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Master Thesis Business Administration

Formal institutions and entry modes in developing countries in Eastern Europe – the case of Bulgaria

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Management summary

This study concentrates on the relationship between formal institutions and entry mode strategies in Central and Eastern Europe and more specifically it examines the case of Bulgaria. It furthermore seeks to answer the research question: "*To what extend do institutions enable or constrain the market entry of foreign companies in Bulgaria?"* In order to do so first a theoretical framework was built. It is based on the most valued literature that has been written on this topic. The theoretical framework also suggests some correlations between the dependant variable entry mode and the independent one – formal institutions. These correlations are later tested by a survey which was developed in particular for this study.

The results from the theoretical framework and the survey are compared and show some interesting gaps. These are furthermore outlined in details in the discussion part of this master thesis. At the end an answer to the research question is proposed as well as some conclusions are drawn. After that the theoretical and practical implications are discussed. At last some limitations of the research are presented together with some ideas for future research.

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Chapter 1: Introduction

Bulgaria is a small ex-communist state situated in South-Eastern Europe. It is a member of the European Union since 1st January 2007. The country is defined as an emerging economy and more specifically as a transition economy. Bulgaria's transition from a communist country into a democratic one involves structural, political and economic reforms. Bulgaria transformed its central planned economy into a market based economy (Hristova Bratoeva-Manoleva, 2010). Currently the country is doing well, however, only compared to countries like Greece and Spain. Furthermore according to the Global Competitiveness Report 2013-2014 released by World Economic Forum, Bulgaria proves itself poorly in terms of institutions - 107 rank, goods market efficiency - 81, financial market development - 73, business sophistication - 106, and innovation - 105. The report further presents "the most problematic factors for doing business" as regarded by business executives. The results of the World Economic Forum's Executive Opinion Survey in 2013 show 16 threats to Bulgaria's economic development, of which the first three factors turned out to be particularly severe, namely corruption, access to financing and inefficient government bureaucracy.

This thesis seeks to explore the business environment in Bulgaria and more particularly in what way institutions affect the business entry mode choice of foreign companies.

1.1 Background

Institutions shape incentives in human interaction – political, social as well as economic. They provide a structure to everyday life and thus reduce uncertainty (North, 1990). Furthermore institutions are expected to reduce transaction and information costs by proving lower uncertainty level and creating a stable structure in order to facilitate interactions (Hoskisson, 2000). However, it is important to note that institutional contexts in developed countries differ from those in emerging economies (Hoskisson et al, 2000). A key difference is the existence of market supporting institutions in the first ones and the lack of them to some extent in latter ones (Meyer et al, 2009).

Manolova & Yan (2002) argue that the current institutional environment in Bulgaria is hostile, unpredictable and corrupted. Among the key institutional players are law makers, tax collection agencies, and regional authorities issuing various business permits

(Manolova & Yan, 2002). This master thesis explores the impact of institutional environment in Bulgaria - a developing country in transition - on the business strategies of foreign companies operating in the country. More specifically it concentrates on the entry mode strategy choice. The ways to enter directly a foreign market are, as follows: greenfield, acquisition and joint venture (Meyer et al, 2009).

1.2 Research question

The research question is going to guide this study and will be answered in the conclusion chapter:

To what extend do institutions enable or constrain the market entry of foreign companies in Bulgaria?

1.3 Academic and practical relevance

This master thesis has value as for the theory as well for the practice. One of the theoretical implications of this project is that it examines most of the relevant literature on institutions and FDI and generalizes the most important aspects by creating new theoretical models. Furthermore these theoretical models could be the basis for a better understanding of the institutional environment in one specific country – and namely Bulgaria – and its influence on FDI. The third implication of this master thesis is the fact that there isn't any other study examining in depth the connection between institutions and FDI in this way.

The practical relevance of this project is not less important. The results of the conducted research will show if there is a gap between literature and practice. In addition to this study could give some directions about what could be improved in the institutional environment in Bulgaria. Furthermore the potential investors could obtain some experience and knowledge from the current ones which could ease their future work in Bulgaria.

1.4 Outline of the thesis

The first chapter of this thesis gives some general information about the topic, represents the research question and added value of the project. In order to give an answer to the research question 5 more chapters have been elaborated. The second one represents the theoretical framework for this study. The methodology section (chapter 3) discusses the research method that was chosen for this project. In chapter 4 the results from the conducted study are going to be presented. The next section draws some conclusions and gives an answer to the research question. The final chapter 6 discusses the limitations of this research and gives some propositions for future research.

Chapter 2: Literature Review

In this chapter the different kinds of foreign entry modes with their advantages and disadvantages are going to be discussed. As next the relationship between institutions and foreign entry mode choice is going to be investigated or more specifically how the first influences the latter. In the final section of this chapter the institutional environment in Bulgaria is going to be examined.

2.1 Foreign entry modes

Companies aiming at entering a foreign market can choose from a variety of entry modes (Al-Kaabi et al, 2010). Entry mode strategy is of a significant importance for foreign entrants because it concerns the potential success as well as the probability of survival. This choice has to do with an important decision regarding the degree of ownership of the investment (Delios & Beamish, 1999). On the basis of this entry modes could be divided into two groups: non-equity based and equity based (Al-Kaabi et al, 2010). By equity based entry modes the control and resource commitment are much higher in comparison to the other ones (Hill et al, 1990). Consequently the potential influence of institutions could be much bigger. Because of that in this thesis the second equity based entry modes are of interest. Meyer et al 2009 discuss three equity modes and namely: greenfield, acquisition and joint venture. In addition to that the decision how to enter a foreign market consists of two important components: first starting a foreign subsidiary from scratch – greenfield - or involving in acquisition; second acting alone – choosing to build a wholly owned subsidiary or establishing a subsidiary with shared ownership – JV (Dikova & Witteloostuijn, 2007). Al-Kaabi et al (2010) define two similar opportunities when engaging in FDI depending on the level of equity ownership – namely choosing between full ownership (i.e., a wholly owned subsidiary) or shared ownership (i.e., a JV).

Furthermore in this section each of the entry modes is going to be discussed in details.

2.1.1 Mergers and acquisitions

For a long time mergers and acquisitions (M&As) have been a popular strategy for a company expansion. This tendency gained especially high speed in the 1990s (Shimizu et al, 2004). Nevertheless, there is little empirical evidence regarding the company performance improvement by means of acquisition entry mode (Brouthers & Dikova, 2010).

In an acquisition, the foreign company merges or acquires an established entity in another country thus accomplishing an extensive form of participation – 100 % of ownership (Elango & Sambharya, 2004; Al-Kaabi et al, 2010). This means that the acquiring firm has full managerial control (Newburry & Zeira, 1997). In comparison to greenfield or JV, acquisitions can be realized much faster and because of this are preferred as entry mode when time plays an important role (Elango & Sambharya, 2004). This is the case when, for example, a company wants to enter a certain market quickly in order to secure a first mover advantage (Newburry & Zeira, 1997).

Cross-border M&As give companies the opportunity to access new markets, as well as to gain new knowledge and acquire new capabilities (Shimizu et al, 2004). However, acquisitions require full resource commitment right at the beginning of the project (Brouthers & Dikova, 2010).

