be said that clusters are a tool for people to understand better network of operations and manufacturing in relations to the traditional industry view which is hierarchical and sectoral (Mäkelä 2005, citeb by Kiviniemi 2007).

3.3.1 Clusters in Finland

Cluster related discussion in Finland is relatively young. According to Mäkelä (2005, cited by Kiviniemi 2007) cluster discussions have been on the lips of the Finnish decision makers for approximately 15 years. It can be said that Finland has adopted cluster discussion after Porter popularized it. Sölvell & Porter (2002) add that when cluster discussion intensified in Finland and cluster programs were created their task was to support and further developed R&D functions in Finland together with innovativeness of Finnish industries. Sölvell & Porter continue saying, the program has enhanced Finland’s competitiveness via encouraging communication and bringing different parties together, such as private companies and their R&D units and public sector’s R&D units as well as ministries. According to Tekes (2004) in Finland clustering will only continue to expand.

Since the beginning of the 1990’s when the cluster discussion intensified in Finland, there have been two different cluster program studies. The first was done for the Ministry of Trade and Industry, nowadays known as Ministry of Employment and the Economy. The ministry requested a survey called to find out what industrial activities can be carried more successfully in Finland than in any other nation in the world. The survey was called National Industry strategy (Kansallinen teollisuusstrategia) and it found out eight cluster industries in which Finland has or should have a competitive advantage over other nations. In this survey, Pietarinen & Ranki (1993) emphasized industry and export views to determine the industries. These clusters were ranked into four different groups: Strong, Medium, Potential and Latent. The industries inside the groups are as follows together with explanations from the authors:
Strong:
- Forest cluster

Medium:
- Metal cluster
- Energy cluster

Potential:
- Telecommunication cluster
- Transportation cluster
- Welfare cluster
- Environmental cluster

Latent:
- Construction cluster

Forest cluster’s development was build on the basis of its abundant resources in Finland. Forest resources in Finland are a bit over seven times larger per inhabitant than around the world on average. That figure is expected to grow due to sensible forestry in Finland but also due to increase in desertification and population in other countries. Next to products, such as paper, pulp, etc. also machinery, accompanying services and products together with various customers belong to the forest cluster (Pietarinen & Ranki 1994, attachment 12-16).

Products from the forest cluster are worth around 40 per cent of Finland’s export activities, which totals circa $1,870 per citizen. Comparing the figures with similar figures from Sweden and Canada, under 20 per cent and $1,100 for Sweden, and 15 per cent and $600 for Canada, we can see how high the figures actually are and how important the sector is for Finland (Ibid.).

Mining & Metal cluster has roughly followed the same path as the forest cluster. In the beginning it was based on natural resources and imported technology but later these were replaced by domestic production of machinery. This development led to increase in innovation, high-end technology, system know-how and consulting services. Finland’s expertise in mining & metal is not based on mass markets but merely on specialty products due to relatively modern production technology. Although perhaps one of the main customers is shipbuilding, still 40 per cent of the exports are related to forest industry (Pietarinen & Ranki 1993, attachment 16-18).
Energy cluster has grown to be a strong industry sector in Finland due to demanding natural conditions and high-energy intensive industries, i.e. metal and forestry. Also Finland’s energy sector has acted under very competitive conditions compared to many countries and therefore has been able to create more efficient production and usage of energy. Successful exporting activities from energy cluster have been built on power plant, distribution and system technology. Cables, conductors and power plant boilers are typically exported products where market shares have been big for Finnish companies (Pietarinen & Ranki 1993, attachment 18).

Telecommunication cluster is still in its starting phase as no real and sustainable cluster structures have been built yet. But the program itself already includes building telecommunications products and services related to that. Most important products in the cluster are mobile phones and systems. The growth for this sector was influenced heavily by the standards set by regulatory bodies and demanding customers. Nowadays telecommunication is clearly the dominant industry sector in the field of electronics, as it represents around 40 per cent of the total production in that industry. In total telecommunication cluster represented fewer than ten per cent of all industrial production, although it can be seen to grow rapidly due to its heavy export oriented view (Pietarinen & Ranki 1993, attachment 19).

Environmental cluster is based on Finland’s high expertise on protection of water areas but also adjustments in environmental protection in combustion technologies in energy production and biotechnology. Typical products in environmental cluster are water chemicals, sewage refinery planning and technology. Environmental technology and methods to save raw materials are expected to grow in the near future, and therefore this cluster is seen as with high development potential (Pietarinen & Ranki 1993, attachment 20).

Welfare cluster, where the most important products are medicaments, hospital and rehabilitation equipments. In the welfare sector there are many successful international companies whose exporting is based on very high competence. Therefore, being a successful in welfare cluster means being present on niche markets rather than mass markets. Although demand is not very high, it is expected to grow rapidly in near future (Pietarinen & Ranki 1993, attachment 21).
**Transportation** cluster includes shipbuilding and their subcontractor, passenger shipping, cruises but also trucking, insurance and forwarding services. Transportation cluster is pretty scattered but there are clear structures of working clusters that are getting stronger or just about to start (Ibid.)

**Construction** cluster is an example of company and sectoral groups, which have slid into a downward spiral. Although the bases for a cluster are still there, they can only be used after a restructuring of the sector. Transportation cluster shows how demanding demand together with minor R&D leads to serious problems when the demand sinks (Pietarinen & Ranki 1993, attachment 22).

Altogether, these eight clusters in Finland totalled between 80-90 per cent of Finnish exporting activities. A precise distribution between the cluster programs is actually impossible to do as some of them are very overlapping but also their true size is very hard to estimate. Clearly the biggest cluster is the forest cluster. From Finland’s total exports forest cluster’s share is around 40 per cent, and other sectors that are related to the forest cluster is about 20 per cent. Mining & metal cluster takes about ten per cent of total exports, whereas telecommunication and energy both take five per cent (Pietarinen & Ranki 1993). Naturally many things have changed during the years of these cluster programs and today’s world.

Later, when the second Finnish cluster program for Finnish Ministry of Interior by Steinbock (2006 & 2007) was made, four main clusters were identified. He did not rank them into various groups as Pietarinen & Ranki (1993) did. The clusters based on Steinbock’s studies are:

- **Forest cluster**
  - Pulp, Paper, Paperboard & Sawn wood
- **Metal & Engineering cluster**
  - Stainless steel, Steel, Nonferrous metals & Aluminum
- **ICT cluster**
  - Mobile devices, Mobile infrastructure, Mobile multimedia & Mobile NES
- **Chemical cluster**
  - Basic chemical, chemical products, oil refining, plastic & rubber manufacturing
Forest cluster has in the light of history been the helping hand of Finland’s industry and economy. It gave the opportunity to the early industrialization and nowadays accounts to one fifth of all industrial production and a quarter of earnings from export. The Finnish Forest Industries Federation identifies the forest cluster fairly broadly. Next to forestry it consists of pulp, paper, paperboard and sawn wood industries among other industries what are related in helping these industries to succeed. In example printing, energy, logistics and packaging belong to that group. Therefore, the cluster contributes close to ten per cent of Finland’s GDP, around 30 per cent of industrial production and roughly 35 per cent of the revenues from net exporting. No other country has so big and diversified concentration of companies and know-how based on forest industry (Steinbock 2006, 72-75).

The forest cluster offers directly work for 90,000 workers and indirectly for 200,000 workers. These numbers add up to eight per cent of the total employed work force. The total turnover of the forest cluster is around EUR 35 billion and the value added is roughly EUR 12 billion. Annual growth rate of the cluster is three per cent and it is estimated that the cluster remains the biggest cluster in Finland (Ibid.).

Typical to resource-based industries, also Finland’s forest industry is not located in the metropolitan or coastal areas. Rather, forest cluster has a strong geographical position in the regions of South Karelia, Kymenlaakso, Lapland and Central Finland (Ibid.).

Metal & engineering roots in Finland date back to 1910 when deposit of copper had a significant impact on metal industry’s development. But it was World War II what led to the growth of domestic production, as in the post years of the war due to reparations metals were in high demand. Few decades after the war, companies shifted their focus to semi-finished and specialty products (Steinbock 2006, 98-101).

