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**ATTRACTING INVESTMENT IN  
REGIONAL ECONOMY**

**Alise Mačtama**





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Discussion paper No 5

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Centre for Entrepreneurship, Innovation and Regional Development  
at Ventspils University College  
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# **ATTRACTING INVESTMENT IN REGIONAL ECONOMY**

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2013

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## **Abstract**

This study explores improvements of foreign direct investment attraction opportunity to Ventspils City. The Paper draws on five case studies – Ventspils City Council’s and Free Port of Ventspils Authority’s experts’ opinions about investment attraction opportunities, as well as there were made three attracted investment case studies with industrial companies in Ventspils, which started their operations as foreign direct investors. The companies are as follows: Bucher Schoerling Baltic Ltd., a municipal car manufacturer; Malmar Sheet Metal Ltd, a metal part producer for heavy machinery; and EUROLCDs Ltd, an LCD monitor manufacturer. This study outlines the foreign investor’s motivation to choose Ventspils City as its investment destination, Ventspils City key benefits which help to attract foreign industrial companies, as well as the Paper explains potential measures to increase the investment amount. Findings have also some implications for policy makers.

**Key words:** foreign direct investment, regional economy, Ventspils City



## **1. Introduction**

Nowadays, which is possible to characterise as an era of globalisation, more and more companies all over the world consider possibilities to spread internationally and choose to start their entrepreneurship in one of the world's marketplaces which makes it possible to economy time, money and allows using trade opportunities and the preferences of the geographic location. The main factors which initiate globalisation are free product movement, capital restriction reduction and technologic progress of communication, information technologies and transport. In the era of open country economics for every company the world is like a single marketplace. Already in 1897 a word „globalisation” was mentioned when describing the importance of big international companies (Russell, 1897), which means that economists at that time were thinking about growth opportunities which are hidden in the ability to look at the world much wider.

Multinational companies and foreign direct investments are very important global commerce elements. In few past decades foreign direct investment amount exceeds export increase. Many countries have pulled down barriers and prejudices regarding foreign direct investment and transform their strategies to attract them (Batiz, Oliva, 2003). At the same time the importance of foreign direct investment continues to differ in countries. Development countries are worried about investments received as much as about those which are not. There is the fear of exploitation, on the one hand, and wish to gain foreign capital, management skills, and technologies, on the other hand. In industrial countries foreign direct investments allow to create new workplaces, but at the same time foreigners want to control the economy and influence the national safety. However, the World Investment Report 2012 states that foreign direct investment has economic stimulating effect given that the process is sustainable.

In the 21<sup>st</sup> century emerging markets mainly consider India, China and Japan, but also the Baltic States after gaining their independence gradually attract investors' interest. Mainly



because of its geographic location Latvia in the past few years was able to raise important investment amounts. In 2011 the amount of accumulated foreign direct investments in Latvia reached EUR 9.3 billion (a portal for data on the Baltic States: <http://balticexport.com>), which confirms Latvia's success in the global market and also the fact that the world has started to consider Latvia as an independent and economically stable country.

Ventspils is one of the biggest port cities in Latvia, it is located by the Baltic Sea and has all the desire and opportunities to become one of the most industrially developed cities in Latvia. Ventspils City Council and Free Port of Ventspils Authority are seeking the best ways to attract even bigger interest of foreign direct investors, which would help to create new workplaces and balance incomes of municipal budget. Both institutions would like to raise Ventspils City's competitiveness, which will also help to maintain regional development balance in Latvia. The aim of the research is to prepare recommendations for Ventspils City to improve its efficiency when it comes to attracting foreign direct investments in the long term.

In order to reach the goal the author studied various theoretical literature. Attention is paid to different foreign direct investment term analysis. The author also gives insight into different foreign direct investment theories, which are classified from the traditional, modern and radical point of view. Nevertheless, the factors, which influence foreign direct investment, are very important. To describe these factors the author uses Dunning's eclectic paradigm, or the OLI-model, which explains three main benefits from the foreign direct investment: ownership advantages, location advantages and internalization advantages. Eventually, foreign direct investment is also connected with geographic obstacles; therefore, Richard Florid's theory of the creative class is used to explain which factors – hard or soft – are affecting foreign direct investment the most. The author also introduces the latest statistics about foreign direct investment flows in the world and in Latvia and, of course, the investment environment in Ventspils City, which has experienced rapid development from the time when Latvia gained its independence.



After the theoretical and statistical analysis five case studies are provided. First two case studies reveal two main institutions, which are responsible for investment attraction in Ventspils, as well as reveal opinions about investment attraction to Ventspils City. Ventspils City Council Economic Department Manager Laimonis Strujevičs and Free Port of Ventspils Authority Marketing and Development Department Manager Igors Udodovs reflect the main advantages and disadvantages of Ventspils' investment environment, as well as reveal some future perspectives in the investment development area. These two institutions' opinions are followed by three foreign companies' managers' opinions and reasons why they chose Ventspils as their investment destination.

Finally, by summarising analysis and research data, conclusions and proposals are made, as well as new ideas for attraction of investors in existing economic conditions are presented. As a result, some recommendations were made for increasing efficiency of investment attraction in Ventspils City.

## **2. Theoretical Framework**

In order to secure companies' balanced cash flow different efficiency events should be initiated. More and more companies all over the world see the key of success in the possibility to start their business in different countries, which can provide better natural resources, tax policy, employee availability and other conditions which are better than in their home country. Foreign direct investment is one of the ways how to get to other countries' markets and use their preferences. The role of foreign direct investment is constantly increasing and one of the opinions is that it helps to modernize national economy and stimulates its growth (Grossman, 1991, Helpman, 1995).

The term of foreign direct investment is very wide. But mainly all definitions include two main features – foreign direct investment is connected with at least two different countries and there is the accent on ownership and control. Each author interprets these elements differently, though. „Historically, foreign direct investment is resource-based activities, such as agriculture plantations and mining, has been very important. More recently, much





investment has been channelled into service-based activities such as banking, insurance, and tourism.” (Toyne, Walters, 1993:43).

British authors define foreign direct investment as „the exercise of control over decision-making in an enterprise located in one country by investors located in another” (Sodersten, Reed, 1994:469), however, other authors highlight that foreign direct investment occurs when a company invests directly in facilities or assets to produce and/or market a production in a foreign market” (Hill, 2000; Griffin, Pustray, 1998, Moosa, 2002). „Under U.S. regulations, foreign direct investment occurs when an investor owns at least 10 percent of voting stock of a foreign company” (Griffin, Pustray, 1998; 782, Moosa, 2002:1). Neil Harris (1999) describes foreign direct investment as investment „which involves establishing a subsidiary business by the construction of factories, offices or other commercial or industrial premises; or the acquisition of existing ones, for example as a result of privatisation”.

World Bank defines the foreign direct investment concept as “the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor”. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments (Foreign direct investment, net inflows databank: <http://data.worldbank.org>). But „The Economist” magazine experts note that foreign direct investment is a process of investing directly in production in another country, either by buying a company there or establishing new operations of the existing business („The Economist” business magazine: [www.economist.com](http://www.economist.com)). In United Nations’ World Investment Report 2012 was stressed that when it comes to foreign direct investment the interest is usually long-term outside the home country, as well as the control of the process is quite high.

Looking at the past of foreign direct investment it is possible to say that this concept is closely connected with portfolio investment – capital flow from one country to another.

Foreign direct investment is more complicated than portfolio investment, because it is connected with technology, management and organisational skills (Piggott, Cook, 1999).

The importance of foreign direct investment is the reason why different theories were developed. Authors classify theories differently but one of the most popular classifications from Piggott and Cook (1999) is division in traditional, modern and radical theories. Table No.1 presents the grouped theories.

**Table No.1. Foreign Direct Investment Theory Classification**

Name of Theory	Description
<b>I Traditional theories</b>	
Capital arbitrage theory	Direct investment flows from countries where its profitability is low to countries where it is high. Capital is mobile both nationally (across industries) and internationally (across national boundaries) (Pigott, Cook, 1999).
International trade theory	Countries will specialise in the production of, and export, those commodities which make intensive use of the country's relative abundant factor. (Pigott, Cook, 1999, Sodersten, Reed, 1994).
<b>II Modern theories</b>	
The Hymerian theory	Multinational company as a monopolist/ oligopolist in product markets, investing in foreign enterprises in order to eliminate competition. Multinational companies were able to compete in a foreign market because it possessed an advantage over domestic companies. Such advantage could arise from imperfections in commodity or factor markets (Pigott, Cook, 1999: 263).
The product-cycle model	A company tends to become multinational at certain stage of its growth. At the early stages of the product cycle, initial expansions into overseas markets are implemented by means of export. Once the product has been developed, the company may decide to look overseas for lower-cost locations and new markets (Sodersten, Reed 1994, Harris 1999, Moosa 202).
The internalisation theory	Often when foreign direct investment is growing in high-technology-intensive manufacturing industries, the integration of research and development with production and marketing is crucial. Imperfections provide for the company an incentive to internalise (Pigott, Cook, 1999). Faced with imperfect external markets, companies may choose to internalise by using backward and forward integration (Sodersten, Reed, 1994, Moosa, 2002).
Dunning's eclectic theory or the OLI-model	The OLI-model includes three main elements: ownership, location and internalisation advantages. Company extends its activities to another country because it can use location advantages. Foreign company can compete with the domestic company of host country because it uses ownership advantages. The company chooses foreign direct investment instead of exporting and licensing because it uses internalisation advantages (Dunning, 1981, 1983).