M&As have, however, have a few weak points which have to be considered when choosing entry mode strategy. Brouthers & Dikova (2010) state that acquisitions are not always the best possibility when expanding, especially into international markets. As starters acquiring a firm calls forth a couple of challenges in managing the acquired business (Meyer et al, 2009). More precisely, managers at multinational enterprises (MNEs) of the buying company face the following problem: they have to assimilate the existing national and organizational culture, and policy (Newburry & Zeira, 1997). Furthermore acquisitions are often in danger of cultural clashes between parent and acquired entities, which impedes knowledge flow (Brouthers & Dikova, 2010). Dikova and Witteloostuijn (2007) endorse this assertion and state that coping and managing the process of overcoming the liability of foreignness could be difficult without a local partner. In addition to that there is also a financial risk. The acquiring company has full or near-full responsibility for the potential success or failure of the acquired firm (Newburry & Zeira, 1997). Moreover acquisitions are expensive and companies make considerable non-reversible (or semi- reversible) resource commitment, which increase the risk by a possible failure even more (Brouthers & Dikova, 2010). Shimizu et al 2004 add another weak point of M&As by arguing that uncertainty and information asymmetry in foreign markets impede adjustment and learning from both the local market and the target company (Shimizu et al, 2004).

2.1.2 Joint ventures

“An equity international joint venture is a separate legal organizational entity representing the partial holdings of two or more parent firms, in which the headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to the joint control of its parent firms, each of which economically and legally independent of the other” (Newburry & Zeira, 1997, p. 89). Elango and Sambharya (2004, p. 110) furthermore define joint ventures (JV) as:”a partnership wherein the venture (business) is jointly owned by two or more firms”. Shared ownership – such as JVs – gives the possibility to share not only risk, but also strengths, especially local market knowledge of aimed market partner (Al-Kaabi et al, 2010). Kirby & Kaiser 2001 also share this assertion: “JV can be seen primarily as a device to gain access to resources embedded in other organizations and, […] and as a mean of acquiring local management expertise and connections in order to facilitate fast entry into new markets”. Furthermore this entry mode allows more flexibility in the sourcing and deployment of resources. This on the other hand facilitates the overcoming of industry barriers and minimization of risks of liabilities of foreignness (Elango and Sambharya, 2004). Another advantage of the JV is that having a local partner “can help firms gain legitimacy because partnering with a local firm can help it create structures and activities that conform with local norms, values and expectations” (Brouthers et al, 2008, p. 193).

However JVs is not a perfect entry mode – it hast its disadvantages as well. First of all, having to work with partners makes management and other activities more complicated because there are multiple viewpoints that need to be thought through by formulating business policies and strategies (Newburry & Zeira, 1997). Dikova & Witteloostuijn (2007) furthermore discuss the difficulties coming from different interests and goals. In comparison to acquisitions where the investor has access to all resources, in JVs only the resources placed by the local partner are accessible (Meyer et al, 2009).

2.1.3 Greenfield

There are many definitions of the greenfield entry mode. New and Zeira (1997, p. 89) define it as follows:”An international greenfield investment is the establishment of a new affiliate in a foreign host country by a company headquartered outside the country where the investment is occurring for the purpose of producing a company’s product or providing a company’s device”. Shimizu et al (2004, p. 311) give another definition:”Greenfield ventures involve establishing wholly owned subsidiaries in new geographic markets”. Elango and Sambharya (2004, p. 109) furthermore define greenfield as:”a foreign firm starts operations on its own in a host country”. As it can be noticed there are two important characteristics of this entry mode, mentioned in all of the above listed definitions: new affiliate (started from scratch) and taking place in a foreign country.

There are several reasons for choosing greenfield as an entry model. First of all, it enables the establishment of common organizational culture and thus making knowledge transfer from the new affiliate to the parent company easier (Brouthers & Dikova, 2010). All of this is possible because entering a foreign market by means of a greenfield secures the investing company full control over the local operations (Dikova & Witteloostuijn, 2007). This is especially important in emerging economies, where property rights protection is weak, because in this way competitive advantage is better protected (Dikova & Witteloostuijn, 2007). Another advantage of the greenfield entry strategy concerns the financial part. This kind of entry mode requires “lower upfront investments and hence minimize(s) downside risks” (Brouthers & Dikova, 2010, p. 1049). In addition to that greenfields give an opportunity to make bigger investments by favorable conditions or abandonment at considerable lower price when things don’t turn out as expected (Brouthers & Dikova, 2010).

One of the critique points of greenfield ventures is that they have a longer establishment period and need more time in order to build local business networks (Dikova & Witteloostuijn, 2007). Furthermore although they require lower investments, by a potential failure the financial exposure is bigger in comparison to JVs, where ownership is divided (Newburry & Zeira, 1997). Another weak point of the greenfield entry mode is the overcoming of liability of foreignness without the support of a local partner (Dikova & Witteloostuijn, 2007).

In the table below the advantages and disadvantages of the three entry modes are summarized.

Table 1: Entry modes advantages and disadvantages

Mode of entry	General	Advantages	Disadvantages
M&A	➢ Merging with or acquiring an established entity in a foreign country ➢ An extensive form of participation (100% ownership)	➢ Full managerial control (full ownership) ➢ M&As can be realized very fast □ firs mover advantage ➢ Access to new markets, knowledge and capabilities	➢ Need for assimilation of the national and organizational culture and policy of the acquired company ➢ Danger of cultural clashes □ knowledge flow is impeded ➢ M&As are expensive ➢ High financial risk (full or near-full responsibility) ➢ Uncertainty and information asymmetry impede adjustment and learning
Joint venture	➢ The business is jointly owned by two or more firms ➢ The headquarters of at least one is located outside the country of operation of the joint venture	➢ Shared risk ➢ More flexibility in the sourcing and deployment of resources ➢ Having a local partner who can help in gaining legitimacy	➢ Having a partner can make the working process more complicated ➢ Different interests and goals ➢ Only the resources placed by the local partner are accessible
Greenfield	➢ Establishing a wholly owned subsidiary ➢ It takes place in a foreign country	➢ Possibility for establishment of common organizational culture ➢ Full control over local operations ➢ Flexibility regarding Long establishment period size of investments	➢ By potential failure financial exposure is bigger Overcoming of liability of foreignness without the support of local partner

2.2 Institutions and entry modes

In this section the relationship between institutions and entry mode choice is going to be discussed.

North (1990, p. 3) define institutions as "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction". This definition includes formal institutions – laws and regulations, and informal – customs, norms and cultures (Meyer & Peng, 2005).

A new direction of research argues that institutions are nowadays much more than just "background conditions" (Meyer et al, 2009). Researchers have realized that institutions have significant importance and it is no longer possible for strategy research to concentrate only on industry conditions and company resources (Peng, 2002). Institutional theory has turned out to be a strong and useful instrument for analyzing individual and organizational actions over the time (Dacin et al, 2002). One of the reasons for that growing interest is that it provides a rich theoretical basis for examination of a wide range of critical problems. Furthermore institutional theory gives an opportunity for theory building at various levels of analysis, which is of a significant importance for multinational company (MNC) research (Kostova et al, 2008).

Dikova and Witteloostuijn 2007 discuss the importance of institutions in terms of degree of institutional advancement – "the extent to which market-economy-consistent rules of the game are operational" (p. 1015). Formal and informal institutions take part in the interactions between companies and in this way "affect the relative transaction and coordination costs of production and innovation" (Meyer et al, 2011, p. 237). Institutions are furthermore accountable for the transfer of corporate social responsibility (CSiR). More specifically the less developed the institutional environment in a host country, the more likely MNEs will carry over their CSiR practices to the subsidiaries (in the host countries) (Surroca et al, 2013).