Metal & engineering cluster consists of close to 2,620 companies that are involved in stainless steel, steel, nonferrous metals & aluminium sectors. These companies employ around 139,500 workers. 70 per cent of the outputs are exported to over 60 countries, whereas the production sites are in about 20 countries. When measuring value added per inhabitant metal & engineering cluster rises as number one. Although large companies employ over half of the
industry’s workers and produce over half of the industry’s added value, still most of the companies in the industry are small (Ibid.).

**ICT** cluster is said to start from telecom companies and nowadays it is developed around the mobile equipment manufacturing industry. The industry is clearly dominated by a presence of a single company, Nokia. As the industry started to shift from voice communication (mobile) to data communication (IT), it is the reason why IT nowadays plays an important role in the cluster. Although Nokia has a very dominant role in the industry, the cluster is broadly defined and it includes a range of electronic and electro technical companies in mobile devices, mobile infrastructure, mobile multimedia and mobile NES. In 2005 the cluster consisted of around 560 companies and employed about 62,000 workers (Steinbock 2006, 86-89).

ICT cluster was the first cluster in Finland where knowledge played a pivotal role and materials were secondary in importance. The ICT cluster has had the biggest influence on Finland’s industry structure and geographical configuration in the 90’s. Regions that have grown significantly, Uusimaa, Northern Ostrobothnia, Varsinais-Suomi and Pirkanmaa, owe their growth in large extent to IT and communications companies (Ibid.).

**Chemical** industry is well diversified. It includes the basic chemical industry but also sectors of chemical product industries and also oil refining, manufacturing of plastic and rubber products to name few. The Chemical industry is one of the main three industrial sectors in Finland. Its gross production and value of exports are third largest among the main industry fields. In 2004, chemical industry employed around 9.2 per cent of total work force in the industrial sector (Steinbock 2006, 108-111).

In Finland the chemical cluster is concentrated in few regions, Eastern Uusimaa, Central Ostrobothnia and Satakunta. The new wave of chemical industry is said to be built upon biotechnical companies and if that happens regions what would benefit the most are Uusimaa, Varsinais-Suomi, Northern Ostrobothnia, Pirkanmaa and Northern Savo.

As many of these clusters in Finland, are not located in metropolitan or coastal areas, which is said to be typical to resource-based industries. Then based on Loewendahl’s (2001) work, efficiency seeking direct investments into Finland in any of these clusters seems fairly
unlikely, as these clusters are located neither in metropolitan nor coastal areas nor close to good transportation routes.

We can see from these two studies that the forest cluster, which in the 1993 study was the only industry states in a strong cluster group, has sustained its place and is still considered as one of the four main clusters in Finland. Also the metal cluster, which was considered as a medium cluster in 1993, has kept its status in the newer survey. Whereas another medium cluster industry from 1993, energy, has dropped from the main cluster list. Although it is possible that in the next survey energy will renew its place as one of the main cluster due to political decisions over nuclear power. ICT has increased from a potential to a main cluster in a bit over ten years. This shift can be seen as Nokia’s success in recent two decades. The last of the four main clusters found by Steinbock (2006 & 2007) is the chemical cluster. The Chemical cluster was not recognized in the earlier study and a reason for that could be EU’s chemical bureau, which was accepted into Finland in 2007 but the decision for establishing the bureau was approved already in 2006. Another cluster that existed in the first cluster program survey and are not anymore a part of the newer cluster programs are construction, welfare, environment and transportation. Steinbock (2007) continued by saying that all of these main clusters nowadays in Finland are technology driven and have strong research and development. Next to these main clusters there are several smaller clusters in Finland such as energy, construction, etc (Hakonen et al. 2009).

As the content of the Finnish cluster programs changed in 2006 when Steinbock renewed it, the expertise in some industries should have shifted to another. As cluster program’s main task is to improve efficiency, productivity and know-how and when domestic companies innovate they should attract foreign MNEs to invest into the domestic market. Therefore the investing firms from overseas should also follow the industries in the renewed cluster programs. Meaning that overseas investments into Finland between 1993 and 2006 possibly do not fully represent the same overseas investments after 2006, as the cluster programs are not totally the same. Although it is possible that the investments are done in the same industries regardless of the year, as there are some industries that are considered as a cluster industry in both of the surveys.

As cluster’s main job should be to improve efficiency, productivity and know-how and when domestic companies innovate it should attract foreign MNEs to invest to the domestic market,
therefore it is only logical to claim, that if a cluster is working properly it should attract overseas investment to the country. Knowing that Finland has emphasized several cluster programs during almost the last 20 years, these cluster industries should have generated knowledge, productivity and efficiency that awakens interest with overseas MNEs to come to Finland and take advantage of the know-how by being part of a cluster or at least invest into a cluster industry. Therefore, if Finland’s cluster programs have done their purpose, Finland should have companies from abroad that operate in cluster industries due to their extensive expertise in that industry.

As Austrian companies have invested into Finland over the years and during those years Finland has also had various cluster industries, this thesis tries to find out whether the Austrian companies have invested into a cluster industry in Finland. Therefore, the secondary research question is as follows:

**Question 2: Were the investments done into an industry what is considered as a cluster industry in Finland?**

### 3.5 Theoretical Framework

The framework of this study is based on 3 elements. Firstly, Dunning’s OLI-paradigm is taken as a basis for the Austrian investments into Finland. As OLI-paradigm is as basis it means that it will not be further investigated but rather taken as granted. Secondly, after the OLI-paradigm is met and overseas activities are decided to be undertaken as it is in all of the cases in this thesis, FDI’s strategic objectives are to be found and ranked in order of importance. As third in order and second question what this study attempts to explain is have the investments followed governmental cluster programs. In other words have the cluster programs initiated knowledge in the wanted fields in to the extent that the know-how and the expertise would attract Austrian companies to invest into Finland. This framework provides five different names for Austrian companies who operate in Finland. These names are: Opportunity Seizer, Advantage Taker, Organizers, Playing it Safe and Odd Bird. The names are invented based on the existing literature to describe different strategic investment motives. The first four of these names refer to the investments that were done into an industry what is considered as a cluster industry. The last one refers to the investments what was not counted to into a cluster industry.
A closer look will tell that *Opportunity Seizers* are companies that have invested into Finland into a cluster industry and their main reason to enter the Finnish market was the market seeking reasons. The name refers to a company that saw an opportunity to enter the Finnish market to establish them and to achieve their share of the profits in that industry. *Advantage Takers* have also invested into a cluster industry but their primary motive was resource seeking based. This means that advantage takers saw a resource in Finland that they needed and decided to get. Also *Organizers* and *Playing it Safe* have invested into cluster industries but their main motives were for the first one efficiency seeking motives and for the latter one risk-reduction seeking motives. Organizers saw an opportunity to rationalize their units when investing into Finland. Playing it safe companies invested into Finland to lower its company level, market level or product level risk. *Odd Birds*, although they have invested into Finland, they did not invest into a cluster industry. Regardless of their primary and secondary investment motives they are considered outsiders, as they do not belong to any cluster industry. This means their investment was not done industry-wise but based simply on one of the basic strategic investment motives. On the next page theoretical framework for this study can be found.
FDI in to Finland; OLI-paradigm met

Main and Secondary Strategic Objective(s) Investing

<table>
<thead>
<tr>
<th>Market Seeking</th>
<th>Resource Seeking</th>
<th>Efficiency Seeking</th>
<th>Risk-Reduction Seeking</th>
</tr>
</thead>
</table>

Investing into Cluster Industry

Investment’s industry sector between 1993-2006

<table>
<thead>
<tr>
<th>Construction</th>
<th>Energy</th>
<th>ICT</th>
<th>Metal &amp; Engineering</th>
<th>ICT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>Forest</td>
<td>Metal</td>
<td>Forest</td>
<td>Chemical</td>
</tr>
<tr>
<td>Transportation</td>
<td>Welfare</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Investment’s industry sector after 2006-

Opportunity Seizer (Market seeking)

Advantage Taker (Resource seeking)

Organizers (Efficiency seeking)

Playing it Safe (Risk-Reduction seeking)

Odd Bird (All the Motives)
4. Methodology

This chapter will discuss the methodology used in this study. It tries to explain the decisions made on how the data is gathered and why the selected companies were chosen. The chapter will start off by presenting the research approach, followed by selection of case companies, data collection and analysis methods. Also reliability and validity will be discussed in this chapter.