Oligopolistic rivalry	Knickerbocker (1973) raised a theory that if one market leader goes into a foreign market, the other one is also forced to follow in order to keep its competitive advantage.
<b>III Radical theories</b>	
International diversification	The risk exposure of companies can be reduced by investing in a number of countries, whose national economic cycles are not correlated. A company escapes dependence on a single national economy (Toyne, Walters, 1993).
Radical theory	Multinational corporations are an instrument of economic exploitation, political instability and environmental damage due to their relentless search for profit and enormous economic and political power (Pigott, Cook, 1999).

Foreign direct investment is mostly divided into two types – horizontal and vertical (Batiz, Oliva 2003, Moosa, 2002), but other authors offer also a third type – conglomerate foreign direct investment.

**Horizontal** foreign direct investment is investment in the same industry as a company operates in at home (Hill, 2000, Moosa 2002). **Vertical** foreign direct investment performs different stages of the production process in different countries and generates intrafirm trade (Batiz, Oliva, 2003). Vertical foreign direct investment takes two forms. Backward vertical investment into an industry abroad provides inputs for a company's domestic production processes. Forward vertical investment is investment into an industry abroad that sells the outputs of a company's domestic production processes (Hill, 2000). **Conglomerate** foreign direct investment is related to companies that operate in their business sphere (Batiz, Oliva, 2003). They combine both the vertical and horizontal investment (Moosa, 2002).

Another possibility to classify foreign direct investment is division into its types. Moosa (2002) divides foreign direct investment into three types: import substituting, export increasing and government initiated. British author (*Harris, 1999*) considers that foreign direct investment is possible to establish through a subsidiary, acquisition of a business, for example, through privatisation, joint venture or licensing. Special literature more likely outlines three the most popular types (Griffin, Pustay, 1998, Moosa 2002) – greenfield strategy; brownfield or acquisition strategy and joint venture.



**Greenfield strategy** involves starting new operations from scratch. “The firm buys or leases land, constructs new facilities, hires and/or transfers in managers and employees, and then launches the new operations” (Griffin, Pustay, 1998: 437). Greenfield investment involves problems when home and host countries are very different or construction project is already done in the home country. Nevertheless, this strategy is the most popular one. Companies are able to appreciate opportunities and freedom provided by this strategy.

Second foreign direct investment strategy is **brownfield, or acquisition strategy**. This strategy implements acquisition of an existing firm conducting business in the host country. Foreign investor overtakes company but renews almost all equipment, changes employees and product line (Moosa, 2002). Although the actual transaction may be very complex due to involving bankers, lawyers, regulations, mergers and acquisition specialists from several countries, the basic motivation for this strategy is quick obtainment of the control over the acquired firm’s factories, employees, technology, brand names, and distribution networks. Unlike greenfield strategy, the acquisition strategy adds no new capacity to the industry. In times of overcapacity, this is a benefit (Griffin, Pustay, 1998).

**Joint venture** is created when two or more companies agree to work together and create a jointly owned separate company to promote their mutual interests. In order to represent joint venture's interests the companies usually establish a corporation owned by the founders in the agreed proportions. Usually the ownership is distributed equally (Griffin, Pustay, 1998).

There are many reasons for choosing foreign direct investment as a strategy. The main ones are reflected in Dunning’s eclectic theory (1977, 1979, 1988) and are as follows: location, ownership and internalisation advantages. The eclectic theory aims at giving answers to the following questions. Firstly, if there is a demand for a particular commodity in a particular country, why it is not met by a local firm producing in the same country, or by a foreign firm exporting from another country? And, secondly, suppose that

a firm wants to expand its scale of operations, why does it not do so via other companies? (Moosa, 2002).

**Location-specific advantages** refer to certain advantages the firm has because it locates its production activities in a particular area. Piggot and Cook (1999) reveal that those advantages are the following: the access to raw materials or minerals, imperfections in international labour markets, trade barriers, and government policies. Harris (1999) adds to this list low transport costs, political stability of country, cultural differences or, on the contrary, cultural similarities.

**Ownership-specific advantages** refer to certain types of knowledge and privileges available to a firm but not available to its competitors. Authors (Piggot, Cook, 1999, Harris, 1999) believe that market imperfections give investors certain advantages such as technical advantages (patents, special technology etc.), industrial organisation (relates to the advantages arising from operating in an oligopolistic market), financial and monetary advantages (include preferential access to capital markets to obtain cheaper capital), the access to raw materials, organisational and management advantages, scale of business which allows to enlarge it and diversification possibilities. American authors believe that ownership advantages are based on intellectual knowledge, which is good reputation, marketing preferences, intellectual property, organisational skills and management skills. Ownership advantages are the reason why a multinational company can manufacture at lower costs than a local company (Batiz, Oliva, 2003).

**Internalisation-specific advantages** occur when international market imperfections make market solutions too expensive. The idea is that the market is too costly or inefficient to undertake certain types of transactions, so whenever transactions can be organised and carried out within the firm cheaper than through the market they will be internalised and undertaken by the firm itself (Piggot, Cook, 1999). Internalisation advantages allow avoiding complex licensing or secret keeping from competitors (Buckley, Casson, 1976). It is also considered that the use of this advantage can eliminate market uncertainty, as well as reduced tax liability through transfer prices (Harris, 1999).



American authors Toyne and Walters (1993) classify foreign direct investors according to their motivation to invest. In case of natural resource seekers the major attraction is the benefit arising from owning and controlling natural resources that are unavailable or in short supply at home. Cost and efficiency investors are primarily attracted by the possibility to produce goods and services overseas more efficiently and, thus, cheaper than at home. The third type of investors is market protectors which wish to protect foreign market share originally developed through exports. Information seekers, in their turn, are motivated by the desire to establish „listening post” in foreign markets and obtain valuable knowledge and experience by virtue of controlling operations in an advanced, competitive overseas market.

Apart from foreign direct investment there are other ways to enter the international market. The choice of the relevant way may depend on the type of market and areas of operation. It is important to choose the entry form, which ensures the highest efficiency and also the competitiveness. If comparing to exporting, foreign direct investment in the areas of licensing and franchising can offer bigger earnings, control of operations, possibility to acquire knowledge about local market, avoid tariffs and trade barriers. However, foreign direct investments require significant financial investment and management skills; the process is complicated and also involves overcoming different restrictions on foreign investment in different countries (Griffin, Pustay, 1998).

There are many ways to assess factors in a new market. Richard Florida has created „creative class” concept. Florida's theory asserts that metropolitan regions with high concentration of technology workers, artists, musicians, lesbians and gays, as well as a social class which he describes as "high bohemians", exhibit a higher level of economic development. Florida refers to these groups collectively as the “creative class”. He posits that the creative class fosters an open, dynamic, personal and professional urban environment (Florida, R. Creative class: [www.creativeclass.com](http://www.creativeclass.com)). Many other economists and journalists such as Terry Nichols Clark, Steven Malanga, etc. tried to doubt this theory. Based on the theory about „creative class”, Florida gives arguments that creative

industry representatives are much less reacting on „hard” factors, i. e. objective or external factors (Petrova, Jermolajeva, 2007) and are much more relying on „soft” factors, i. e. subjective or internal factors (Petrova, Jermolajeva, 2007). Totally different presumption is given by German authors Alexander Eickelpasch, Anna Lejpras, Andreas Stephan, who divide all companies in two groups: innovative, or knowledge intensive, and non-innovative. The authors believe that companies from the innovative sector pay much greater attention to „hard” factors, while firms operating in non-innovative industries are more amenable to „soft” factors.

Foreign direct investors also take into account certain factors which they evaluate when choosing an investment place. Their interests can prevail in one of the following groups: “hard” or “soft” factors. Table No.2 reflects the main “hard” and “soft” factors.

**Table No.2. „Hard” and „soft” factors**

<b>„Hard” factors</b>	<b>„Soft” factors</b>
Rent levels or buying price of commercial real estate	Urban „buzz”
Availability of office space	Varied sub-cultural life
Transport infrastructure (public transport, parking spaces, airports etc.)	Ethnic diversity
Telecommunication services	Availability of greenery and open water
Tax regimes and other regulations	Biking possibilities
Entrepreneurship support events (subsidies, etc.)	Friendly spaces for inter-personal communication
Low costs	High levels of inter-cultural tolerance
Basic quality of life issues (good schools, low crime, clean air)	The sense of achievement gained from work
Education and job training	The scope for innovation in the workplace
Amount of holiday time received	The level of influence individuals have in directing their work
Noise and air pollution	Living environment in their district and the cultural life of the city
Specialized skilled labour and the localisation of the companies’ clients	Atmosphere of neighbourhood
Access to funding	Architecture
Bureaucracy in the issuing of business permits	Density of boutiques, cafés and restaurants

Source: *Dainov, Sauka, 2010.*

Evgenii Dainov and Arnis Sauka (2010) in the research „Managers and Entrepreneurs in Creative and Knowledge Intensive Industries: Soft or Hard Conditions?” acknowledged

that managers making decisions in different European cities strictly followed the „hard” factors, i. e. the distance to the customer, workforce qualification and cost. Foreign direct investors more often base their considerations on „hard” factors too. The development of factors in specific place is the key to successful attraction of foreign investments. If the city offers improved infrastructure, favourable offices and industrial complexes, as well as employees, those investors are more likely to choose this city as a business establishment area.