Institutions have a significant role in a market economy. They have to sustain the effective functioning of the market mechanism. This would make it possible for companies and individuals to participate in market transactions without causing unwanted costs and risks (Meyer et al, 2009). When markets function without difficulties in developed countries, the market-supporting institutions cannot be noticed. On the other hand when markets do not function properly, like in emerging economies, the absence of stable formal institutions is obvious (Peng, 2002). Furthermore, according to the neoinstitutional model "organizational survival is determined by the extent of alignment with the institutional environment; hence organizations have to comply with external institutional pressures" (Kostova et al, 2008, p.997). This would explain why institutional differences are especially important for MNEs operating in various institutional environments (Meyer & Peng, 2005).

Another aspect of the institution based-view is that it influences on firms' strategic choices and strategies like, for instance, entry mode (Meyer et al, 2009) and defines the possibility for bargaining between investors and authorities (Meyer & Peng, 2005). More specifically Dikova and Witteloostuijn (2007) argue that greater institutional advancement is a perquisite for acquisition establishments. This is thesis is also supported by Meyer and Peng (2005). They state that by less developed formal marketing supporting institutions MNCs would choose JVs and alliances as opposed to wholly owned subsidiaries as an entry strategy.

2.3 Institutions and entry modes in emerging economies

As already mentioned strategies in transition economies (also considered as emerging economies, Hoskisson et al, 2000) considerably differ from those in developed ones. Because of this, they can be only explained by taking into consideration the specific institutional environment when making an analysis (Meyer, 2002). Moreover companies that manage to adapt to institutional "pressures" have better chances at acquiring scarce resources and surviving on the foreign market (Newman, 2000).

"An emerging economy can be defined as a country that satisfies two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of free market-system" (Hoskisson et al, 2000, p. 249).

The end of the Communism era (1989) freed a new wave of rapid-growth countries in CEE – transition economies. They were aiming at supporting their market mechanism through liberalization, stabilization and encouragement of private companies (Hoskisson et al, 2000). This in its turn has attracted a huge amount of foreign direct investments (FDI) and trade (Gelbuda et al, 2008). However, the attention of researchers was only recently drawn to the influence of institutions on economic performance (Pournarakis, 2004).

When the communist system had fallen institutions were not in the position to reduce uncertainty and manage stable structure to support interactions and thus reduce transaction costs (Meyer, 2001). Slowly formal institutions were formed. This period of construction is, however, characterized by various difficulties for the international business: overlapping and contradictory legislation, vacuum with incomplete legal frameworks and blurred social norms. In addition to that Western companies entering emerging markets had to cope with high transaction costs, corruption and low protection of property rights (Meyer, 2001). Consequently this transition process could be really challenging for MNEs (Gelbuda et al, 2008). Brouthers (2002) support this by stating that institutional structure weaknesses such as legal restriction on ownership could be a cause for entry barriers.

Institutions also ensure information about business partners and their potential behavior. This on its turn reduces unwanted information asymmetries, which are often a reason for market failure. As already mentioned, many emerging economies have weak institutional environment and this could cause informational asymmetries. Because of this companies run into difficulties and risks regarding partnerships and thus they have to invest more resources in information search (Meyer et al, 2009).

Meyer et al (2009, p. 63) classified institutions as: "strong" – "they support the voluntary exchange underpinning an effective market mechanism - and "weak"- "they fail to ensure effective markets or even undermine markets". This is especially important for the companies operating internationally because formal institutions define the permissible entry modes (Meyer et al, 2009). For instance, legal restrictions could limit foreign equity ownership (Delios & Beamish, 1999).

Hypothesis 1a: (The) Weak formal institutions (in Bulgaria) impede the foreign direct investment process in the country.

O'Cass et al (2012) furthermore argue that an entry mode decision has an influence on the entire company's strategy on a certain market. In countries with more uncertain and violate environments – such as developing countries - MNEs tend to choose low control and ownership modes such as JVs (instead of wholly owned subsidiaries) because this gives them the possibility to stay more flexible (Delios & Beamish, 1999). High level of ownership in such environments could constrain companies to invest more resources, which in turn can lead to switching cost appearance, lower firm's ability to change and thus increase risks (O'Cass et al 2012). In corroboration with this Meyer et al (2009) argue that especially JVs ensure an access to local company resources including networks. Furthermore Peng (2003) formulates a hypothesis according to which during the early phase of transition in emerging economies foreign investors would rather choose JVs and alliances over wholly owned subsidiaries. On the other hand institutional restrictions and constraints such as low protection of property rights are typical for countries with weak formal institutions (Schwens et al, 2011). Where property rights are weak, there is a risk of leakage of company secret information to rivals, which increases the cost by entering an emerging market by a JV (Delios & Beamish, 1999).

Hypothesis 2a: In a country with less developed formal institutions – such as Bulgaria – companies would choose to enter the market by means of JV.

Hypothesis 2b: Companies entering the market with a JV would experience fewer difficulties with (formal institutions).

Institutions, however, play an especially important role by acquisitions (Meyer & Peng, 2005). This entry mode depends much on the market efficiency and especially the financial markets and the market for corporate control. When institutions do not execute their functions and do not support market transactions there is a lack of transparency, predictability and contract enforcement. In addition to that weak institutional environment in transition economies can bring smaller, volatile and less liquid stock markets. All of this does not make acquisitions an especially desired entry mode choice. Another argument against it is that many organizational structures and companies in emerging countries have build their resources around nonmarket forms of transactions and this make them hard for evaluation by potential acquirers. This furthermore increases the complexity and transaction costs of the negotiating process which is needed for acquisition and post-acquisition restructuring (Meyer et al, 2009).

The other option for an entry mode is establishing a greenfield. However, this kind of a project could take a long time and there are also considerable establishment costs to be expected due to slow bureaucratic procedure, for example. Furthermore MNEs could face difficulties with integration in local business networks (Meyer, 2001).

Taking all of the pro- and contra-arguments into consideration it could be concluded that JVs are the best suitable option to enter transition economy markets. Meyer et al (2009) hypnotized that when the institutional environment is uncertain and hostile, foreign companies would have a better chance for success if they have a local partner on their side.

2.4 Institutional environment in Bulgaria

This master thesis explores the impact of institutional environment in Bulgaria on the business strategies of foreign companies operating in the country and more specifically it concentrates on the entry mode strategy choice.

The biggest economic challenge for Bulgaria in the 20th and the beginning of 21st century was the post-social transformation of the social and economic system. One of the main purposes of this process was the replacement of central-planned economy with market economy. This economical transition has two sides: a formal one - institutions change, and an informal one - change of the way people think .This process can be divided into three main stages (http://geopolitica.eu).

The first stage (1990-1996) can be characterized by marking time as far as liberalization of prices and trade are concerned, as well as by reform imitations. The confrontation and the immature behavior of the political elite have hindered the institutional changes and immensely increased the price of the transition process. The first Bulgarian oligarchs appeared (http://geopolitica.eu).