4.1 Research Approach

The purpose of this study is to explain what are the main and secondary strategic objectives for Austrian companies to invest into Finland, and have the Austrian investments been done into Finnish cluster industries. Therefore, according to Hirsiğärvi (2003) explanatory research is the most suitable as it attempts to find an explanation for a phenomenon, event or situation. Like in this case an explanation of strategic investment motives for Austrian direct investments into Finland

Yin (2003) says that explanatory research can be conducted using case study methods, as it allows the researcher to investigate real life events and at the same time retain its holistic and also meaningful nature. Yin (2003) continues saying that using multiple case study approach it can be even stronger than the normal case study approach. Typically in International Business interview-based multiple case studies are found as prevailing convention, close to 73 per cent of all the studies in International Business have been conducted with multiple case study method. (Piekkari, Welch & Paavilainen 2009). Eisenhardt (1989 referenced from Piekkari, Welch & Paavilainen 2009) argues that to strengthen the results the researcher would need between four and ten cases, fewer than four cases would be just unconvincing. Actually, the rationality of using multiple sources as evidence is unquestioned. It reinforces the accuracy and assurance of the results (Yin 2003). Lukka & Kasanen (1995) have criticized the single case study method approach saying no generalization can be made out of it. The same point is argued by Piekkari, Welch & Paavilainen (2009), they state that it is typical for case studies not to make far-reaching assumptions about its generalization. Although, this study explains over four cases still no far-reaching generalizations should be drawn from the results.
That is as in this thesis purposive sampling was used. The results are therefore not to be generalized.

Although both Austria and Finland are quite often in academic papers referred as small and open economy (smopec) –countries, in this study the whole smopec-view is left out. That is because the smopec-view seems fairly artificial and does not provide any extra or additional reasons what would change the nature of this study. Typically for Finland also another attribute is given, peripheral. That attribute is as well left out as both countries are located in Europe and peripheral status is always in the eyes of the viewer. Is Finland more peripheral than New Zealand or Cuba? An answer, at least a straightforward one, to that question cannot be given therefore the smopec-view is left out of this study.

This study is limited to explain solely the motives of Austrian companies that have invested into Finland. Therefore, no assumptions or generalizations should be drawn regarding this study to other countries’ investment motive into Finland or to any other country.

4.2 Selection of Case Companies

As the aim was to explain holistically the reasons why Austrian companies invest into Finland, it was an obvious choice to select all the Austrian companies who operate in Finland. The full list of companies was acquired from WKÖ in Finland, as they should keep the official data of Austrian investments in Finland. WKÖ in Finland gave a list of all the companies who to their knowledge operate in Finland.

As in chapter 3.2 discussed there are currently 21 Austrian affiliates that operate on Finnish soil. Naturally, this does not mean that there are 21 different Austrian companies who have an affiliate in Finland. That is because if a company A invests into Finland an affiliate 1, it gets its own business ID and is counted as one affiliate. For the second investment from the same company an affiliate 2, the company gets another business ID and therefore in statistics it is counted as a second overseas investment into Finland although there is still only one company from Austria who has invested into Finland. According to WKÖ these 21 Austrian affiliates in Finland are owned by 13 companies, which represent various industry sectors. These companies are:
### Table 16. Austrian Companies in Finland. WKÖ 2009.

<table>
<thead>
<tr>
<th>Name of the affiliate in Finland</th>
<th>Name of the mother company in Austria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andritz Oy</td>
<td>Andritz AG</td>
</tr>
<tr>
<td>Doppelmayr Finn Oy</td>
<td>Doppelmayr Seilbahnen GmbH</td>
</tr>
<tr>
<td>DOKA Finland Oy</td>
<td>DOKA Schalungstechnik GmbH</td>
</tr>
<tr>
<td>Eglo Finland Oy</td>
<td>Eglo Leuchten GmbH</td>
</tr>
<tr>
<td>Engel Finland Oy</td>
<td>Engel Austria GmbH</td>
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<tr>
<td>Pipelife Finland Oy</td>
<td>Pipelife International GmbH</td>
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<tr>
<td>Swarco Finland Oy</td>
<td>Swarco Holding AG</td>
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<tr>
<td>Tervakoski Oy</td>
<td>Defort group AG</td>
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<tr>
<td>Tyrolit Oy</td>
<td>Tyrolit Schleifmittelwerke Swarovski KG</td>
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<td>Tooler Systems Oy</td>
<td>Ifw Manfred Otte GmbH</td>
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<tr>
<td>Oy Uddeholm Ab</td>
<td>Böhler-Uddeholm AG</td>
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<tr>
<td>Wienerberger Oy Ab</td>
<td>Wienerberger AG</td>
</tr>
<tr>
<td>RL-Nordic</td>
<td>Raiffeisen-Leasing GmbH</td>
</tr>
</tbody>
</table>

4.3 Data Collection

The collection of data for this thesis was done in two ways, constructionist phone interviews and questionnaires (Appendix 1). The interview questions were developed based on the literature review. No pilot interviews were done when conducting the questionnaire or interview questions. As the aim was to explain the motives of Austrian companies coming to Finland, it was natural and logical that the interviews were held with the people in Austrian companies. That is because they should have the best insight knowledge why they have invested into Finland. Therefore, the interviews and questionnaires were intended to be done mainly with the Austrian mother companies rather than with Finnish subsidiaries. As Finnish daughter companies are operated with Finnish workers, and they possibly were not involved in the decision to invest into Finland. In cases where the Austrian mother company was reluctant to participate and share their views on why they have invested into Finland, the focus was turned to Finnish subsidiaries to get their view on the potential motives. In some cases the mother company instructed the author to get the required information from the Finnish subsidiary directly and not from them.

“We discussed internally who could be the best contact person for you. As we are organized in a decentralized way and acquisitions...
are driven locally (so proposed and negotiated by the local company, arguments pro acquisition defined by the local company, the headquarters are involved only at the final stage) we think that our General Manager ... is the one who could provide you best with the background on the acquisition made. He was also the one working on the acquisition project... “ Corporate communication, an Austrian mother company

The sent questionnaires and held interviews were done in English or Finnish to avoid misunderstandings although, English was not the native language for neither the interviewees nor the interviewer. All interviews were tape recorded digitally. Interviews what were done in Finnish were translated word to word but also that the meaning of the interviewed was not lost using the abilities of the author.

The collected data in this study is to be described primary data. It means that the data is collected for the first time and it includes i.e. questionnaires and observations among other methods (Chisnall 1997). In this study only questionnaires were used to collect primary data. The questionnaires were held in two different ways, firstly and mainly using personal phone interviews and secondly basic questionnaires.

Although the aim was to do a population study, it was not possible as i.e. one of the companies had invested into Finland already in the 1940’s and therefore it was impossible to gather reliable data from the company regarding their investment. Also some of the companies were not willing to cooperate by providing interview time or to answer the sent and partially prefilled questionnaire. Therefore, the aim of investigating the whole population was not reached but a good part of the companies from the total population were involved into this study. In total from the thirteen companies who operate in Finland eight took part in this thesis. These eight companies covered ten of the 21 investment cases into Finland.

4.4 Validity and reliability

Validity in research refers to the accuracy of measuring exactly the issue that is under research. In qualitative research like this study it means the compatibility of description and the related explanations as well as interpretations (Hirsijärvi et al. 2007, 216-217). Yin (1989)
presents four major criteria for judging the quality of the research design in case studies these are: i) Construct validity, ii) Internal validity, iii) External validity, and iv) Reliability.

**Construct validity** means establishing the right operational measures for the studied concepts, which can be measured in various ways. Case studies are often criticized for lack of construct validity because the measurements are seen as too objective. In order to increase construct validity three options are given (Yin 1989 & 2003): i) Multiple sources of evidence, ii) Chain of evidence, and iii) Opportunity to review the work for the informants.

In this study construct validity is increased, by using multiple sources to gather evidence that can be generalized although only for Austrian companies in Finland. Also chain of evidence is increased. Prior studies from countries are used as well as studies from Austria and Finland. In addition studies from other parts of the world are used to support the views what have empirically been found in this study. An opportunity to review the work for the informants was not given.