Authors (Hill, 2000, Griffin, Pustay, 1998) highlight the benefits of the various foreign markets such as capital, technologies, work organisation, etc. Apart from positive factors, there are also costs associated with the adverse effects of competition with foreign companies, the opposite effect of the balance of payments, as well as the loss of autonomy and sovereignty. Mossa (2002) argues that foreign direct investment symbolizes colonialism or imperialism, but at the same time the global market is unthinkable without it. Lipsey (1999) additionally claims that developing countries are partially dependent on foreign direct investment. More and more areas of potential foreign direct investment underline the usefulness of investment and its contribution to economic growth and development.

Above mentioned and other theories show that every country has its own different critical factors considering investment attraction; however, these factors can change during certain period of time. World Investment Report 2012 presents the next generation investment policy, in which sustainable development plays very import role. Global economic crises made significant changes in foreign direct investment flow and it starts to renew only now. Global foreign direct investment flow in 2011 exceeded the flow before the crisis reaching USD 1.5 trillion.

World Investment Report 2012 also ranks countries according to two indexes, i. g. attraction index and contribution index. **Attraction Index** measures the success of economies in attracting foreign direct investment. Here top 3 positions own Chine, Belgium and Singapore (World Investment Report 2012:29). **Contribution Index** ranks



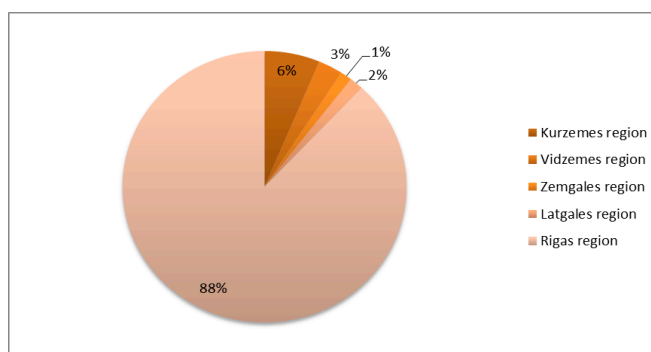
economies on the basis of the significance of foreign direct investment and foreign affiliates in their economy in terms of value added, employment, wages, tax receipts, exports, research and development expenditures, and capital formation. In 2011 Hungary, Belgium and Czech Republic had the biggest contribution index (World Investment Report Year 2012:29).

At the moment the Baltic States are facing the growth of foreign direct investment. Economic growth after global crisis promotes foreign direct investment incensement. In 2011 foreign direct investment amount in Latvia was 5.2% from GDP, in Lithuania – 2.5% from GDP, and in Estonia – 7.7% from GDP (Regional Economic Prospects in EBRD Countries of Operations 2013: [www.ebrd.com](http://www.ebrd.com)).

In Latvia the main areas which receive the biggest investment amount are operations with real estate, finance brokering, wholesaling and retail trade. Main investors to the economy of Latvia come from Sweden (23.9%), Netherlands (6.8%), Estonia (5.9%), and Cyprus (5.5%) (Baltic State information portal: <http://balticexport.com>).

Foreign direct investment affects regional development in Latvia. Investors are seeking to invest in more developed regions in Latvia and tend to avoid undeveloped places. Figure No.1 shows cumulative foreign direct investment structure in Latvian planning regions in the beginning of 2013.

**Figure No.1. Foreign Direct Investment Structure in Latvian Planning Regions, LVL**



Source: Lursoft statistic portal: [www.lursoft.lv/estadistic?act=UR\\_STAT&id=7](http://www.lursoft.lv/estadistic?act=UR_STAT&id=7).

Figure No.1 shows that 88% from all investments flow to Riga region, while all other regions make only 12%. The next significant region after Riga is Kurzeme and in this region the biggest investment amount is located in Ventspils City.

Free Port of Ventspils Authority in collaboration with Ventspils City Council is actively working to attract new investors. During time period from 2002 to 2013 the above mentioned institutions attracted 21 companies business operations of which concern manufacturing and 16 companies business operations of which concern port activities. From 37 companies 14 are foreign direct investors, 10 of them are manufacturing companies (see Table No.3).

**Table No.3. Free Port of Ventspils Authority Attracted Industrial Investment Projects in Ventspils City From 2002 to 2013**

Name of company	Home country	Employee amount	Investment, LVL	Business area	Establishment year
STEMA Real Ltd.	Denmark / Latvia	133	Precisely not known	Fish products	2002
Dianas sveces Ltd.	Denmark	166	1 100 000	Decorative candles	2004
Baltic Forest Trading Ltd.	Sweden	9	200 000	Planed timber profiles	2004
Bucher Schoerling Baltic Ltd.	Switzerland	157	Precisely not known	Municipal car producing	1st round – 2004/2005 2nd round– 2008 3rd round – 2011
Froli Baltic Ltd.	Germany	19	Precisely not known	Plastic detail and timber bed producing	2006
Malmar sheet metal Ltd.	Belgium	90	~2 500 000	Metal part producing and painting	1st round– 2006 2nd round – 2012
Baltic Woodpower Energy Ltd.	Sweden	7	160 000	Firewood producing	2007
Heimdal Skonto Latvia Ltd.	Norway	32	Precisely not known	Modular home production	2013
Hydraulik Bauteile Baltic Ltd.	Germany	4	Precisely not known	Hydraulic hose and tube assembly	2013
EUROLCDs Ltd.	Sweden/ Latvia	50	5 500 000	3D product producing	2013

Source: Free Port of Ventspils Authority's unpublished materials



10 manufacturing companies give jobs for more than 700 people and the investment amount is more than LVL 25 million. The biggest investments come from Denmark, Sweden, Switzerland, Norway and Germany. The most dynamic investment attraction period was 2004, when Latvia became a member state of the European Union. At the moment Free Port of Ventspils Authority has more than 50 new projects connected with foreign direct investment attraction possibilities. In order to make the investment attraction process more productive, in 2011 a contract was made between Ventspils City Council, Free Port of Ventspils Authority and Latvian Investment and Development Agency. This cooperation is called „POLARIS Process” and it introduces a new method of investment attraction.

### **3. Methodology**

For investigation of the investment attraction experience in Ventspils City the author uses qualitative research method, within which case studies are made. Qualitative research method is used because there is little number of cases and it is important to study them in depth.

For this study 5 Ventspils City organisations were chosen: two of them are institutions responsible for investment attraction to the city and three of them are industrial companies, which were founded in Ventspils by virtue of foreign direct investment. These companies proved to be successful and stable, as well as their business intensions in the city are long-term. Two out of three companies represent big “success stories” in Ventspils City, which helped to bring Ventspils City name out of Latvia’s borders. One of the above mentioned companies started its operations in Ventspils City just in 2013 and will try to become a competitive and successful business in global market. All three companies produce high added value products.

In this research the author finds out Ventspils City Council’s and Free Port of Ventspils Authority’s experts’ opinion about investment attraction opportunities, as well as makes



attracted investment case studies with several industrial companies – Bucher Schoerling Baltic Ltd, Malmar sheet metal Ltd, and EUROLCDs Ltd – which started their operations in Ventspils as foreign direct investors. These companies used the greenfield strategy to enter the market. The companies produce high added value products using complicated technologies, which makes it impossible to use other investment strategies such as licensing or franchising. These two strategies can be used when processes are standardized.

Case studies are carried out by using partly structured deep expert interviews. Guidelines of the interviews are reflected in the Appendix No.1, Appendix No.2 and Appendix No.3. All questions are divided in 5 parts, which consider overall information about entering Ventspils City market, pros and cons about Ventspils City, cooperation and future perspectives.

The paper gives an opportunity to understand foreign investor's motivation to choose Ventspils City as its investment destination. This paper outlines Ventspils City key benefits which help to attract foreign industrial companies, as well as explains potential measures to increase investment amount.

#### **4. The Case of Ventspils City Council**

Ventspils City Council Economic Department is an administrative department responsible for business development. It is in charge of inner and outer business environment analysis, the department also gives recommendations considering entrepreneurship environment improvement and employment level increase. Department provides consultations and information regarding individual job questions, issues licences for entrepreneurship start-up. Laimonis Strujevičs, Department Manager, organises and leads the department and takes care of the Council's decision and order compliance with certain requirements.



Department Manager stresses that not only Economic Department works on investment attraction but entire Ventspils City Council. Marketing Department and Finance Department also work in this area. It takes years to reach this kind of reputation and look, like Ventspils City has at the moment. “We can speak about development of the city starting from 1904, when Ventspils City port was built. This made Ventspils geographic location one of the biggest city’s preferences”, notes L. Strujevičs, “good welding traditions are another very important issue, which we have inherited from the soviet times”.

Economic Department Manager highlights different advantages of Ventspils City, which are important for investors. In order to attract investors it is very important to create a relevant environment for them. Ventspils City’s ability to secure appropriate infrastructure is a significant advantage. Entrepreneurs have access to water, drainage, roads and other communications. Other important factors are non-freezing Venta river and Ventspils City’s location at important transit route crossroads. L. Strujevičs also emphasizes that in Ventspils City businesses can receive the financial support. Support is available through the acquisition of the European Union funds regarding different organisational questions. In Ventspils City there is a ferry service as well, which offers lines to 4 different cities.