For over a decade after communism's fall formal institutions hardly executed their functions. This was a time of state assets privatization building up new legal frameworks and learning how to be successful in the new environment. In addition to that communists did not disappear together with communism's fall. They managed to stay in power in Bulgaria (as well as in other CEE countries) not as a moderate opposition, but as a winning party on the first elections in 1990 (Grzymala-Busse, 2006).

In 1990s Bulgaria had several things to offer to foreign investors such a cheap labor force and good location. Despite that the uncertain and instable environment has shaken the trust of the potential investors (Kostevc et al, 2007) and Bulgaria landed in an international isolation from a political and financial point of view (http://geopolitica.eu). In 1993 and 1994 the Bulgarian government started institutional reforms by forming a government department for public administration reform. In 1996 a "New strategy of administration reform in Bulgaria" was adopted. However, few of the planned reforms were in fact realized. Judicial reform was delayed. In 1995 the National Securities Commission (NSC) and the National Audit Office (NAO) were established. Despite these reforms, NSC could not properly protect property rights and create transparency laws (Grzymala-Busse, 2006).

Bulgaria had a bad start and lost 7 years by failing to realize almost any kind of reforms. The word "democracy" has gained a negative connotation and has almost turned into a bad word (http://geopolitica.eu).

The second stage (1997-2001) has turned out to be the hardest one but also the most significant one. Many socio-economical reforms were finally realized: the privatization process was almost fulfilled; a new tax system was established. Finally, Bulgaria has turned into an attractive target for FDI and has almost caught up with the other transition economies in Eastern Europe (http://geopolitica.eu). Civil service laws were passed, a National Anticorruption Strategy was set as well as a new law on NAO. Bulgaria was invited to negotiate for an European Union membership. However, regional reforms and an ombudsman position were not led in (Grzymala-Busse, 2006).

In the final third stage (2001-2009) the country has continued this course of reforms. Since 2007 Bulgaria is a member of the European Union. Nevertheless more than 15 years after the beginning of the reforms in the transition economies in Central and Eastern Europe (CEE), the results concerning institutional environment change are still disputable (Manolova et al, 2008). It is argued that the current institutional environment in Bulgaria is hostile, unpredictable and corrupted. Among the key institutional players are law makers, tax collection agencies, and regional authorities issuing various business permits (Manolova & Yan, 2002).

Chapter 3: Methodology

As a research strategy for this master thesis the case study was chosen – the case of the Bulgaria. Case study is defined as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence" (Saunders et. all, 2008, p. 145-146). This kind of strategy contributes for better understanding of the context of the research and the processes. Choosing this research strategy offers several ways of data collection such as: interviews, observation, documentary analysis and questionnaires (Saunders et al, 2008). However, in most of the cases it is most probably to use triangulation – the "use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you" (Saunders et al, 2008, p. 146)

In this master thesis two data collection techniques are going to be used: documentary analysis and a questionnaire.

3.1 Documentary analysis

For the documentary analysis some reports and articles in newspapers are going to be used.

FDIs are a main source of economical growth in Bulgaria because they directly influence on GDP. Furthermore they provide new work places and stimulate technological transfer as a well as management and organizational knowledge. Currently there are not many FDIs but at least they are significantly big (Report "Analysis of the international investment climate and the opportunities for attracting of investments in Bulgaria", retrieved from http://ime.bg/pr_bg/253-2.htm). These are mostly coming from countries which are members of the European Union (EU) and are concentrated in four main sectors as the graphics below show (Figure 1& Figure 2) ("Bulgaria – investment climate and business opportunities", Investbulgaria Agency, retrieved from http://www.investbg.government.bg/en).

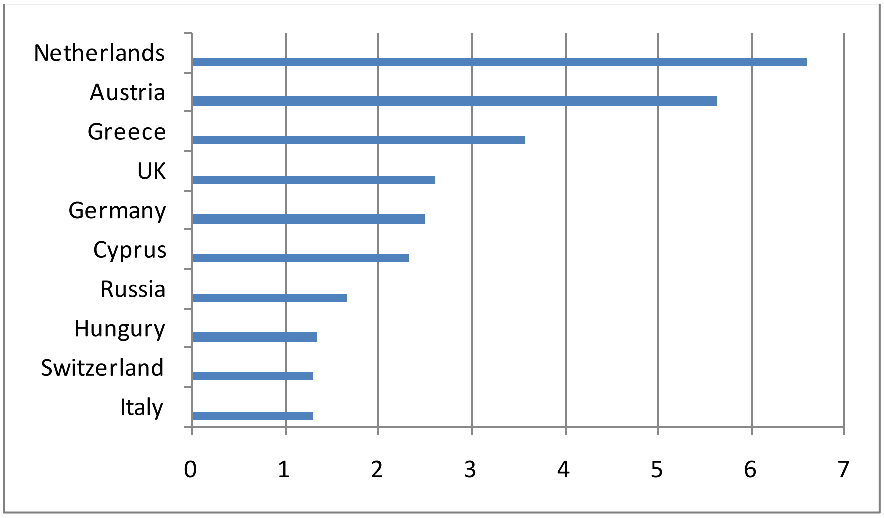

Figure 1: FDI by host country, 1996-2012 (euro mln.)

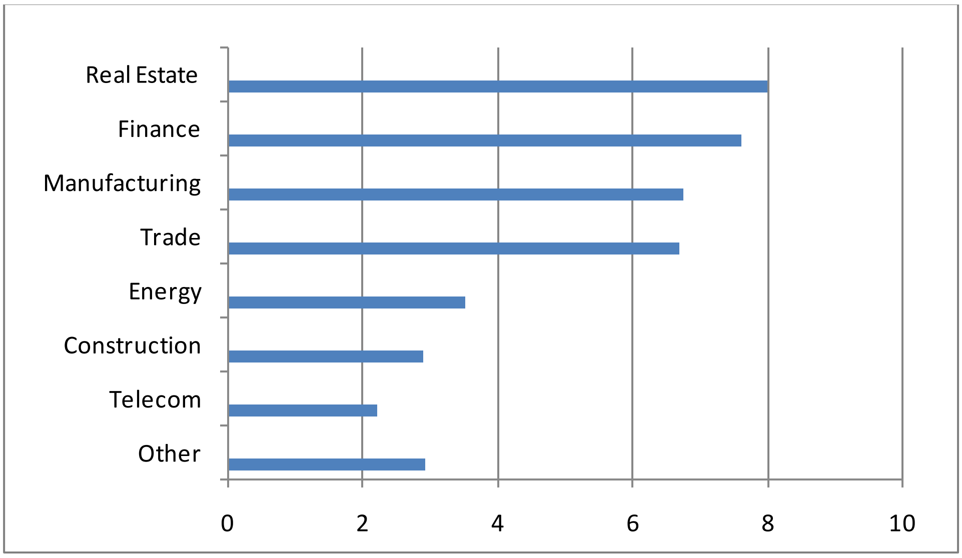

Figure 2: FDI flows by industry, 1996-2012

Bulgaria has advantages as well as disadvantages when it comes to attracting foreign investors. Its strong sides are: nature resources, labor force – significantly cheap and at the same time qualified. Furthermore Bulgaria has one of the most stable political and economic environments in Southeastern Europe. Its strategic geographic location is another strong advantage that the country possesses. For some specific industries the government has developed supporting programs such as Investment Promotion Act (IPA).

In addition to that the biggest investors receive more support by means of a priority investment scheme ("Bulgaria – investment climate and business opportunities", Investbulgaria Agency, retrieved from http://www.investbg.government.bg/en).