**Internal validity** refers to building a causal link, where some conditions are shown to lead to other condition. In other words internal validity concentrates on the logic of the research. Internal validity is a concern mainly for studies that are exploratory or causal where the researcher attempts to show a linkage between things and not for descriptive or exploratory studies (Yin 1989). As this study is explanatory study attempting to explain the strategic investment motives it also has a causal aspect with cluster programs. This study aims to identify the investment motives. Then whether the investments were done into a cluster industry and as last is there a linkage between the motives and industry.

**External validity** means generalizing the findings of the study. In other words the question is, can the findings of a study be generalized beyond that particular study. A way to increase external validity, the research design should be thoroughly thought. Also using multiple cases is a way to increase external validity (Yin 2003) both of the recommended ways to increase external validity was done in this research. Although, as in this study purposive sampling was used to determine the cases, no broader generalization should be drawn outside this study.

**Reliability** refers to the ability to conduct the exact same research by any other researcher all over again in a way that the results would not differ from each other. If the results would not
vary between the researchers it would mean that the test is reliable. To increase reliability it is important to record all the steps taken in the research so that they can be repeated. The aim is to minimize mistakes and biases from the research (Hirsijärvi et al. 2007 and Yin 1989 & 2003).

This studies reliability is increased, by providing the methods used to gather data from what sources and with what question. More reliable results could have been possible to achieve if this study was done in the native language of the author or doing the interviews in the correspondents’ native language. Another way to achieve higher reliability would have been if all the interviewed persons had familiarized themselves with the in advance sent questionnaire material.
5. Empirical Findings

This chapter introduces and discusses the strategic objectives why Austrian companies have invested into Finland. In addition whether the investments from Austria falls into the cluster program industries is provided and discussed. The aim of this chapter is to present answers to the research questions provided in chapter 1.3.

This chapter will consist of four parts. Firstly it will start of with a general overview of the empirical findings received from the questionnaires and interviews. After the general overview the four main strategic objectives are broken down and each one of them is explained more closely. As third the empirical findings from this study are compared to the six studies what were used, as an example studies in this study to verify is there a pattern for strategic objectives when investing overseas. Finally a look into the cluster programs is taken. Information whether Austrian companies who have invested into Finland are in a cluster industries and whether they feel they are a part of the cluster program, is provided.

5.1 General Overview

From the eight Austrian companies what were included in this study a clear majority made their initial investment into Finland due to market seeking reasons. In six of the eight cases market-seeking motives were stated as their primary investment motive. In addition to the many initial investments made because of market seeking motives, another company also perceived it as secondary motive. Although in this case the company stated that the market-seeking motive was not actually into Finland but markets in general. Only one company out of the eight companies interviewed stated that markets were not at all important or were not perceived as a strategic goal to aim for.

The second most important reason was the resource seeking motive when making the initial investment from Austria into Finland. Resource-seeking motives received the remaining two of the number one places what were not occupied by market seeking reasons. Furthermore resource-seeking reasons were seen twice as the second most important motive to enter Finnish market.

Efficiency seeking reasons can be seen as third most important strategic objective why Austrians have invested into the Finnish market. Although efficiency-seeking motives was not
even once perceived by the companies as the most important reason to make their initial investment when entering Finland in this survey, it was still mentioned twice as the second most important reason to make the investment. In addition one company mentioned that efficiency seeking motives were the fourth most important reason why they made the investment.

As fourth and as least important motive for Austrian companies to invest into Finland for first time investment was risk-reduction seeking motives. From the eight companies only two mentioned that risk-reduction was considered as a reason when investing. In both of these cases the importance of risk-reduction seeking motives were ranked as third most important motive.

Even if we expand the horizon and look at the total number of investment from Austria into Finland instead of looking purely the initial investments, it does not change the picture a lot. From the total of ten investments made into Finland in seven cases market seeking reasons were considered as the most important motive to make the investment. Market seeking reasons were also once perceived as second most important motive and once third most important motive. In both cases the market where the company wanted to expand to was not Finland but markets in general. So basically market-seeking motives did have a role in nine of the ten investments.

From the ten investments made into Finland by Austrian companies in three cases resource seeking motives were stated as their primary motive. In addition, twice resources were mentioned to be secondary motive. Altogether, in half of the investments resource seeking reasons were involved.

Efficiency and risk-reduction seeking motives were clearly in the background when looking all the investments. The first was mentioned twice as the second most important motive and once as fourth most important motive. The latter one was mentioned only twice by the companies and in both cases as third most important motive. This sums up that three times in ten investments cases efficiency seeking reasons did have a role, whereas risk-reduction seeking motives had a role only two times.
When looking how well the eight initial investments from Austria fall into the governmental cluster industries in Finland we can see that six initial investments were done into a cluster industry. What is worth mentioning is that only two companies felt that they actually belong to a cluster. When looking how all the investments falls into cluster industries we see that eight of the ten investments were done into a cluster industry. Still only in three investment cases the company feels that they are a part of a cluster. When expanding the view to what operations the companies have in Finland there is a correlation between all operations and the investment that was done into a cluster industry. If the company had basically only sales operations in Finland, the probabilities that they invested into a cluster industry would decrease.

<table>
<thead>
<tr>
<th>Investment into a Cluster Industry</th>
<th>Feels a Part of a Cluster</th>
<th>Operations in Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial investment</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Initial investment</td>
<td>Yes</td>
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<td>Sequential investment</td>
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<td>Initial investment</td>
<td>Yes</td>
<td>Yes</td>
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Table 17. Empirical Findings on Strategic Investment Motives by Author.

Table 18. Empirical Findings Whether the Investment Was Done Into a Cluster Industry, by Author.
5.1.1 Market seeking motives

Although the Finnish market is smaller than the market of the parent company, it did not prevent them from investing into Finland due to market seeking reasons. The clear majority of Austrian companies who have invested into Finland, whether it was their initial or sequential investment have done it with market seeking motives as their main motive. In seven out of ten investments, market-seeking reasons were stated as their number one motive to enter the Finnish market. From these seven investments in six it was the case of initial investment. This means that in six out of all the eight initial investments the reason to enter Finland was market based. One of two sequential investments was also done due to market seeking motives.

When looking a bit deeper why market-seeking motives were so dominant when investing into Finland we see that sustaining old markets and customers together with acquiring new markets and customers were typical reasons supported by several companies. As a finance and administration manager from an Austrian mother company put it, when asked what was their primary reason to enter Finnish market:

“Let’s say establish new customers market as well as sustaining already existing ones. So it was not so much a question to follow competitors but really explore existing markets.”

Also a local CEO supported this view when discussing the reasons for the company’s sequential investment into Finland:

“There market seeking reason was the main reasons (on sequential investment into Finland). Now every person who lives in Finland is a potential customer for us... we can offer the whole pallet.”

In addition to acquiring new and sustaining old markets and customers there was also a clear consensus that the Finnish market has to be operated from Finland and not from the parent company or from any other location. Although the theory suggests that being present on the market is not a market seeking motive but more of a risk-reduction seeking motive. All except one argue that it still is a market-seeking motive. Also the one verified that it is only partially
a risk-reduction seeking motive and mainly a market seeking motive. They all agreed that being present on the market helps to explore and establish the desired market and therefore should be considered as market-seeking motive. In addition, in many industries being present on the market is almost essential that the company is fully able to take advantage of the market. What is common for all of these statements is that none of them felt that risk-reduction had anything to do with the investment itself. As a region manager for Northern & Western Europe from the Austrian mother company puts it when asked why they came to Finland:

“...you can not deliver the markets from Austria, you have to be close to your customers, this would not work. Then you could do it only just in a project but not established in the market where we want to be one of the major players there. ... If we want to do business in a country, then we establish our own branch that means we an agent in a country. We have to be close to the customers. That means if we decided to work in a country we have to establish a branch there to be close to customers to be able to really gain market share to be successful in a country. In Finland I would say, it’s not a huge but quite stable market and there is a, of course we could see potential there, so we are let’s say/have in nearly all European countries we have our own branch that was also the reason to go to Finland, because this was let’s say wide market of the ultimate before... there was a decision we go to Finland because we want to establish ... in this market and be a major supplier in the ... business.”