When talking about Ventspils City investment attraction strategy L. Strujevičs says that the City Council cannot be very fastidious. All the investors are very welcome. Of course, no investment in relation to corruption, human slavery or environmental violation will be allowed. But if a company, for example, would like to manufacture guns or pyrotechnics and can meet all legal procedures, there is no problem with entering the local market. For the city every new working place is important, therefore, there is no special selection between investors. L. Strujevičs notes “As it is specified in the Ventspils City Development Programme, the inhabitants of the city are its greatest value. That means that the main target of foreign investment attraction is creation of new working places”.



In comparison to Riga, the metropolis of Latvia, Ventspils can offer more advantages to an investor. The most important one, according to the Economic Department Manager, is completed infrastructure projects; moreover, the Free Port of Ventspils Authority offers a possibility to build an industrial building according to the investor's project documentation. Investor just has to pay the rent and he or she can also buy this building out at any moment. It is possible to receive financial resources from the European Union funds as well. L. Strujevičs stresses that Ventspils City pays great attention to education and professional skills of the local people, "In Ventspils soon we will have one of the best professional education schools". Moreover, by doing business in Ventspils it is possible to receive the Free Port Zone status, which allows receiving various tax reductions.

Ventspils City Council has a very good cooperation with Free Port of Ventspils Authority, which is the main institution regarding the investment attraction. The City Council is involved with this institution in the project "POLARIS Process". The Council also cooperates with the Business Incubator and Ventspils High Technology Park, both of them providing help in development of business at different stages.

When talking about future perspectives L. Strujevičs declares that very important factors in attracting investors are Latvia's economic stability, good climate and shadow economy reduction. It is very significant to invest in the city's marketing campaign, so that Ventspils City would be advertised in different shows and forums outside Latvia. "Before choosing an investment place the investor always makes a detailed research and try to find the most relevant and precise information, which the country, of course, can provide by translating the most important information in different languages", L. Strujevičs says at the end of the interview.

The author concludes that in Ventspils City Council's opinion the biggest city's advantages are its geographic location, port, strong traditions in metalworking and skilled workforce. Investors are attracted by the fact that they do not have to build the production plant themselves, instead of that they can rent a totally new plant. It is Also possible to receive the European Union financial support with the help of the municipality, which is



very important for new companies in a foreign country. The main disadvantage is the absence of non-governmental institutions and unfriendly tax policy, as well as unstable and not strictly defined industrial development in the entire country.

The next chapter discovers Igors Udodovs', the Free Port Ventspils Authority Marketing and Development Department Manager, opinion about the investment attraction issues.

### **5. The Case of Free Port of Ventspils Authority**

Free Port of Ventspils Authority Marketing and Development Department is a real estate developer in the city. The free port is like a transport corridor, which goes through Ventspils City. The Marketing and Development Department takes care of this corridor by advertising and selling it; the corridor includes both port terminal territories and industrial territories. The manager of this department is Igors Udodovs, which organises marketing material preparation and strategy development, so that it would be possible to attract local and foreign investors.

There are different ways to attract investors and the scope of activities is very wide. I. Udodovs mentions two outstanding ones, "At the beginning it is very important to make the city visible and easy to find on the Internet and in other information sources. If someone has an interest to invest in Latvia, he or she can find data on Ventspils on the Internet, at the Development Agency, different embassies, Chamber of Commerce and Industry, etc. The second way to attract investors is to address them using direct marketing activities such as selecting direct criteria, choosing target market and trying to communicate with potential investors."

I. Udodovs notes that investment environment has gradually developed from the time when Latvia became independent. Therefore, now Ventspils can offer investors different important advantages, for example, different transport types, the main one of which is definitely the ferry. Employees are another significant aspect for every investor. In Ventspils Professional High School is possible to study metalworking, engineering, electronics and other specific professions. At the moment the high school is under



reconstruction, which was necessary to modernise training equipment and study rooms. Ventspils City aims to raise the prestige of the professional education in Latvia. Ventspils University College was established to raise the education level in the city as well. It offers study programmes in management, translation, information technologies and electronics.

Ventspils City can also provide vast land areas for industrial development. Companies have a chance to build new plants instead of trying to carry out their production processes in the old ones, which are morally and technically amortised. As a result, the market has a tendency of producing qualitative and complicated products in good and modern plants. If a presented business plan is successful, Free Port of Ventspils Authority can even build the plant for the investor and later rent it with the option to buy it out in the future.

Free Port of Ventspils Authority can also provide to companies the Free Port Zone status. Although I. Udodovs says that nobody has yet invested in Ventspils just because of this status, it is still a special bonus alongside with other positive factors. In the past few years a big work was done to clean up the city, which is also important for foreigners. „In Ventspils City the entrepreneurship support process is very organised. The investor knows with whom he or she has to communicate in case of questions or recommendations. In Ventspils every project has a manager, who helps with different procedures. These procedures are not easier or more difficult than in other countries, they are simply different.

It is very significantly that in Ventspils there are the Business Incubator and Ventspils High Technology Park. These two institutions play an important role in supporting the investor. However, the costs will always remain the main factor for the investor. City which can offer the lowest costs will conquer the investor's interest. In case of similar costs the critical factor will be positive communication.

When talking about disadvantages the Marketing and Development Department Manager divides them into two categories, avoidable and unavoidable. Unavoidable disadvantages are the absence of natural gas, Ventspils City is almost 200 km far from Riga, the centre





of Latvia, and has rather poor quality of land. The global economic situation definitely influences the investment flow as well. One of the main disadvantages is the absence of finished product plants. At the moment Ventspils cannot offer free industrial plants.

Ventspils as an investment destination mainly choose those countries, to which China is too far, but Latvia seems to be close enough to the old Europe. For these companies doing business in their home country is too expensive. Countries which are interested in Ventspils the most are Sweden, Norway, Germany, Denmark and others. Investor seeking strategy mainly concentrates on small and medium sized companies that specialise in engineering, electronic, machining or metalworking field. “These investors are easier to attract. Latvia does not have the potential to attract a company with 3,000 employees”, I. Udodovs says. From each investor the city gets new workplaces, so the effect is positive for the local economics.

So far the investors showed the biggest interest in 2004, when Latvia became a member state of the European Union. In 2014 Latvia will introduce the new currency euro, but Marketing and Development Department Manager does not think that this fact will increase interest about Latvia and specifically Ventspils. Countries investors have deals also with Great Britain, Russia and other big markets, where other currencies than euro are used.

When talking about main competitors I. Udodovs thinks that Riga and Ventspils cannot really compete, “Riga is a subject of interest of totally different companies. In Riga companies’ goal is the market while in Ventspils they produce to export”. In Riga lives half of the Latvia’s population while in Ventspils only 40,000 people. In Ventspils every year 1 or 2 plants start their operations. If we compare both cities and look proportionally to the population, than in Riga the number of new plants should be much higher than it is now. The main competitors of Ventspils are Klaipeda, Liepaja, Jelgava, Kauna, Sauli, and other cities in Poland, Rumania, Bulgaria, etc.



Ventspils is also a good place not only for doing business, but also for living, I. Udodovs thinks. The city is clean; it has good landscape and many entertainment options for families. „Those, who like beach, will love Ventspils, but those, who want to go to clubs, will feel boring in the city”. Usually investors do not live in Ventspils, because they have companies in other countries too. The obstacle which might discourage to move to Ventspils with the family is very little international education possibilities.

Regarding future perspectives I. Udodovs is convinced that there are enough industrial areas in Ventspils. „In future Ventspils could attract companies which specialise in technologically complicated field like oil or chemical processing. It could be a business in connection to the green energy, because exhaustible resources will seek out. Ventspils is expecting technologically advanced companies”. Free Port of Ventspils Authority in future should think about new ways of investor attraction, because the competition will be higher and it will give new challenges for improvement of the investor attraction process and investment environment issues.

The author concludes that the main Ventspils' advantages are properly skilled employees, entrepreneurship support events and the offer to build a new production plant, where the company can start operations. Ventspils attracts different kind of investors, but concentrates mainly on technologically complicated businesses. On a large scale Ventspils attracts investors from Scandinavian countries, Germany, Switzerland and other European countries, which feel that Latvia is close enough in distance and mentality.

The next case study reflects one of the biggest success stories in Ventspils City – Bucher Shoerling Baltic Ltd. The interview with the plant Manager Mikus Brakanskis outlines company's perspectives and ambitions in the Ventspils market.

## **6. The Case of Bucher Schoerling Baltic Ltd.**



Bucher Schoerling Baltic Ltd. is a German company which operates in Ventspils and manufactures and assembles municipal car components for its mother company in Switzerland. In 2004 the manufacturing was dislocated from Germany to Latvia, specifically, to Ventspils. The company consists of 5 parts in total: Kuhn Group is a supplier of specialised agricultural machinery for tillage, seeding, fertilisation, spraying, landscape maintenance, hay and forage harvesting, livestock bedding and feeding; Bucher Municipal is a supplier of municipal vehicles for cleaning and clearing snow; Bucher Hydraulics is a manufacturer of advanced hydraulic systems; Emhart Glass is a supplier of advanced technologies for manufacturing and inspecting glass containers; Bucher Specials comprises independent businesses with machinery and equipment for winemaking, equipment and technologies for processing fruit juice and instant products and equipment for dewatering sewage sludge, as well as a Swiss distributorship of tractors and specialised agricultural machinery.