In terms of ease of starting a business Bulgaria has made a significant progress over the last years – from 81st position (out of 183 countries) in 2009 Doing Business Report to 65th in 2014 report (retrieved from http://www.doingbusiness.org/data/exploreeconomies/bulgaria/). Bulgaria has also one of the lowest corporate tax rates and personal income tax in Europe. There are also 61 treaties which aim to prevent from double taxation and over 60 agreements on mutual protection and promotion of foreign investors. Furthermore the government and the EU support Bulgarian business by means of IPA incentives, tax incentives, employment and training incentives and EU funds - for the period 2014-2020 Bulgaria will have access to 8 billion euro of EU funds (Project "Promoting the advantages of investing in Bulgaria", retrieved from http://www.investbg.government.bg/en).

The IPA incentives include several aspects: financial support for vocational training of people in order to obtain professional qualifications; ownership rights over real estate; subsidies for infrastructure building; quickened administrative services; and refund of expenses paid by employer for social security and health insurance of employees for 24 months. As far as the tax incentives are concerned they are as follows: possibility for R&D expenditure write-off; 2-year VAT exemption for import of equipment for investment projects for 5 million euro that create minimum 50jobs; and opportunity to use annual rate of tax depreciation up to 50% computer equipment, software etc. The employment and training support include incentives such as up to 1 year minimum salary and reimbursement of social/health care security for employing young people and disadvantaged people through the employment agency (Project "Promoting the advantages of investing in Bulgaria", retrieved from http://www.investbg.government.bg/en).

The main disadvantages are: the investment climate – poor administrative services and transparency, too many procedures needed in order to start a business, a small internal market and remoteness of the country from markets in Central and Eastern Europe as well as poor infrastructure (Report "Analysis of the international investment climate and the opportunities for attracting of investments in Bulgaria", retrieved from http://ime.bg/pr_bg/253-2.htm).

According to the Bulgarian Academy of Science (BAN) the institutional environment in 2011 has become worse. Bulgaria has lost positions on the international grading of competitiveness and conditions for making business. The most problematic areas are institutions, infrastructure, innovations, business development and technological readiness and market size ("Annual Report for Economic Development and Policy in Bulgaria: Grades and Expectations" of BAN, 2012, retrieved from: (http://iki.bas.bg/files/doklad_2012c.pdf).

The Bulgarian Investment Agency has conducted together with A.T. Kearny (an international management consulting company) a FDI strategic analysis. The results show that Bulgaria needs to change its strategy for attracting FDI. Some of the basic problems of the country are: efficiency of state institutions and law applicability, bureaucracy procedures and their transparency, lack of macroeconomic and legal stability and predictability and others. On the other hand the report states that Bulgaria is a country with law tax rate and relative law cost of local business operations. There is flat tax of 10% on corporate and personal income, which is the lowest one in the EU. A.T. Kearney has conducted a survey among foreign investors in Bulgaria. In their opinion the government's role in facilitating the investment process is crucial. The investors define the main problems as lack of competent network in automation/tooling, lack of adequate infrastructure and rule of law, not enough production companies and lack of technical and management expertise (Strategic Analysis Project).

It is also interesting to take a look at the results from the economic freedom index developed by the heritage foundation. This index has been wide used (Meyer et al, 2009). In addition to that Bengoa & Sanchez-Robles (2003) have established that it has a positive relation to FDI inflows. The economic freedoms are divided into 4 categories: Rule of law, limited government, regulatory efficiency and open markets. Out of the 4 groups 5 items are here of importance and namely: business freedom, trade freedom, property rights, investment freedom and financial freedom (Miller et al, 2013). The rest of the freedoms – monetary freedom, freedom from government, fiscal freedom, freedom from corruption and labor freedom - are not considered as relevant for this study since they do not influence directly on the market efficiency (Meyer et al, 2009). Each one of the items is graded by means of a scale from 0 to 100 (Miller et al, 2013). According to the research Bulgaria has a score of 60 which makes it the 60th freest country in the world in 2013 and 29th freest in the region. Regarding the single freedoms of interest the results are as follows: business freedom – 73,6 points and 55th place, trade freedom – 86,8 points and 11th place, property rights – 30 points and 94th place, investment freedom – 55,0 points and 79th place, and financial freedom – 60,0 point sand 40th place (Miller et al, 2013).

Other sources like the "Capital" newspaper argue that in 2012 the interest of foreign investors has been awakening. Statistics coming from the Bulgarian National Bank (BNB) show that only over the first three months of the year 236 million euro has entered the country. In addition to that there is a small withdrawal of FDI to be seen. Despite this small success there is still much to be done in order to increase FDI in the long term. The low taxation needs to be preserved but in addition to that the legislation needs to become more transparent (Capital Newspaper, retrieved from: http://www.capital.bg/politika_i_ikonomika/bulgaria/2012/05/16/1828750_interesut_na_chujdite_investitori_kum_bulgariia_se/)

The documentary analysis shows some contradictory results. Nevertheless, it is clear that Bulgaria has some problems which should be solved in order to attract more foreign investors.

3.2 Questionnaire

The type of this research can be defined as an explanatory one. The purpose of such a study is to establish a relationship between variables (Saunders et al, 2008). In this case these are the entry mode choice – M&As, JV or greenfield as the dependent variable, and the institutions (the ones having more influence on the process of making business in Bulgaria and namely the market supporting ones, Meyer et al, 2009) as the independent variables. In order to establish this relationship a questionnaire consisting of 35 questions was developed (Appendix A). A questionnaire "include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order" (Saunders et al, 2008). Saunders et al (2008) argue that this kind of technique is especially suitable for explanatory studies because it gives an opportunity to examine and explain the relationships between variables and more specifically cause-and-effect relationships. The questionnaire is a combination of an already existing survey – "Questionnaire on entry strategies in Central and Eastern Europe (CEE)" (Unger, Dikova & Wildpaner,) - and questions that have been developed by me. The first section includes general questions about the company. The second one consists of genral questions regarding the institutional environment in Bulgaria. The third section examines the choice of entry mode and the possible difficulties that a company may have had when entering the market. The final part of the questionnaire concentrates further on other institutions and on how the participants assess their investment.

3.2.1 Measurement

The results of the questionnaire are going to be processed by means of SPSS. This is an efficient system for statistic data analysis and includes all of the classic methods of the modern statistics (Eckstein, 2012; Lehnert, 2000). Furthermore besides the descriptive a correlation and a regression analysis were conducted. These were chosen because they serve the purposes of this study at best. By means of the analyses the relationship between the independent variables and the dependent one could be established. In addition to that the regression analysis allows exploring the correlation between several predictors and an outcome (Field, 2013).

In order to measure the reliability of the questionnaire the Cronbach's α is going to be used. According to Field (2013) α should be applied separately to the subscales of the questionnaire. Because of that Cronbach's α was generated first for questions 1-5 from Section B and then for questions 1-9 from Section D. For the first subscale α= .67, which is almost as .7 and is usually accepted as reliable (Field, 2013). Cronbach's α for the other subscale is .43, which is much below 7. This is a low value for α but still a respectable one (Field, 2013). Cortina (1993) furthermore explains that low α-levels could be due to low correlation results.