Or as finance and administration manager of an Austrian mother company states when asked why they sell from Finland and not from Austria:

“...you are not able to sell... when you have no, or not have any locals. Because you cannot sell these ... from catalogue, you have to explain these ... from the customer side...that you really reach the perfect fit for the... of the application which
is going on at the customer site. So you need some local technical skills, sales people, you need application engineers and you for sure, especially you need the language skills. That’s why we from our in our business you always need local presentation.”

The messages from above, which were stated from the mother company is verified by a CEO of a subsidiary in Finland:

“…if you want to be in Finnish markets you have to be present and act here…”

Actually all of the Austrian companies that nowadays have made investments into Finland (looked into in this study) either with fully or with a clear majority owned subsidiaries have done business in Finland prior to their more intense engagement into the market. This means the Austrian companies have exported into Finland or been in projects into Finland and that way made themselves more known in the market and created a demand for their products. In most of these cases it was a well-planned transition towards more controlled operations but in one case it was almost inevitable if they wanted to keep their products in the Finnish market. The CEO of a subsidiary who used to work for the importer of the company’s products clarifies this:

“One reason (to enter Finnish market) was that the importer and wholesaler of our products in Finland wanted to give up the business area. In that point ... decided to establish own subsidiary into Finland. Although this was in their plans but it was supposed to happen after few years. In other words this accelerated the whole process...”

Regardless of Finland’s good location and relationship to Scandinavian countries, Baltic and Russia, a possibility of serving those markets via Finland was very small. Only two companies stated that it had a small importance when doing the decision. One by questionnaire and the other via an interview with a former CEO of a subsidiary in Finland put it this way:
“Yes, let’s say that contacts what Finland had to Russia was one (a reason) but Austrian themselves had also very good contacts (to Russia or Soviet Union). If you look at other European countries besides Finland, then the Austrian knew second best the tricks of the Russians, if not as good as Finns. Then if you look at the experience they have had with Russians, you could say that they were ahead of Finns on how to treat Russian partners. It was not visible during the work that they (the mother company) wanted to go to Russia via Finland. They trusted in their own knowledge. Could be said that they equally used both routes (to get to Russia) but they never looked that Finns would know it better than they do and therefore they would go via Finland.”

From that statement we can see that Austrians did not see Finland superior when dealing with other countries, in particular with Russia. Austria has had also a very strong business relationship with eastern European countries and Russia throughout their history. In most of the cases Finland’s role in entering to nearby markets played absolutely no role. Many of the companies that established a subsidiary into Finland established them only with sales and marketing operations and therefore the subsidiaries are fairly small by size. It would have been illogical that they would then serve other markets too. In addition, many of the markets were designed to serve only the Finnish market. Often the companies stated that they want local representatives to serve those foreign markets. One region manager of the mother company puts it this way when asked if Finland is used as a gateway to other countries i.e. Russia, Baltic or Scandinavia:

“no no no … it would not work in our kind of business.”

There is also a strong correlation between entering with market seeking motives and what operations the company has in Finland. In five of the seven investments into Finland where market-seeking motives were the main motives the company only has sales offices in Finland with perhaps marketing, service or rental departments too. Only one company who has all the operations, HR, R&D, Sales, Administration, etc. came here for market seeking reasons. That
company’s following investment into Finland was also made primarily due to market seeking reasons.

Not even once the mother company felt that their domestic markets were too small and therefore they would have invested into Finland. Also other reasons such as matching local needs, following competitors and that importing was costlier than FDI did not get actually any support from the interviewed persons. Outside the reasons in the questionnaire why Austrian companies have invested into Finland the interviewed people were not able to provide

In addition that market seeking reasons were clearly the main motive to enter the Finnish market it was also twice mentioned as a sub-reason to enter the Finnish market. Although in both of these cases the market what the Austrian company was looking for was not Finland but markets in general.

5.1.2 Resource seeking motives

As market seeking motives stole the headlines for the investments into Finland by a clearly margin it can be said that almost with as big a margin resource seeking motives are in second place. From the six initial investments two were made due to resource seeking motives. When looking at all the investments what Austrian companies made into Finland explained in this study, then three out of ten investments were done because of resource seeking motives.

Taking a closer look why resource-seeking motives were lifted so high in these two initial investments and one sequential investment we find the following reasons. Firstly the Finnish companies were highly innovative in their segments. They also had good know-how and technological advantage over their competitors. Austrian’s wanted to expand their product range as one subsidiary CEO in Finland clarifies:

“My view is that, we were before competitors. They were the biggest and most beautiful, and we were perhaps second biggest at that time. But the size didn’t matter; we were more innovative in certain areas where they wanted to expand to. Therefore, they wanted to buy us, that they could offer the whole assortment to their customers. ... At that time they
weren’t competitive in our segment, they basically wanted to increase volume and offer a whole variety of products. …Labour force and technology played a big role.”

Similar kind of views offers a former subsidiary CEO:

“At that time we (a Finnish company) were number one when looking at the market share and turnover. They (the Austrian company) were a small player, and were only in certain parts of the whole business. After a strategy renewal they (the Austrian company) wanted that own technology is a cornerstone of their business. They also wanted to expand outside their fairly small business area. The renewal of company strategy meant that they wanted to whole process. To achieve that meant acquisition. Their first big acquisition was done into USA, second one into Finland, which was significant expansion to the first investment.”

In both initial investment cases where resource-seeking motives were the main motive the Austrian company wanted to expand their product range to cover more customers. In both cases they found the required technology from Finland what was missing before. As it was unofficially and sarcastically said; in Finland engineering business was really far in R&D and Finnish people thought that the product itself sells whereas the Austrians brought sales expertise. They knew how to sell but the technological know-how was sought from Finland.

In addition to these two initial investments where resource-seeking motives were the primary motive to enter the Finnish market, also one sequential investment was done due to resource-seeking reasons. Actually there was no difference whether the investment was initial or sequential as long as the primary reason was resource seeking. Meaning in both cases the Austrian company wanted to expand their product range, so they could offer more to their customers. A former CEO of a Finnish subsidiary also supports this:

“The second investment was a continuity process for the first one. It was no so much expanding market areas but more of
expanding product range and that way strengthening their market position. (The acquired company in Finland) was a part, which led to a competence to offer a whole process, which none of others had. It built a competitive advantage, of which we took advantage of.”

In addition to these three investments where resource-seeking motives were stated as the primary motives, two other investments also received support stating that in their investments resource motives were the second most important motive. One of these investments was initial and the other one sequential. For the primary investment where resource motive was secondary no interview was done and therefore the speculation for that answer is solely based on the questionnaire.

In the questionnaire the company gave highest points to acquiring knowledge in management and in marketing. This answer can also be seen, as many other companies stated under market seeking motive. Meaning that if one wants to be in the Finnish market they have to be present there and also speak the language. Therefore, both of those answers can also be seen in a way that the company wanted primarily come to Finland (due to market seeking reasons, as this company did) and to operate in Finland they needed resources, such as skilled labour force in management and marketing to get the business to work. That is why not too much emphasizes should be put on this answer. In addition to those two points, which received the highest marks in the questionnaire the company gave medium importance to knowledge in technology. That is a bit surprising in a way that the company has only sales and marketing operations in Finland. The only logical explanation is that the company wanted skilled labour force also in sales, next to management and marketing. The sales personnel had to have required knowledge of the technology what they sell and Finland’s education level is high enough to provide such resources. Otherwise explaining, acquiring resources in technology with this company is beyond explanations.

The other investment, sequential one, where resource seeking motives were perceived as second most important motives a subsidiary CEO opens up the reasons as follows:

“That (the secondary investment) we bought for strategic reasons, that we were able to expanded operations in...
business area, a fulfilment investment. Although, the markets were most important (they still required the technology to expand), we have tried to export that know-how to Europe but it has been very small.”

Basically this investment does not vary at all from the investments where resource-seeking motives were the main motives. In both cases expanding product range so that the company was able to offer the whole pallet to their customers was the ground reason. Only in this case the company perceived the markets more important than the resource itself.

What is also noteworthy with the resource investments is that all of the companies who stated that resource-seeking motives are their main motives to make the investment into Finland have all the basic operations of a company here. Meaning that they have HR, Sales, Marketing, R&D, etc in Finland and not just a sales office which was typical with the companies that came to Finland due to market seeking reasons. Also in one of the two investments where resources were stated as second most important motive the company has all of the basic operations in Finland. That means that there is only one company of all of those who came to Finland with resource seeking reasons as their primary or secondary source of motivation, which does not have all the normal company operations in Finland but merely a sales office.