At the moment at Bucher Schoerling Baltic work almost 180 employees. Company's competitive advantage is product high quality. Quality standards are much higher than at the most companies in this sector. This makes the products a little bit expensive, but at the same time consumers appreciate the product quality. Mikus Brakanskis, the Deputy Chairman, is a person, who works in this company almost 10 years.

M. Brakanskis explains that Latvia was chosen as an investment place because Bucher Schoerling AG wanted to reduce production costs, "The company experienced recession in product demand, therefore, the target was to reduce costs and adapt to market changes". Before the plant was dislocated from Hannover to Ventspils, there was a discussion about different alternatives, i. e. the Baltic States, Rumania, Bulgaria, Ukraine, and Czech Republic. In Latvia investors considered such alternatives as Liepaja, Riga, Jelgava and Ventspils. Latvia attracted the company owners with the flexible Labour Law, moreover, locals are ready to work overtime and, if it is necessary, also on weekends. In Latvia it is easy to react to changes in production amount unlike it is in Switzerland. The most important factor for choosing Latvia was its membership in the European Union. M. Brakanskis says, "Participation the European Union provides relative stability; it was



like a safety guaranty that this country is trustable. Among important factors there were also the distance from Switzerland, mentality and good manufacturing quality unlike in China, for example.”

Only three months before starting to build the plant, the investors eventually decided to do it in Ventspils. The main factors which attracted the investor to Ventspils City are the sea transport infrastructure and Free Port of Ventspils Authority’s offer to build the plant for the company. “At the beginning it was an option for us to invest less financial resources and to take less risk, but when we understood that we want to stay in this market, we decided to buy the building out”, M. Brakanskis says, “every company has to understand that you cannot come to a foreign market and immediately do there everything you did in the home country. It is not possible. At the beginning you need to be careful with everything. Also you need to think about employees and their qualification, because in Latvia west and east mind thinking is mixed, so you have to find the middle of it”. If M. Brakanskis would have a chance to start everything from the beginning, he would be even more careful. Also he would invest more resources in employees’ skills. “Planning the plant is also very important. You do not have to build everything at once, but you have to plan how the things will look in the plant in 10 – 20 years. Strategical thinking is very important, it helps to economy time and resources”, M. Brakanskis explains.

The company’s investors highly appreciate that Ventspils can offer sufficient number of employees and in the city there are enough people who are ready to work in the metalworking field. Most likely, the reason is the professional high school, where it is possible to study technical professions. Also many employees working at the company graduated Ventspils University College, which stimulates young people to stay in Ventspils and build their career there. Surprisingly that the local people have good language skills. Most of the Bucher Schoerling Baltic employees learned the foreign language in courses, later went to Switzerland for two weeks and already speak German fluently. In Switzerland young people have problems with language skills; therefore, the investors are pleasantly surprised. Good infrastructure condition is another very important factor, and for Bucher Shoerling Baltic it was built literally to the doors of the plant.



Concerning the disadvantages M. Brakanskis says that professional education quality in Ventspils and also in the entire Latvia could be on a better level. For the company it is also hard to attract high skilled employees at the age of 25 – 40 from other regions, because the city is too small, passive and boring for them. Foreigners consider as a disadvantage that in the city there is no regular air transport either. The members of the board of the concern have to take a flight to Riga and then drive through the “forest” to Ventspils for more than two hours. Ventspils has no business class hotels, which is also a problem for securing the high level service to investors, employees and guests.

In everyday life the infrastructure in Ventspils is highly appreciated. Few people from Switzerland and Germany live in Ventspils for many years. They find this place very suitable for families with children. M. Brakanskis says “Here is possible to do different hobbies or to go with the family to the aqua park or amusement park. For a small city the recreation options are numerous, the only thing that people here are inert”.

Bucher Schoerling Baltic Ltd. Deputy Chairman thinks that cooperation between the company and Free Port of Ventspils Authority was carried out on the high level. All conversations were successful, precise and open. The feedback from this institution was always in time and employees showed very friendly and cooperative attitude. Bucher Schoerling Baltic Ltd. works in the free economic zone and can use bonuses offered by this status. The company also cooperated with Ventspils City Council, Business Incubator, but apart from Ventspils institutions with Latvian Investment and Development Agency.

For the company it was very important that Latvia is a member of the European Union, in this respect also very significant is the country’s accession to the Eurozone. M. Brakanskis says, „In last 3 years we lost more than 100 thousand lats in currency exchange. So we are awaiting the change of the national currency, because it will help us to save the money and also relieve administrative work”.



In the future M. Brakanskis would like to see in Ventspils more engineering companies, which would cooperate with each other. M. Brakanskis expresses, „I do not think that the city will grow bigger or get different but I hope it will develop. The municipality should interfere in the hotel business, because this field could be too risky for private business only”. He also would like to see Bucher Schoerling Baltic Ltd. as one of the main partners in the new professional high school development project. In the future the company would like to produce the final product, not only components. There is a plan to employ 400 workers in the next 10 – 15 years. M. Brakanskis says, „We want to take the responsibility and become a municipal car producer in Latvia!”

The author concludes that the main factor why Bucher Schoerling AG came to Latvia was reduction of their production costs. The investors considered it important that Latvia is a member of the European Union and that it has very flexible Labour Law. Ventspils was interesting for the investors because the local people have the interest to work in the metalworking area; also there was an offer from Free Port of Ventspils Authority to build a totally new plant with all the necessary infrastructure. The main disadvantages are poor education quality, inactive social life in the city, which makes it harder to attract workers from other regions and, finally, the absence of the regular flight connection.

The next chapter reflects Maris Petrovskis', the Malmar Sheet Metal Ltd. Manufacturing Manager, opinion about Ventspils investment environment.

### **7. The Case of Malmar Sheet Metal Ltd.**

Malmar Sheet Metal Ltd. is a company which operates in Ventspils and produces metal components for trucks and busses. The main clients of this company are such popular companies as Volvo, Renault, Caterpillar and others. Malmar Sheet Metal owner is a holding company Cormetallis, which is a Belgian family company. The company came into Ventspils market in 2006. The company has reached EUR 10 million turnover in six years and now employs more than 90 people. The company's competitive advantage is its ability to secure three main things in automotive engineering: price, quality and delivery



times. Despite of prices growth in the global market, the company secures low and stable prices in long term. Every day the company produces more than 1,200 different details of such quality level when from one million details there are only 300 wasters, which is very little. Regarding the delivery dates, the company works very precisely and in order to secure timely deliveries every minute is important.

Maris Petrovskis, Production Manager, works in this company from its first establishment day. Every day for M. Petrovskis is like a challenge and his main task is to secure efficiency of the working process. When the company owner Dorsan De Bisjer decided to build a new plant outside Belgium, he started to take interest in Baltic States. The location of Latvia, Lithuania and Estonia, as well as the fact that they are European Union countries, were the main factors why the decision was made in favour of the Baltic Sea region. “Between Cormetallis and its main client Volvo the logistic system is established in the territory of EU, therefore, such countries like Ukraine, Belarus and other former soviet countries were not on the table.” When choosing a potential investment place the tax policy was investigated too. For the investor very important issue was the tax burden and he concluded that in this region not only the wages are lower, but in case the wages were the same as in Belgium, there he would anyway have to pay three times higher taxes than in Latvia.

M. Petrovskis explained that the distance from Belgium to the investment place was important as well, but this was not the main factor. But anyway the transportation process in the automotive engineering field should not be too complicated, because metal parts are big and heavy. Therefore, the company would never build a plant in China to produce details for Europe. The investor also appreciated the fact that Latvia has the access to the European Union funds, which were very significant when building the plant. This factor was not the main one, but the funds allowed building as a larger scale than it was planned at the beginning.

The investor had different alternatives when choosing his future investment place. The investor visited different cities in Latvia such as the capital Riga, Jelgava, Olaine,



Daugavpils, Rezekne and Liepaja. Many of them could not offer the relevant infrastructure. Ventspils was chosen because of many reasons. M. Petrovskis explains, “Firstly, Ventspils gave the feeling that the city is interested in attracting investment. There was a contact person who showed us around and each meeting was prepared at a very good level. Already at the beginning all information was structured and it was clear what kind of support we can receive. Ventspils made an impression that whatever you will do, you will not be alone.” Secondly, the investor liked the city’s image and how everything was put in order. Finally, one of the biggest Ventspils’ advantages is the ferry traffic to Germany and Sweden, which is vitally important for the company.

Although the company was established in 2006, the new plant was ready only in 2012. On the way to its own plant the company had many pitfalls: in 2007 the construction costs were unreasonably high, in 2008 the global economic crisis started and banks refused to give loans, which almost resulted in lost of the European Union funds. In 2011 Malmar Sheet Metal Ltd. finally received a loan from the bank and started the plant construction.

M. Petrovskis appreciates that Ventspils City can offer enough specialists in the technical field. The qualification of the specialists could be better, but the company compensates this factor by providing training to them. M. Petrovskis thinks it is important that in Ventspils young people can study in the professional high school and also in Ventspils University College. The Business Incubator is a significant institution as well, which helped Malmar Sheet Metal Ltd. in its development.