3.2.2 Sample

According to a list provided by the Bulgarian Investment Agency there are 106 major foreign investors in Bulgaria in 2013 (retrieved from: http://www.investbg.government.bg/bg/pages/drugi-analizi-i-statistika-222.html). The biggest shares have as follows: Germany – 27 subsidiaries, the USA – 14, and Austria 11. Nevertheless the companies on that list weren't enough in order to a decent number of participants willing to fill in the questionnaire. Because of this further research on the internet was made in order to find more companies with investments in Bulgaria. These are the base population (Meyer et al, 2009).The companies were asked to participate in my master project. The sample consists of top managers in the foreign subsidiaries of companies in Bulgaria or managers from the headquarters who were responsible for the subsidiary in Bulgaria at the time the investment was made. The reason for this is that they are the people who are aware of the most important aspects of the local context and the local environment (Meyer et al, 2009).

3.2.2 Data collection

The data was collected in two ways – emails and phone calls. The initial plan of action was to contact the potential participants by email only. This allows to reach more people in less time as well as to give them a little bit more time to fill in the questionnaire in case they are hindered at the moment of receiving the email. However, due to an extremely low quota of received filled in questionnaires a new strategy was needed and namely – making phone calls. This more direct and more invasive way to reach people gave better results. In parallel with the phone calls more emails were sent till a decent number of participants was reached – 51.

Chapter 4: Research findings

This chapter is going to discuss the results of the conducted survey. The most important outcomes of the research are going to be presented supported by some graphics and tables. First some general analysis is going to be made, followed by a correlation and a regression one. In this chapter the above made hypotheses are also going to be discussed.

4.1 Descriptive analysis

The analysis is going to start by examining what kind of entry mode strategy each of the companies has chosen. The results show that more than half of them – 54,9% - have decided to enter the Bulgarian market by stating from a scratch, followed by M&As – 27,5%, and at last JV – 17,6% (Figure 3). These outcomes reject undoubtedly Hypothesis 2a. The other aspect in this section that deserves attention is the industry that each of the companies invested in. According to the survey the sector with the most investments is manufacturing (29,4%). The second place is taken by service (43,1 %), and the third one – by trade (7,8 %) as shown on Figure 4.

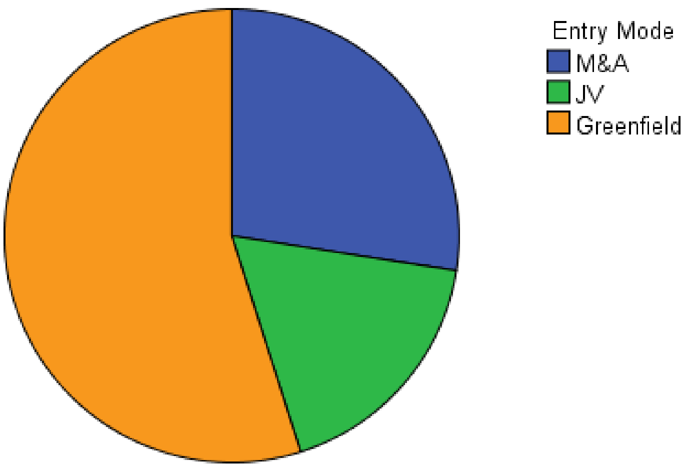

Figure 3

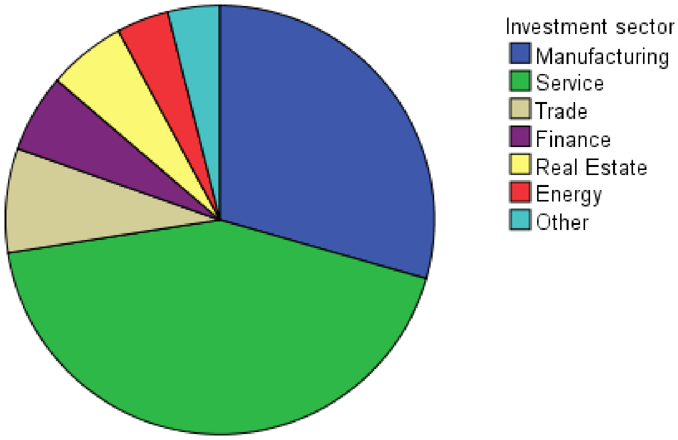

Figure 4

4.2 Correlation analysis

The analysis in this part is going to be made by means of Pearson Chi-Square (a correlation matrix can be found in Appendix 2). First the correlation between institutions and entry mode choice is going to be tested. For this purpose the questions examining this matter are divided in several groups. The first one includes questions about the general institutional environment, the second one is concentrated on the administration, the third – on market supporting institutions, and the fourth one – institutional restrictions. The results (Table 2-5) showed mostly weak positive and negative correlations which are statistically not significant ($p<.05$). However, there also some mediate correlations to be seen which are statistically significant. The independent variable "government ability to enforce laws" has, for example, a medium positive correlation to entry mode ($r= -.33$, $p=.019$). The same can be concluded for "sector investment restrictions" ($r= -.30$, $p=.033$). The last statistically significant negative correlation is between "too many procedures to start a business" and entry mode ($r= -.32$, $p=.024$).

Table 2: Pearson's R correlation coefficients with entry mode

Variable	Correlation coefficient	P-Value	N
Political, economical and social stability	,211	,137	51
Converting. and repatriating income risk	-,013	,929	51
Corruption level	,036	,801	51
Gov. ability to enforce laws	,327	,019	51
Agencies/Institutions efficiency	,125	,382	51

Table 3: Pearson's R correlation coefficients with entry mode

Variable	Correlation coefficient	P-Value	N
Bureaucratic procedures made your work slower	-,167	,241	51
The admin. services are poor	-,100	,487	51
Too many procedures to start a business	-,316	,024	51

Table 4: Pearson's R correlation coefficients with entry mode

Variable	Correlation coefficient	P-Value	N
Property rights well secured	,122	,393	51
Level of transparency on the market	-,010	,944	51
Many non-market transactions	,104	,466	51

Table 5: Pearson's R correlation coefficients with entry mode

Variable	Correlation coefficient	P-Value	N
Many landownership restrictions	,151	,291	51
Sector investment restrictions	,299	,033	51
High capital control by the government	-,064	,657	51

The analysis of the study results is furthermore deepened by testing the correlation between the choice of entry mode and the potential difficulties by entering the Bulgarian market (Table 6). Can one say that a certain entry mode strategy choice comes along with (more) difficulties (than another)? It was established that there is no correlation between the two variables (Eckstein 2012; Lehnert 2000).

Table 6: Pearson's R correlation coefficients with entry mode

Variable	Correlation coefficient	P-Value	N
Difficulties when entering the market	-,118	,411	51

On the basis of the conducted tests in this section some conclusions regarding the hypotheses are going to be made. The results partially support Hypothesis 1 and reject Hypothesis 2b.

4.3 Regression analysis

The regression analysis is going to be made by means of several models which are constructed in a similar way as the correlations in the previous section. The first four include the different institutions as independent variables and entry mode as a dependent one. Model number one examines the general institutional environment and its influence on entry mode strategy. The second one is concentrated on the administration, the third – on market supporting institutions, and the fourth one – institutional restrictions. The next model is concentrated on entry mode and the presence of difficulties which may derive from this choice. The last one combines models 1-4 in order to examine the joint influence of institutions on entry mode strategy.