Still five out of ten investments into Finland were done completely without a thought of acquiring resources here. Typical reasons in cases were companies did not perceive resource seeking motives important with relation to their investment the interviewed persons from the Austrian mother company and from the local subsidiaries stated the following:

“..., it’s (resource seeking motives) not a reason why to go to a country ... Of course we have to think how we manage it, then you need good skilled local people to manage to run such things, ... but this is not the motive to go to a country.”
Region manager, Mother Company

“Not that, not here (when asked if resources in know-how, technology or personal had an influence on the investment
decision). Everything happens there (Austria), which is typical for all the countries.” CEO of subsidiary.

“No (when asked did resources have a role when investing), well some of the personnel came from the old importer/wholesaler but it was not a motive to establish subsidiary here.” CEO of subsidiary

5.1.3 Efficiency seeking motives
Efficiency seeking motives did not rise to such a high importance as market and resource-seeking reasons did. From the total of eight initial investments only in two, efficiency seeking motives had a role and in neither one of these cases it was the most important one. In one investment efficiency seeking motives were stated as the second most important motives to enter the Finnish market.

“Yes (Efficiency had influence), when establishing subsidiary they wanted better use of resources. Also as a company they wanted more control in marketing and distribution and less influence with the importer/wholesaler… When they established subsidiary it can be said that we became more efficient, quite a lot more.” CEO of subsidiary.

Regarding the other initial investment where efficiency motives played a role, no deeper analyses can be drawn. That is because unfortunately for that investment results are only from questionnaire, as no interview time was reached. From the questionnaire we can see that the company felt that economies of scale and scope had medium importance when making their investment into Finland. For all the other possible efficiency seeking reasons provided in the questionnaire the company marked not at all important.

In addition to the two initial investments where efficiency played a role, also in one sequential investment it was stated that efficiency motives were in their mind. Although the motive was secondary it was still considered as an influential one
“From efficiency point of view yes. In Finland we achieved some synergies between our units. We still had our own IT-systems in both companies and operational units were in different location, so it was small synergies. Later these IT-systems were unified, costs of R&D were more evenly spread for bigger volume, but not at the time of the investment.”

CEO of subsidiary

As we see efficiency-seeking motives do not always happen immediately, although they would be on the mind when making the investment. Like investments in general, the motives are to be made in the long run.

Besides these three companies, none of the firms stated that efficiency-seeking motives were in their mind when investing into Finland. In some cases it was even argued that perhaps after the acquisition some efficiency was lost because a big company brings their own working methods to slow down the innovative small company’s working methods. As one CEO of a subsidiary says regarding efficiency for a sequential investment they made into Finland:

“Yes, or actually a small business is extremely rationalized. We brought more administration via our systems, and these systems strangle them (more than without them). We brought code of conduct to them.”

Otherwise most of the companies stated that efficiency seeking motives did not play any role when investing into Finland, at least at the time of investment. One local CEO says:

“At the time when they planned to acquire us, and when they did acquired us, it was not discussed (efficiency motives). Now few years afterwards, we have done some efficiency moves but they are not the main thing, more like secondary stuff.”
5.1.4 Risk-reduction seeking motives

The last of the four motives presented in this study is risk-reduction seeking motives. These motives also received the smallest support from the companies. Risk-reduction seeking motives were not even once selected as company’s main motive to enter the Finnish market. Neither was it selected as the second most important motive. From the eight initial investment risk-reduction motives was mentioned only once as third most important motive. Unfortunately no interview time was reached with this company so the analysis of this answer is based on the questionnaire alone.

In the questionnaire, being present on the market received highest points from this company. Although the company stated that being present on the market is vital for them it does not necessarily mean that it is due to risk-reduction seeking reasons even though the questionnaire would suggest so. As we have seen from the other companies, being present on the market is not perceived as risk-reduction but merely to be present and fully benefit from that market. Actually it is almost a necessity to fully operate in Finland as many products can only be sold on the spot. In addition, being close to competitors was marked with second highest importance. This reason is not so easily turned to something else. Being close to competitors cannot actually be seen as expanding operations to new markets neither does it sound like acquiring resources, unless it is via clusters in R&D. In this case also that can be left out as the company only has sales operations in Finland. Being close to competitors is also hardly an issue of efficiency or cost minimization, as one does not typically follow its competitors to decrease economies of scale or scope or rationalize company’s own units. Therefore, the actually only logical option for being close to competitors is to reduce company’s market risk. All of the other possible reasons relating to risk-reduction received the lowest points, not at all important, in the questionnaire.

In addition to this one initial investment where the risk-reduction seeking motive was stated as third most important motive when investing into Finland, also in one sequential investment it was perceived as third most important motive. When asked why the investment was also seen as risk-reduction for the company the answer was none of the possible answers provided in the questionnaire but something else. A CEO of a subsidiary opens up the meaning behind risk-reduction motive:
“Yes (risk-reduction was a reason for secondary investment), we were able to offer the same what our competitors offered. But it was secondary reason, mainly we wanted into this field and it suits in our business.”

In other words the company wanted to reduce its market risk so that they were able to offer the same as its competitors did. This would mean that in more demanding and comprehensive projects the company would not be left out as it had at least the same product range as its competitors had.

Typically the companies who invested into Finland did not see risk-reduction motives at all important. Often the answers from either mother company in Austria or a subsidiary in Finland sounded like this:

“Not really no, I would say so (whether risk-reduction motive was in their mind).” Region manager northwest Europe, Mother Company.

“No (risk-reduction did not play a role), they control the whole process from Austria. They have a very strong brand and Finland is small for them, even marginal.” CEO of subsidiary

5.1.5 Comparison to previous studies

When comparing the results from this survey to the results what have been received from previous and fairly similar studies why Austrian companies invest overseas, namely Bellak & Luostarinen (1998) and Altzinger (1998), we can state the following. In all of these studies, the main motive why Austrian companies invested abroad is based on market seeking motives.

Where the differences arise is in other motives i.e. efficiency seeking motive was marked by Bellak & Luostarinen as fifth most important reason for Austrian companies to go abroad. In Altzinger’s study efficiency seeking motives did not have any influence when investing.
overseas. In this study efficiency seeking motives where the third most important motivation group after market and resource seeking motivation groups. Naturally these results are not directly comparable because in this study there are only four possible motives as the reasons are grouped into four distinctive motives. In the other two studies the reasons were left alone and not grouped into four main motives.

If we look how important resource seeking motives were between these three studies we will see that in Bellak & Luostarinen’s study resources were not ranked in top-5 motives to go overseas. Altzinger stated that in some industries resource seeking motives play an important role. Altzinger’s view gets support from this survey. In certain industries resource seeking motives play an important role when deciding on the overseas investment. In case of Finland there is a correlation between governmental cluster programs and that investments were done with resource seeking motives. In the cluster industries the investments were more typically done due to resource seeking motives than into industries that were not part of a cluster program.

Regarding risk-reduction seeking motives Bellak & Luostarinen found out that they were actually the second most important reason for Austrian companies to invest overseas. Altzinger did not concur to this argument. In Altzinger’s work risk-reduction seeking motives did not have any influence. Once again this study is closer to the views of Altzinger than Bellak & Luostarinen’s. Risk-reduction can have a small role when investing from Austria into Finland but it is very minor. Perhaps Finland is seen as a too close country to invest because of risk-reduction reasons, as that was the case in Altzinger’s study. Could be that only when investing to different continents such reasons comes up because EU is very homogenous in terms of rules in trading.