M. Petrovskis also outlines disadvantages of Ventspils. The main one is the lack of industrial areas. “We came to Ventspils to produce, not to build new plants. We did not have so much financial resources. We were ready to start operations in the old facility trying to adapt it to our needs, but it was impossible. At the start we received the industrial plant, but it was totally inappropriate. The area was in a bad condition, very small and there was no place for the office,” M. Petrovskis says. Malmar Sheet Metal Ltd. was not offered any other alternatives, but there was a possibility to rent the land from Free Port of Ventspils Authority, where they built a new plant later. The plant Manager





explains, “We received different kind of support in Ventspils, but we could not receive the financial support. Unlike the other companies we built the plant and the necessary infrastructure using our own financial resources.”

The plant manager highly appreciates the way of life in Ventspils. Ventspils is a suitable place not only for work, but also for the everyday life – especially with families. Ventspils can offer enough kindergartens, and you do not have to wait in a long queue to get your child a place; the schools are modern and equipped with advanced technologies. In Ventspils all places are located close to each other and there are no problems with the traffic.

As to the currency change, which Latvia will experience at the very beginning of 2014, M. Petrovskis says that the company owners awaited this event for a long time, mostly because it will help the company to save money and relieve intercompany payments. But the manager does not think that euro currency will allow Latvia to receive more investments, because the currency change itself has a little effect.

In the future M. Petrovskis would like Ventspils to have more successful industrial companies, which will prove that development and producing in a small city is also possible. As a result, all parties involved, as well as local people, will gain. In the future Malmar Sheet Metal Ltd. would like to expand, enlarge its turnover, which at the same time would help to buy new equipment and employ more than 180 employees. “I think that the company can also develop in other areas. Our holding company works in different fields, so in the future it can also come to Latvia with its operations. We could overtake this company’s operations and start a new production in Ventspils,” M. Petrovskis says optimistically.

The author concludes that for Malmar Sheet Metal Ltd. the main advantages in Ventspils City are the following: support from the city council, clean and organized environment, ferry traffic, which helps to transport produced goods. The main disadvantages are the



absence of free industrial plants, which limits the investment flow to Ventspils because of the lack of financial resources.

The next chapter reveals EUROLCDS Ltd. opinion about Ventspils City's investment environment. In this company the author had a discussion with Ainars Ozols, the plant manager.

### **7. The Case of EUROLCDS Ltd.**

EUROLCDS Ltd. is a company located in Ventspils, which produces liquid crystal displays for industrial use and automatically shading welding masks. The company is mainly interested in markets in Europe and in the USA. The company was established by virtue of the shared investment. One part of the investment came from Sweden, but the other part was offered by Latvia. EUROLCDS Ltd. adopted the experience and know-how of the Swedish mother company. The company's competitive advantage is product uniqueness and its ability to balance between good quality and compatible price and location.

The company was established in 2011, but the new plant was built in 2013, two years later. In total the company employs 50 people. Ainars Ozols is the plant manager, who takes care of production, sales, etc. on a daily basis. Before managing the company EUROLCDS Ltd. Ainars Ozols got vast international experience and knowledge, which helped to create the new plant and establish international contacts.

The decision to choose Ventspils as the investment place was made long before the company plant was build, specifically, when Ventspils Electronic Fabric started its operations in Ventspils, because the owners of this company are the same as of EUROLCDS Ltd. In one of the local cities, Ogre, the existing company Hanza Electronics Ltd. decided to grow bigger and build another plant near the existing one. This kind of expansion was logical, but the land owner was selling it at a very high price. As the result,



a decision was made to look for a different investment place; among the options were cities not only in Latvia but also in other countries.

When choosing an investment place the sufficient number of employees was a very important factor. EUROLCDs Ltd. operates in the field where specific requirements to the staff exist. A. Ozols thinks that the company had to choose a place with enough workforce, otherwise it would have to import it, which would make the costs go higher. The municipality's attitude towards an investment also is very important. A. Ozols outlines Daugavpils as a good example, "The municipality is working professionally and understands that in order to attract investors, it has to secure a relevant environment and enough talented employees to choose from." In Latvia there are other municipalities too, which are able to attract investment, but they have problems with financial resources. Outside Latvia a very good investment place and also a competitor to Ventspils is a Lithuanian city Klaipeda, which also has the port and other advantages.

The Swedish investors chose Latvia as the investment place for many reasons. Firstly, at the soviet times Latvia was the place with highly developed manufacturing culture, which resulted in a high engineering potential. Secondly, workforce costs are a very important issue. Regarding these two aspects Latvia is very attractive, because the wages are low, but the working culture is high, meaning, people can work a lot, but unlike Asians they also have high intellectual potential. Ventspils was chosen as an investment place, because here is a possibility to buy raw materials from Ventspils Electronic Fabric, which is near EUROLCDs Ltd. Also investors were attracted by good infrastructure and support from the municipality. For the company it was important that Free Port of Ventspils Authority offered to build the plant and rent the industrial land, as well as to build all infrastructure.

A. Ozols thinks that the distance was not important when choosing an investment place, "For our shareholder the distance is not important. He takes flights from Sweden to China and then to the USA". The cultural aspect is more important. For Swedish people the Baltic States are close and understandable. Both countries Sweden and Latvia have similar mentality. The fact that Latvia is a member of the European Union was not



important, but the company's investors are anyway glad that Latvia will introduce euro currency, because it will facilitate payments and also help to save money. Nevertheless, A. Ozols doubts that it will allow attracting more investments to Latvia.

A. Ozols believes that Ventspils City, as an investment place, is not too small either too big, "In small cities sometimes happen to operate three large companies, and people are changing working places from one to another. In Ventspils it is not possible, because here are many companies and also enough of suitable employees". Regarding the qualification of employees the shareholders would prefer their ability to work without training, but A. Ozols understands that it is not possible at the moment. EUROLDCS Ltd. highlights Ventspils City Council's support mechanisms, "Unlike in other places, in Ventspils you notice order and organised nature of the city. In other municipalities democracy is misunderstood. By choosing a nonprofessional municipality an investor can lose much time". The support in building a new plant and infrastructure around it was also important, as other Latvian municipalities cannot offer it.

When talking about disadvantages in Ventspils, A. Ozols is being short, "It would be very good if Ventspils had more industrial companies, because then we could talk about mutual synergy. At the moment all companies try to work individually, but I hope in the future we will be able to create clusters, where all Ventspils industrial companies will unite. Ventspils business environment needs growth."

A. Ozols thinks that life environment in Ventspils City is of good quality. Ventspils is a suitable place where to work and live. This city offers the same qualities which we can imagine in other modern European cities. The plant manager doubts that Riga, the Latvian metropolis, is one of the biggest competitors of Ventspils, "In Riga the authority concentrates, but it is not significant enough to play the role, which it has undertaken". The shadow economy and all affiliated problems are a big obstacle for investment attraction.



The EUROLDCS Ltd. plant manager thinks that in the future Ventspils have to concentrate on small and middle companies, because the city has no potential to employ 2,000 people in one company. It is hard to predict changes in the future, but it is possible to be ready for them. So, every company has to work hard, because the competition is growing in the whole world. In the next 10 years the company wants to make close cooperation with education institutions in Ventspils City. EUROLDCS Ltd. would like to cooperate with young people, which can create new products with company's material and technical base. A. Ozols is convinced that the market is not only the goods available in it, but also the things we can create.

The author concludes that for EUROLDCS Ltd. the working culture in Latvia was a very important issue. In Ventspils among the important factors were sufficiency of the workforce, municipality support and possibility to rent a new building, which is built taking into consideration the company's needs. EUROLDCS Ltd. was established in Ventspils owing to Ventspils Electronic Fabric, which provides the new company with raw materials.

The next chapter summarises all case study results and outlines the most important conclusions about possibilities to improve the investment environment in Ventspils City.

## **8. Conclusions and Implications**

Empirical findings from the five case studies present common findings. The investors, first of all, take into consideration the factors in connection to infrastructure, workforce and transport availability. But underneath these factors many sub-factors exist, which can be different in each case. There is no one formula for attraction of investors, but finding the best factor combination most likely will make investors to choose Ventspils as their investment place.

Representatives of Ventspils City Council and Free Port of Ventspils Authority had similar opinion regarding many issues. Both department managers admitted that Ventspils



investment environment has slightly changed from the time when Latvia became independent. 20 years ago the city could not provide such advantages like today. Especially the visual image has changed a lot and the municipality's priorities have transferred Ventspils from a port city to a place of industrial development.

Ventspils City Council considers the location as the biggest advantage of Ventspils, because the town has the port and is located in the middle of important transit cross roads. The city has inherited good welding traditions and is also very clean, as well as has good reputation. Ventspils' competitive advantage is the ability to build new plants for investors, which is possible to rent or buy out later. This advantage is also outlined by Free Port of Ventspils Authority, which thinks that the transport infrastructure is extensive and education options attract investors. The advantages of less importance are the existence of the special economic zone, Business Incubator support and upcoming euro introduction in Latvia. The main disadvantages highlighted by Ventspils City Council and Free Port of Ventspils Authority are the lack of free industrial plants and natural gas, as well as bad soil quality. Of course, investment flow is also affected by the global economic situation in the world.