The first regression model (Figure 5) that is going to be examined includes entry mode as the dependent variable and "General stability of the political, economical, and social conditions", "Risk of barriers to converting and repatriating your income", "Level of corruption in government and local administration", "Government's ability to enforce existing laws", "Efficiency of the government's agencies/institutions" as independent ones. The outcomes (Table 7) show that R^2 =, 144 which means that all of the independent variables can account for 14,4% of the variation of entry mode choice. It also tells us that there is a weak correlation between the independent variables and the dependent one. The β coefficient gives us the opportunity to compare the effect strength of each of the independent variables and find out which has the strongest influence on the dependent variable (Field, 2013). In this case this is "Government's ability to enforce existing laws".

Model 1

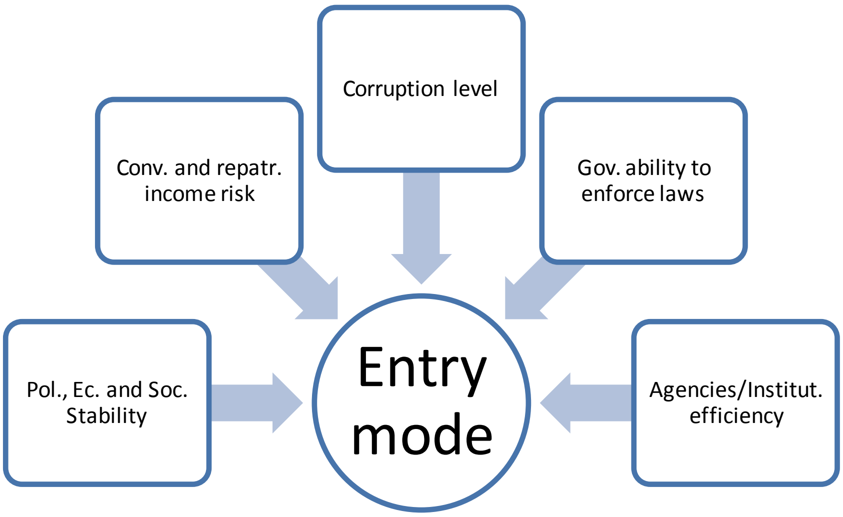

Figure 5

Table 7: Regression analysis of the following independent variables with entry mode

Dependent variable			Entry mode	
	B	**SE**	**B**	**P**
Constant	1,788	,494		,001
Political, economical and social stability	,153	,138	,204	,277
Converting. and repatriating income risk	-,036	,110	-,046	,746
Corruption level	-,074	,142	-,089	,606
Gov. ability to enforce laws	,320	,147	,386	,035
Agencies/Institutions efficiency	-,182	,204	-,184	,376
R^2	,144			

The next regression model presents the influence of “The local bureaucratic procedures made your work slower and more complicated”, “The administrative services in Bulgaria are poor”, “There are too many procedures in order to start a business in Bulgaria” on entry mode choice (Figure 6). The independent variables are responsible for 11% of the variety in entry mode choice, R^2 =, 110. This value furthermore means a weak correlation. Here the most influential variable according to the β coefficient is “There are too many procedures in order to start a business in Bulgaria”.

Model 2

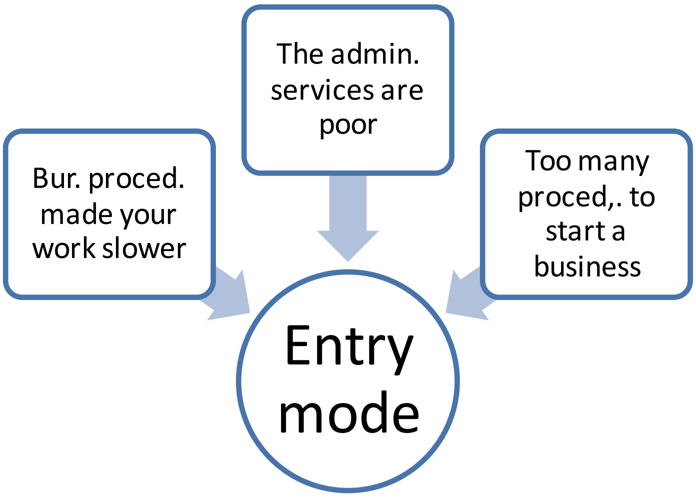

Figure 6

Table 8: Regression analysis of the following independent variables with entry mode

	Dependent variable		Entry mode	
	B	**SE**	**B**	**P**
Constant	3,222	,496		,000
Bureaucratic procedures made your work slower	-,044	,121	-,059	,714
The admin. services are poor	-,044	,116	-,059	,705
Too many procedures to start a business	-,237	,114	-,297	,044
R^2	,110			

The third model (Figure 7) covers the same dependent variable as in the first two models and the following independent variables: ´There are many nonmarket transactions on the Bulgarian market", "The property rights of the company are well secured by the Bulgarian law", "There is a high level of transparency on the Bulgarian market". This model accounts only for 2% of the variation in entry mode strategy (R^2 =,024). The correlation here is as in the other regression patterns weak. According to the Beta coefficient the number of nonmarket transitions has the strongest strength effect.

Model 3

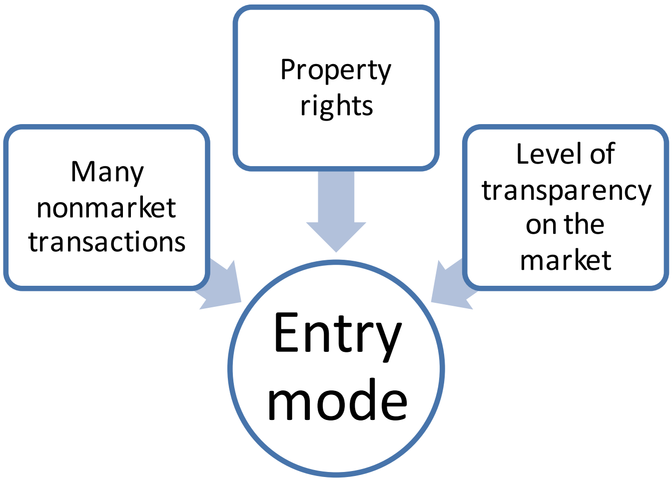

Figure 7

Table 9: Regression analysis of the following independent variables with entry mode

Dependent variable			Entry mode	
	B	SE	B	P
Constant	1,627	,730		,031
Property rights well secured	,085	,112	,114	,452
Level of transparency on the market	,059	,158	,060	,711
Many non-market transactions	,084	,130	,103	,520
R2	,024			

The regression analysis continues with another model (Figure 8) concerning institution influence on entry modes. Here the independent variables are "There is high capital control in Bulgaria and the most of the transactions require government control", "There are sectoral investment restrictions in Bulgaria", "One could say there are many land ownership restrictions". This model can explain 16% (R^2=,166) of the variety in the dependent variable. On the basis of this value it can be concluded that the correlation here as well as by the above discussed models weak is. The variable with most influence entry mode choice is the "Sectoral investment restrictions".