Although these studies did vary from each other to a certain extant i.e. both of the previous studies provided only about five main reasons why Austrian companies invested overseas. The studies did not group reasons under strategic investment motive groups as was done in this study. Still the overall results are amazingly similar to a great extent why Austrian companies invest overseas. In all of these studies market seeking motives were clearly the main motive when making the investment decision. Also resource seeking motives received some support especially in certain industries. Efficiency and risk-reduction seeking motives were almost clearly secondary, if even that.
When comparing results from this study with results from the other studies provided in thesis, FDI into Poland, Lithuania, Turkey and South & Southeast Asia, we see also some similarities. In most of the cases the investments were done due to market seeking reasons but what differentiates Finland from the other countries is that into Finland there were only very few investments done where efficiency seeking motives were in the background and even fewer investments where risk-reduction motives had a role. Perhaps Finland’s high wage level among others had an influence why only in few investments efficiency was mentioned. Also the lack of risk-reduction seeking investments could perhaps be explained by the fact that all the investments in this study were done inside Europe. That is why the investments were perhaps not destined to reduce company, market or product level risk. Instead resource seeking reasons were something that other countries, outside Lithuania, did not actually receive. This could mean that in Finland are certain resources whether tangible or intangible what overseas companies see tempting. Perhaps governmental cluster programs have had a role in certain industries that they master their knowhow and that has caused the inflow of resource seeking investments into Finland.

Altogether, this study verifies that most of the investments are done due to market seeking reasons. In some cases resource seeking reasons played a part, especially in industries where are resources what are interesting for the investing companies. Efficiency seeking and risk-reduction seeking motives were typically seen very secondary.

5.1.6 Cluster

When looking at how well the eight initial investments explained in this study, we can see that a very clear majority of those investments were done in the field of the governmental cluster programs stated in chapter 3.3.1. From the total of eight initial direct investments into Finland a massive six were in an industry sector what is categorized as a cluster industry at the time of the investment. From the table 18 it is visible if the investment was done into a cluster industry, if they feel that they are a part of a cluster and what operations they have here.

In Finland there have been two different cluster programs. Pietarinen & Ranki did the first one in 1993. It stated four different cluster groups; strong, medium, potential and latent. These
four groups consisted of eight different industries. During this cluster program Austrian companies invested into Finland six times. From these six investments five were made into an industry what was classified as one of the cluster industries. What is surprising is that only two of these companies felt that they are a part of a cluster. The first one simply stated that yes they belong to a cluster, without providing a further explanation. What is noteworthy here is that this specific company has only sales and marketing operations in Finland. Therefore it is very questionable how they actually benefit from the cluster as they do not develop or manufacture anything in Finland. Only option left is that customer base is collectively concentrated near the cluster and via that the company benefits and feels the belonging to a cluster. Actually this company stated that they came into Finland solely due to market seeking reasons.

The second company what stated that they are part of a cluster has all the normal company operations in Finland. They said that cluster had an influence it enabled them to be part of the cluster and via that to be closer to its customer. Also competitors had an influence.

During the second version of Finnish cluster programs in 2006 by Steinbock, the groups such as strong, medium, potential and latent were left out and all what was left was the industries themselves. After the cluster program renewal only two investments were done. The other was done into a cluster industry field, whereas the other one was not. When asked from the company, which made the investment in an industry that was specified as a cluster industry in Finland whether they feel that they belong to a cluster the answer was a simple no.

What is really noteworthy is that all the three investments where the resource seeking motive was company’s main motive to enter the Finnish market belong to a cluster industry. Although one company that made such a resource based investment into Finland into a cluster industry stated that they are not a part of a cluster. Another company what made two investments into Finland both due to resource seeking motives felt like they belong to a cluster in Finland.

If the company made its investments into Finland based on market seeking reasons, then four out of six initial investments were done inside an industry what is specified as a cluster industry. In one of these investments the company felt that they actually belong to a cluster
industry while the remaining three did not. When asked from a company that invested into Finland due to market seeking reasons if they are a part of a cluster was as follows:

“No no no. I mean they are our customers, at the end of the day we are, we need these customers but this cluster, I would say no.” Region manager northwest Europe, Mother Company.

Regarding efficiency seeking motives in initial investments it can be stated that when efficiency was perceived as second most important motive to invest into Finland the company did not invest into a cluster industry and therefore was not able to be a part of a cluster. The other initial investment where efficiency received importance, fourth most important, the investment was done into a cluster industry but the company felt that they are actually not a part of a cluster. Neither of these companies have all the basic operations in Finland but merely sales and marketing. One sequential investment into Finland also had efficiency motive as second most important motive. This company made the investment into a cluster industry and they felt that they are part of a cluster. They said that the cluster had an influence and via the investment they were able to be a part of that cluster. This company had all normal operations in Finland and not just a sales office.

There was one initial investment, which included a risk-reduction aspect. This investment was done in a cluster industry but the company felt that they are actually not part of a cluster. In addition this company did only have sales and marketing operations in Finland. There was also one secondary investment made into Finland where risk-reduction aspects were included. Also this investment was done into a cluster industry but yet again in this case the company stated that officially they do not belong to a cluster. This company had all typical operations in Finland.

When looking what operations the Finnish subsidiaries have and whether the investment was done into a cluster industry we see some correlations. If the company did not have all operations in Finland but merely sales and marketing functions the figure whether the investment was made into a cluster industry decreases dramatically. But if the company had all the operations in Finland then also the investments were done into a cluster industry but
still only one felt that they are a part of a cluster. A company that had all operations in Finland but felt that they did not belong to a cluster put it simply like this:

“Not officially (when asked do you belong to a cluster). CEO of subsidiary.

If the company had only sales operations with marketing, etc. function then only three investments out of five were done in a cluster industry and only one felt that they belong to a cluster.

Based on these results we can see that there is a correlation between investment motives and if the investment was done into a cluster industry. We also see a correlation whether the investing company has all operations in Finland or simply a sales office with marketing or other similar function. If the investment was done with main motive being resource seeking, it is very likely that the investments were done into a cluster industry. If the investments were done due to some other reasons than resource seeking reason, then the probability that the investments were done into a cluster industry decreases significantly. Same thing happens when looking what operations the company has in Finland. If the company has all operations in Finland it is very likely that they have invested into a cluster industry. If the company does not have all operations in Finland the likelihood decreases that the investments were done into cluster industry.
6. Conclusion

Based on the empirical data collected in this study it can be said, that clearly most of the Austrian companies looked into in this thesis came to Finland due to market seeking reasons. Typical reasons for that are to sustain old customers and markets. Acquiring new customers and markets is also seen important. Other reasons related to market seeking motives received only small support from the companies. In addition to the possible market seeking motives provided in the questionnaire many, almost all, companies stated that if they really want to operate in Finland, explore and exploit the Finnish market they have to be present on the market. Although that reason is typically by scholars categorized as risk-reduction seeking motive the answerers argued that it is not. They felt that it is simply market seeking motive.

As market-seeking motive was a clear number one motive for Austrian companies to enter Finland, as clear was the second most important motive. That is resource seeking motive. Mainly Austrian companies invested into Finland to acquire technology to complete their product pallet. Some support received also knowledge in management and marketing. Other reasons were left fairly untouched. Efficiency and risk-reduction seeking motives are not to be considered a reason for an Austrian company to invest into Finland, at least as a main motive. Both of these motives received some support as secondary motive but that was very minor.

This means that most of the Austrian companies have invested into Finland to increase their markets and to acquire new customer. Also a small part of the companies want to acquire technological knowhow from Finland. Finland is not a place to invest to increase efficiency or to reduce market or company level risk.

What is also visible is that most of the Austrian companies that have invested into Finland have invested into an industry what is considered as a cluster industry. In eight times out of ten investments were made into a cluster industry what was reigning at the time of the investment. When looking purely the initial investments then the figures are six investments out of eight. When investigating whether the company felt being a part of a cluster the figure decreases dramatically when compared if the investment was just done in a cluster industry. In only three investments out of ten the company felt that they belong to a cluster. If only the eight initial investments are looked then in two investment cases the company felt that they belong to a cluster.
Overall regarding their primary reasons for entering the Finnish market the Austrian companies can be categorized into two groups; Opportunity seizers and Advantage takers. From these two Opportunity seizers take clearly the bigger part. When looking secondary reasons the variation is bigger but typically the secondary reasons can be grouped as follows: Advantage takers and Organizers with the biggest share, whereas few companies can be categorized into playing it safe group. Table 19 shows the results why and how Austrian companies have invested into Finland over the years.