Ventspils investment strategy is not very specific. The city is open for all investors, but it is important to meet all formal requirements. Nevertheless, more preferable would be small and middle investment in engineering, machining or electronic field. Any investor is welcomed, because every new workplace is important for the city. In the future Ventspils City Council and Free Port of Ventspils Authority hope to reach stabile city growth, which could help to attract more investment. Interesting would be investment in technologically complicated fields. It could be investment in oil or chemical processing companies. Ventspils City has enough industrial land and in time will also have more competent employees because of the professional high school reconstruction project.

Investors come to Latvia because of two main reasons, i. e. transfer of production from the company's country of establishment or expansion of production. Investors which are interested in Latvia at the same time are interested in Lithuania, Estonia, Bulgaria,



Rumania, Czech Republic and Poland. Among these countries Latvia is the most west orientated and is also close to the old Europe's mentality. The biggest competitors of Ventspils City in Latvia are Liepaja, Jelgava and Daugavpils. Outside Latvia the competitors are cities in Lithuania, i. e. Klaipeda, Kauna, Sauli. The capital of Latvia, Riga, is not the main competitor, because the cities are the subjects of interest for different kind of investors. In Riga investors are concerned about the market, but in Ventspils they can manufacture and then export their production.

Strategically important factors for the investors are as follows: Latvia's participation in the European Union, as well as availability of different kinds of transport. Significant factors for the investors are the ones connected to workforce, especially its qualification, costs and sufficiency. Regarding this issue Ventspils can offer different kind of education and specialists.

If evaluating „hard” and „soft” factors it is possible to conclude that regarding Ventspils industrial companies „hard” factors predominate. Only some factors from the „soft” ones are important for foreign direct investors, for example, the city landscape. Industrial companies depend on “hard” factors, because of the cost issue, which is not so dominating regarding „soft” factors.

Generally Ventspils City can provide the appropriate environment for foreign direct investors. Successful foreign companies operating in Ventspils City prove that it is possible to develop international business in a small city. In order to develop appropriate recommendations for foreign direct investment attraction, the SWOT analyse was made, which reflects Ventspils investment environment strong and weak points, as well as opportunities and threats (see Table No.4).

**Table No.4. SWOT Analysis**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>• Valuable welding traditions</li> <li>• Non-freezing port</li> <li>• High-level infrastructure</li> <li>• Geographically good location</li> <li>• City Council's and Free Port of Ventspils Authority's support</li> <li>• Clean, organised and maintained city</li> <li>• Ferry traffic</li> <li>• Extensive industrial land</li> <li>• Business Incubator and Ventspils High Technology Park</li> <li>• Ventspils University College and Ventspils Professional High School</li> <li>• Sufficient labour</li> <li>• Potential of qualified labour</li> <li>• Local people's good foreign language skills</li> <li>• Suitable environment for families</li> <li>• Diversified transport infrastructure – sea, air, railway, road transport and magisterial transport cable infrastructure</li> <li>• Developed environment quality monitoring</li> <li>• Ambitious work on city's image and marketing campaign</li> <li>• Advantages of the Free Port of Ventspils Authority's economic zone</li> <li>• City Council's and Free Port of Ventspils Authority's offer to build a new plant and infrastructure</li> <li>• Diversity of investors, foreign companies' good practice examples</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of strong non-governmental organisations</li> <li>• 200 km distance from Riga, the centre of Latvia</li> <li>• Limited container traffic</li> <li>• Lack of natural gas</li> <li>• High groundwater</li> <li>• Lack of ready-for-service industrial buildings</li> <li>• Lack of international education institutions</li> <li>• Unsatisfactory level of professional education</li> <li>• No regular flights in to and from the regional airport</li> <li>• Limited number of business class hotels</li> <li>• Population insufficient for city's growth</li> <li>• Low number of passengers travelling by sea, which can negatively affect the ferry traffic</li> <li>• Lack of industrial politics on the national level</li> <li>• Small local market</li> <li>• Lack of qualified labour</li> <li>• Employees need additional training before start to work</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>• Modern professional high school</li> <li>• Active participation in different international forums and exhibitions advertising Ventspils as an investment destination</li> <li>• Support for industrial development</li> <li>• Expansion of regional airport</li> <li>• Expansion of Ventspils University College by attracting foreign students</li> </ul>	<ul style="list-style-type: none"> <li>• Government focusing on the development of Latvian metropolis, i. e. Riga</li> <li>• Reduction of Latvia's international competitiveness level</li> <li>• Unstable tax policy</li> <li>• Population reduction</li> <li>• Special Economic Zone status issued by Free Port of Ventspils Authority ending after 2017</li> <li>• Companies' failures</li> </ul>

Source: Author

Ventspils City has many strong points, which has to be used to reduce the effect of weak points. The main city's strategy should develop existing advantages and provide new



abilities in the future. This could be the way to avoid inevitable weaknesses and at the same time neutralise avoidable weaknesses.

In order to develop the investment environment Ventspils City Council and Free Port of Ventspils Authority should solve existing problems. Different institutions should also be involved in problem solving, for example, institutions responsible for foreign direct investment attraction, education institutions, entrepreneurs and others. Table No.5 shows imperfections outlined in the case studies and possible solutions.

**Table No.5. Proposals for Improvement of Investment Attraction Efficiency**

Responsible institution	Issue	Proposal	Financial resource	Priority
Free Port of Ventspils Authority	Lack of ready-for-service industrial buildings	Timely build new industrial buildings or repurchase existing plants from private owners	EU funds and bank loan	1
Entrepreneurs	Lack of strong non-governmental institutions	Industrial company cluster creation	Member fees and the EU funds	3
Education institutions	Unsatisfied education quality, the lack of skilled workforce	Close cooperation between industrial companies and Ventspils University College and Ventspils Professional High School	Municipal funds	2
Ventspils City Council	No regular flights to and from the regional airport	Secure regular flights to and from Riga airport	EU financial resources	5
Private entrepreneurs	Lack of business class hotels	Rebuild existing hotels to the proper level	Private financial resources	4

Source: Author

Table No.5 reflects the main proposals for the improvement of the investment attraction efficiency. In order to implement realise them it is necessary to take many different



actions. Firstly, Free Port of Ventspils Authority should timely solve the problem in relation to the lack of industrial buildings in Ventspils. This issue is important to solve before investors start to show their interest in Ventspils. Free Port of Ventspils Authority could organise industrial plant building or buy existing buildings from previous owners and reequip them according to production needs in present conditions. Free Port of Ventspils Authority owns 12 km<sup>2</sup> of free land, where it is possible to develop industrial areas using European Union funds or a bank loan, which later will be repaid from the rent fee.

The lack of non-governmental institutions, which are popular in Liepaja, is an important disadvantage of Ventspils. The existing industrial companies could merge and create a cluster or an organisation, which would participate in finding solutions for business environment problems in Ventspils and also in Latvia. That kind of local organisations will help to develop the industrial policy in the city and will also give support and provide information for a potential investor, who would like to invest in Ventspils. The industrial cluster will help to avoid uncertainty which is common between new entrepreneurs; it will be like a strong support point, where businessmen can exchange opinions and experience.

To solve the lack of qualified workforce in the city, it is important to stimulate cooperation between industrial companies and education institutions. It will help to adapt employee qualification to entrepreneur needs and will also improve the quality of education programmes. Students will have a possibility to do their internships in industrial companies which could help young people to put their knowledge in practice and adapt to the entrepreneurship environment. Education institutions have an exclusive possibility to demonstrate the companies' operation by organising excursions and conferences, where companies' managers can share their experience. These activities would not only improve the quality of education and employee qualification but also would facilitate employment growth and help attract more investment.

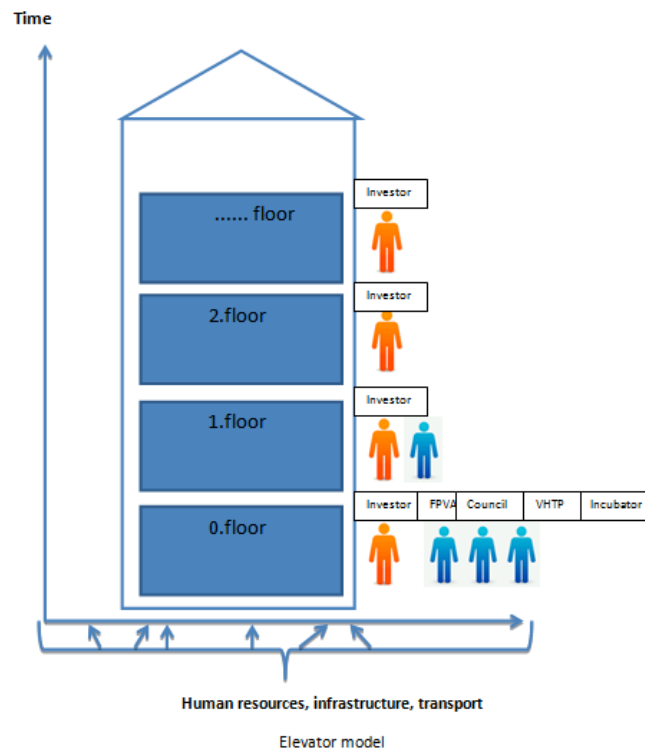
It would be important to solve the problem of the regular flight absence, because at the moment it is difficult for mother companies' owners to access their branches in Ventspils.



The absence of the airport with regular flights is one of the factors that pull the city back. Ventspils City should take care of its accessibility and convenient transportation for investors. Unfortunately, the new National Development Plan 2014 – 2020 does not consider regional airports, which means that there will be no financial support from the government. The airports can only hope to receive European Union funds.