<table>
<thead>
<tr>
<th>MS</th>
<th>RS</th>
<th>EF</th>
<th>R-RS</th>
<th>Investment into a Cluster Industry</th>
<th>Feels a Part of a Cluster</th>
<th>Operations in Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>I</td>
<td>II</td>
<td>I</td>
<td>No</td>
<td>No</td>
<td>Sales, Spare parts &amp; Service</td>
</tr>
<tr>
<td>I</td>
<td>II</td>
<td></td>
<td>I</td>
<td>Yes</td>
<td>No</td>
<td>Sales &amp; Renting</td>
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<tr>
<td>(II*)</td>
<td>I</td>
<td></td>
<td>(II*)</td>
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<td>Yes</td>
<td>All</td>
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<tr>
<td>(III*)</td>
<td>I</td>
<td>II</td>
<td>(III*)</td>
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<td>II</td>
<td>IV</td>
<td>III</td>
<td>Yes</td>
<td>No</td>
<td>Sales</td>
</tr>
<tr>
<td>I</td>
<td>II</td>
<td>IV</td>
<td>I</td>
<td>Yes</td>
<td>Yes</td>
<td>Sales &amp; Marketing</td>
</tr>
</tbody>
</table>

MS=Market seeking, RS=Resource seeking, ES=Efficiency seeking, R-RS=Risk-Reduction seeking (*Not into Finnish market)

Table 19. Empirical Findings by Author.

When looking what implications we could draw from these results, we could say the following, at least regarding to investments from Austria. To be more attractive for market seeking investments (opportunity seizers) Finland cannot do much. That is because the population restrains very much how marginal Finland’s market place is perceived even though spending per person could increase the attractiveness. Finland will never be able to catch up to the large populated countries. That is why Finland will without dramatic changes stay as a marginal country for foreign investors when looking solely at markets.

The second most important reasons were resource seeking motives (Advantage taker). Unlike with opportunity seizer for advantage takers there is something what Finland can do. Typically when Austrian companies invested into Finland based on resource seeking reasons it was actually always done in an industry what was categorized in Finland as a cluster industry. This would imply that the clusters have potentially had an influence in acquiring
foreign direct investments into Finland. Unfortunately only few companies felt that they are actually a part of a cluster. This statement makes wonder whether the clusters are actually able to create knowhow of such a high standard that foreign companies would consider Finland as a place to increase their own knowhow. At the moment the results would not imply that. Perhaps Finland should continue to decrease its cluster programs as it did between the two cluster programs it has had, namely from Pietarinen & Ranki and Steinbock. Could be that at the moment there are still too many cluster programs that are not bringing the expertise in knowhow what is expected from them. Maybe it could be wise to remove few cluster industries that are actually not too important for Finland and concentrate on those that are and on what the best expertise could be built upon. Doing that Finland could position itself clearly on a certain niche industry or industries where expertise would be recognized worldwide.

Regarding efficiency seeking motives (Organizers) Finland cannot be seen as too interesting country. The costs to operate in this country simply pale when comparing to really low cost countries in other continents or even inside Europe. Economies of scale and scope can be done in other countries with much better results. In addition to that Finland is not the most economic country in the region, taxes are high and workers are paid well are just few reasons why cost minimization reasons do not apply in Finland. That is why it is hard to see that Finland would compete with other countries in offering more cost efficient options.

Risk-reduction seeking motives (Playing it Safe) into Finland were clearly a sub reason in investment what were done from Austria. The most likely reasons for that is that both countries are located in Europe and are part of European Union. For the investments inside Europe Union the likelihood that they are done due to risk-reduction seeking motives is very small. Also as the countries in Europe are very stable politically and economically Finland does not have an edge over the other European Union countries when the investment decisions are made into Europe. In addition as the markets are so small the reasons for being close to your competitors’ decreases. That is because the market is not perceived as important compared to many other markets.

6.1 Suggestions for Future Research

As this study focused solely on Austrian companies and what are their strategic motives when entering into Finnish market. A suggestion for further researchers to do population studies on other European countries as well as countries with bigger geographical distance are
recommended. Although these studies do not directly bring knowledge why Finland is the target country for new investments it would still give some helpful information what Finland has to offer. That can be market area, exceptional resources and more efficient environment for operations, risk-reducing platform or many other reasons.

Another suggestion for further studies is to investigate thoroughly how governmental cluster programs have worked. Not solely on how have they succeeded in developing new knowledge or expertise in their field but also how well they have been able to attract foreign investments into Finland. Study should perhaps not concentrate on investments from one country but on a certain time horizon. The first with the initial governmental cluster program by Pietarinen & Ranki from 1993 until 2006 and another study with Steinbock’s cluster programs from 2006 onwards.

With these studies Finland would gain beneficial and constructive information how to build their country. Knowing such critical information as what Finland has to offer and how well do the cluster programs generate expertise in their fields would be more than valuable when deciding in which direction Finland should guide itself in the future to stay competitive in global markets. If a country does not know its strengths then it cannot guide itself to success. If a country knows its strengths how to use them and even how to enhance them then the country is on the right track to success in the future.
7. References


and Business Administration, Business and Research and Development Center and Institute for East-West Trade, Turku.


Korhonen, K. (2001). Role of government intervention in foreign direct investment: Case of South Korea, Helsinki School of Economics.


**Internet References:**


http://countrystudies.us/austria/56.htm(visited 5.7.2010)
7.1 Appendices

Appendix 1

Questionnaire
Background information on the parent company:

Please go also through the prefilled parts!

Name of the company: Prefilled

Contact Person: Prefilled

Telephone number: Prefilled

Email: Prefilled

Post address: Prefilled

Date of Answer:

Main industry of the firm (Please select one): Prefilled
Forest
Metal & Engineering
Energy
ICT/Telecommunication
Transportation
Welfare
Environmental
Chemical
Other, what?

Background information on the Finnish unit:
Name of the company: Prefilled

Address: Prefilled

Year of investment? Prefilled (When possible)

Was there exporting before the investment? Yes / No

Way of establishment (Please select one):
Greenfield
Acquisition
Merger
Joint venture
Other, what?

Ownership share (Please select one):
100 per cent
Majority >50 per cent
50 per cent
Minority <50 per cent

Main industry of the firm (Please select one): Prefilled
Forest
Metal & Engineering
Energy
ICT
Transportation
Welfare
Construction
Grocery
Chemical
Other, what? Paper industry

Main functions of the Finnish unit (Please select what apply):
R&D
Marketing
Sales
Information Systems & IT
Human Resources Management
Manufacturing
Other, what?

**Strategic objectives of the investment**
Strategic objectives refer to reasons what have influenced the investment decision in to Finland. How important were the following reasons. (Please state with a number between 1-5 where 1= not at all important and 5= very important)

**Expanding operations**
- Sustain old customers 1 2 3 4 5
- Markets 1 2 3 4 5
- Establish new customers 1 2 3 4 5
- Markets? 1 2 3 4 5
- Demand from Finland? 1 2 3 4 5
- Follow competitors 1 2 3 4 5
- Match local needs 1 2 3 4 5
- Import costlier than FDI 1 2 3 4 5
- Domestic market too small 1 2 3 4 5
- Using Finland to get to Russia 1 2 3 4 5
- Baltic 1 2 3 4 5
- Scandinavia 1 2 3 4 5
- Other, what?

**Acquiring resources**
- Knowledge in management 1 2 3 4 5
- In technology 1 2 3 4 5
- In marketing 1 2 3 4 5
- Other, what?
- Raw material 1 2 3 4 5
<table>
<thead>
<tr>
<th>Category</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>Acquiring skilled workers</td>
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<td>Physical resource</td>
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<tr>
<td>Labour</td>
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<td>Technology</td>
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<td>R&amp;D</td>
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<td>Other, what?</td>
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**Cost minimization**

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<tr>
<td>Economies of scale</td>
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<td>Economies of scope</td>
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<td>Was Finland the most economic</td>
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<td>place to match demand in this region</td>
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<td>Being present on multiple product market</td>
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<td>Rationalization of company’s units</td>
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<tr>
<td>Decrease costs</td>
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<td>Other, what?</td>
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**Risk-reduction**

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<tbody>
<tr>
<td>Being present on the market</td>
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<td>Fluctuations in demand/supply</td>
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<td>Changes in government</td>
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<td>Competitors</td>
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<td>Operational flexibility, between manufacturing places</td>
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<td>(Not all eggs in one basket)</td>
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<td>Being close to competitor</td>
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<td>Other, what?</td>
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