At the moment foreign visitors have also problems with accommodation, because in Ventspils City there are no business class hotels. Since the municipality's tasks do not include business, this issue should be actualised among private entrepreneurs. Unfortunately, the construction of a new business class hotel is very expensive and it can be difficult to use its full capacity in all seasons. One of the possible solutions could be already existing hotel rebuilding and adapting to the business class level. To perform this activity it is important for all successful hotel businessmen in Ventspils City to cooperate together. This solution could not only help to improve the city's image but also to provide qualitative accommodation opportunities for foreigners and visitors.

It is vital not only to attract investment but also hold it in long-term. To describe the importance of keeping investment funds in the city in long-term the author has created an "elevator model" (see Figure No.2). This model is based on the elevator principle. The elevator is going up, which symbolises entrepreneur's efforts to develop.

**Figure No.2. Elevator Model**


Source: Author

Foreign investors consider support, which was especially important at the first stage when entering Ventspils as the investment place, as a significant Ventspils City advantage. The „elevator model” explains the necessity to support investors not only at their start-up but also at other stages. This strategy will help to solve problems, which an investor faces when operating in Ventspils City.

At the centre of the model is an investor, which plans to develop his or her business in Ventspils City due to such positive factors as employee resources, infrastructure and transport. When the investor is at stage 0, or business start-up, he or she receives support from Ventspils City Council, Free Port of Ventspils Authority, Business Incubator, Ventspils High Technology Park and other institutions. At the moment when the investor starts the operations all supportive institutions sort of hopes out of the elevator leaving the investor alone. The further development depends totally on the investor himself/herself.



The “elevator model” concept shows that fellow passengers stay together with the investor and give the necessary support at other stages too, when needed. This support partly guarantees that investor will not be only attracted but will also stay in the city for a long term. Free Port of Ventspils Authority Manager could be an advisory person, which would consult investors in different questions. Now consultations are available only when an investor enters Ventspils investment environment, but in the future they would be available at any time and regarding getting different funds, plant expansion and other important questions.

For Ventspils City every investor is important and the ones who leave the city negatively affect the city’s economy. The prepared model will provide a support mechanism for investor attraction in long-term. Each investor needs to feel that he/she is not alone and, of course, it is important for him/her to get access to the information which is vital to start a business in a foreign country.

In conclusion, Ventspils City can secure the relevant business environment for foreign direct investors. There are some disadvantages, but having a strong position can neutralise them. Ventspils’ priority is its inhabitants, and foreign direct investors can help to stabilise their future and to secure the city’s prosperity.

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## Appendixes

Appendix No.1

### Guidelines for Partly Structured Interview

#### Ventspils City Council Economic Department Manager Laimonis Strujevičs

##### General questions

1. What does the City Council Economic Department do?
2. You are the manager of this department, what is your role in it?

##### Investment environment in Ventspils City

1. How close the Economic Department activity is connected with investment attraction?
2. What exactly Economic Department does to stimulate the investment attraction to Ventspils City?
3. How the investment environment in Ventspils City has developed after the declaration of Latvia's independence?
4. How would you describe the current investment environment/ infrastructure in Ventspils City? What Ventspils can offer to investors (workforce, logistic channels, etc.)?
5. What are the main advantages of the city?
6. What are the main disadvantages and how to eliminate them?
7. What are the instruments, which City Council can use to stimulate the investment attraction?
8. What external factors are hindering investment flow to Ventspils City?
9. What is Ventspils City's investment attraction strategy? Does the city accept all investment which is possible to receive (despite negative factors which it can bring)?
10. What city and its inhabitants can gain from attracting new investors?
11. Will introducing of euro increase the investment flow to Latvia and particularly to Ventspils?

##### Regional development

12. What are your thoughts on how Latvian government stimulates the regional development?
13. In comparison to the most developed region in Latvia, the capital Riga, what kind of advantages are there just in Ventspils?
14. To what extent the regional development is included to the policy planning documents?
15. How import for foreign investment flow is development of other industries such as research and development, education, medicine etc.?

##### Cooperation

16. Is the cooperation between Ventspils City Council and Port of Ventspils Authority successful?
17. What other institutions Ventspils City Council is cooperating with to attract more foreign investment?
18. How successful is the cooperation with foreign companies?
  - Is there a big interest from foreign direct investors?
  - What are Ventspils City's pros and cons from the investors' point of view?
  - What is the main motivation to choose Ventspils instead of other cities?
  - How do local companies cooperate with foreign entrepreneurs?
19. Do you organise special support events for investors?





20. How significant are the Business Incubator, special economic zone, industrial parks in investment attraction?

Future perspectives

21. How Ventspils investment environment will develop in the future? How will it develop in 10 – 15 years?
22. How important the city council's role will be in investment attraction in the future?

**Free Port of Ventspils Authority Marketing and Development Department Manager  
Igor Udodovs**General questions

3. What does the Free Port of Ventspils Authority Marketing and Development Department do?
4. You are the manager of this department, what is your role in it?

Investment environment in Ventspils City

1. How close the Marketing and Development Department activity is connected with investment attraction?
2. What exactly Marketing and Development Department does to stimulate the investment attraction to Ventspils City?
3. How the investment environment in Ventspils City has developed after the declaration of Latvia's independence?
4. How would you describe the current investment environment/ infrastructure in Ventspils City? What Ventspils can offer to investors (workforce, logistic channels, etc.)?
5. What are the main advantages of the city?
6. What are the main disadvantages and how to eliminate them?
7. What are the instruments, which City Council can use to stimulate the investment attraction?
8. What external factors are hindering investment flow to Ventspils City?
9. What is Ventspils City's investment attraction strategy? Does the city accept all investment which is possible to receive (despite negative factors which it can bring)?
10. What city and its inhabitants can gain from attracting new investors?
11. Will introducing of euro increase the investment flow to Latvia and particularly to Ventspils?

Regional development

1. What are your thoughts on how Latvian government stimulates the regional development?
2. In comparison to the most developed region in Latvia, the capital Riga, what kind of advantages are there just in Ventspils?
3. To what extent the regional development is included to the policy planning documents?
4. How import for foreign investment flow is development of other industries such as research and development, education, medicine etc.?

Cooperation

1. Is the cooperation between Free Port of Ventspils Authority and Ventspils City Council successful?
2. What other institutions Free Port of Ventspils Authority is cooperating with to attract more foreign investment?
3. How successful is the cooperation with foreign companies?
  - Is there a big interest from foreign direct investors?
  - What are Ventspils City's pros and cons from the investors' point of view?
  - What is the main motivation to choose Ventspils instead of other cities?
  - How do local companies cooperate with foreign entrepreneurs?
4. Do you organise special support events for investors?
5. How significant are the Business Incubator, special economic zone, industrial parks in investment attraction?

Future perspectives



**CEIRD**

**Discussion paper No 5**

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1. How Ventspils investment environment will develop in the future? How will it develop in 10 – 15 years?
2. How important Free Port of Ventspils Authority's role will be in investment attraction in the future?



**EUROLCDS Ltd. Ainars Ozols**  
**Bucher Schoerling Baltic Ltd. Mikus Brakanskis**  
**Malmar Sheet Metal Ltd. Maris Petrovskis**

General information about the company

1. What does your company do?
2. From which country the company and its owners come?
3. How many employees work in this company?
4. What is the target market for this company?
5. What is the competitive advantage of this company?
6. Does this company operates in the special economic zone, industrial park, Business Incubator or use other support in Ventspils City?
7. What is your role in this company?

Entrance to Ventspils City market

8. When did you enter Ventspils market?
9. Did the company manager have the international experience before coming into Ventspils market?
10. Why did the company owners choose Ventspils as an investment place?
11. What were the alternatives? Did you make a market research before choosing the market?
12. Is the distance from the home country to the host country important?
13. Was the fact that Latvia is a member of the European Union important when choosing the market?
14. How much time, from the moment when you came to Ventspils, did you need to start real operations in this market?
15. What were the main obstacles?
16. What preparation events did you do before going global?
17. If you would have a possibility to start all over again, what would you do different?

Ventspils City investment environment

18. What do you think about Ventspils City as an investment place? What kind of entrepreneurship environment is here?
19. What are the main advantages of the city?
20. What are the main disadvantages?
21. How did you evaluate different external environment factors in Ventspils – infrastructure, workforce, raw material, industrial plant, finance availability?
22. How do you evaluate organisation of life in Ventspils? Is it appropriate for you and your family?
23. How do you evaluate the entrepreneurship environment in Ventspils comparing to other cities in Latvia?
24. Do you feel competition in Ventspils and in all Latvia?
25. Does your company use any kind of tax discounts (corporate income tax, property tax), are they important for you?

Cooperation

26. How would you describe cooperation with Free Port of Ventspils Authority?
27. How would you describe cooperation with Ventspils City Council?
28. Do you feel support from these institutions?
29. As to you, what Latvian government does to attract more investment, how it supports your company?

Future perspectives



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**Discussion paper No 5**

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30. What Ventspils should improve, so that you as an entrepreneur would feel better?
31. What in Ventspils needs to be improved to attract more investment?
32. What are your company future plans for the next 10 – 15 years?
33. How processes of globalisation and internalisation will affect your company in the future?
34. Will the fact that Latvia is introducing euro currency affect your company?



**CEIRD**

Discussion paper No 5

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