Model 4

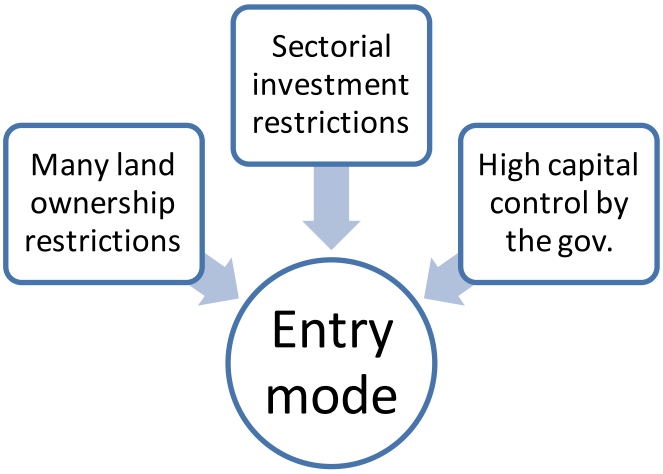

Figure 8

Table 10: Regression analysis of the following independent variables with entry mode

Dependent variable			Entry mode	
	B	**SE**	**B**	**P**
Constant	1,565	,468		,002
Many landownership restrictions	,126	,156	,109	,426
Sector investment restrictions	,402	,145	,437	,008
High capital control by the government	,298	,153	-,303	,058
R^2	,166			

The last fifth model (Figure 9) is a simple regression in comparison to the other ones which can be defined as a multiple regression (Field, 2013). It examines if there is a correlation between the entry mode choice and the difficulties when entering the Bulgarian market. The R^2=,014 explains only 1% of the variety of difficulties and show an extremely weak correlation.

Model 5

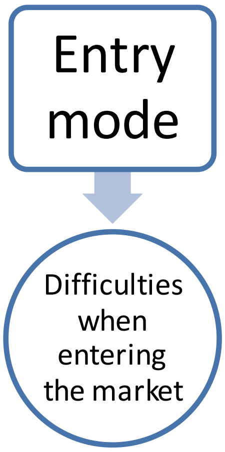

Figure 9

Table 11: Regression analysis of the following independent variable with difficulties when entering the market

	Dependent variable B	SE	Difficulties when entering the market B	P
Constant	1,625	,199		,000
Entry mode	-068	,082	-118	,411
R^2	,014			

The last model (Figure 10) is a combination of the first four models as already mentioned. Here R^2=,489, which means that this model can explain almost 50% of the variety in the dependent variable. On the basis of this value it can be concluded that the correlation here in comparison to the above discussed models is strong.

Model 1-4 and model 6 examine the institutional influence on entry mode and account together for 43,4% of the variety of the entry mode choice. These results support hypotheses 1a and reject Hypothesis 2b as did the correlation analysis. However, they do that only partially because of the weak correlations.

Model 6

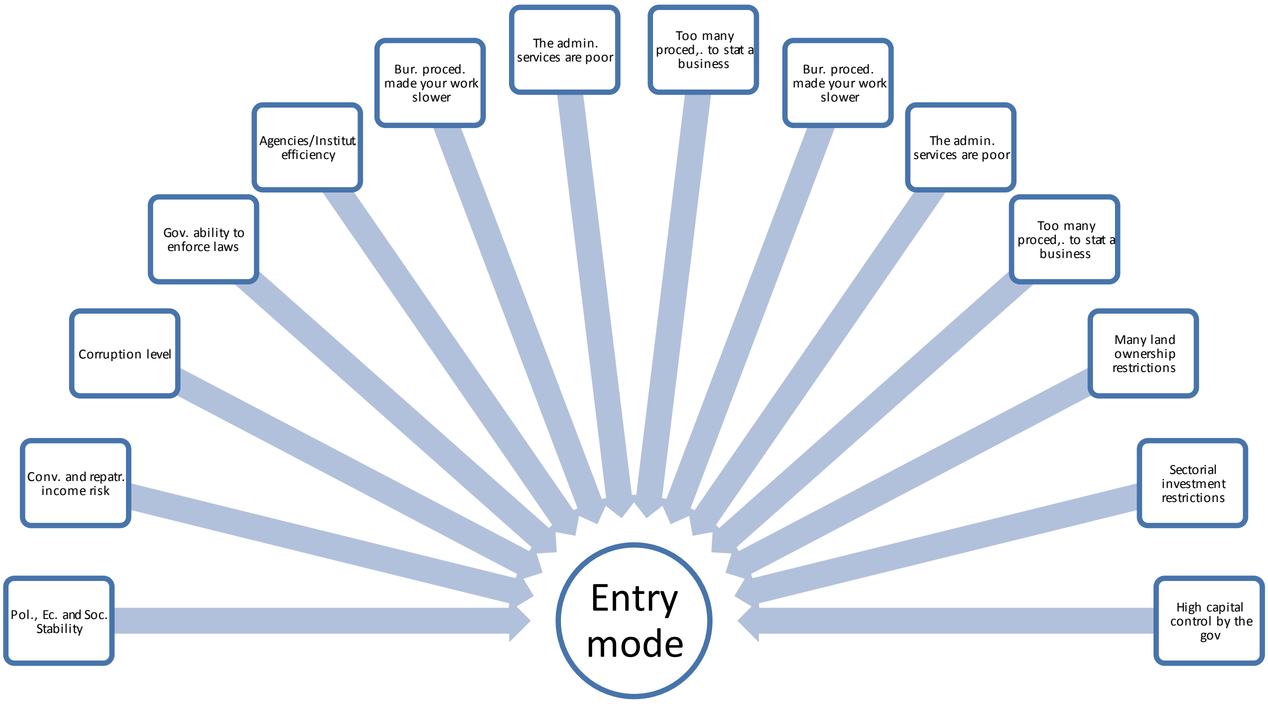

Figure 10

Table 12: Regression analysis of the following dependent variables with entry mode

	Dependent variable		Entry mode	
	B	**SE**	**β**	**P**
	,753	1,298		,565
Political, economical and social stability	,222	,131	,297	,098
Converting. and repatriating income risk	-,042	,116	-,053	,722
Corruption level	-,004	,148	-,005	,980
Gov. ability to enforce laws	,347	,154	,419	,030
Agencies/Institutions efficiency	,068	,258	,068	,794
Bureaucratic procedures made your work slower	,130	,147	,173	,381
The admin. services are poor	,194	,127	,261	,135
Too many procedures to start a business	-,257	,189	-,260	,182
Property rights well secured	-,031	,131	-,038	,814
Level of transparency on the market	-,160	,125	-,213	,209
Many non-market transactions	-,171	,118	-,215	,154
Many landownership restrictions	,005	,169	,004	,977
Sector investment restrictions	,526	,157	,571	,002
High capital control by the government	-,280	,149	-,284	,069
R^2	,489			

Chapter 5: Evaluation of the conducted research

In this chapter several points are going to be discussed. First a discussion about the conducted research and its results is going to be presented. After that in the conclusion part the research question is going to be answered. Next, the theoretical and practical implications are going to be outlined. Finally, some limitations of the study and propositions for future research are going to be considered.

5.1 Conclusion

The main purpose of the conducted study is to answer the research question and namely: "*To what extend do institutions enable or constrain the market entry of foreign companies in Bulgaria"?* In the previous chapter the theoretical framework was in details compared with the study results. Since the survey outcomes don not completely fit with the literature review the research question cannot be answered explicitly. On the one hand the theoretical framework presented in this master thesis suggests that institutions in Central- and Eastern-European countries and more specifically in Bulgaria are more likely to constrain companies entering the market. However, the survey results cannot fully confirm this point of view.

5.2 Discussion

In the previous chapter some outcomes were presented. In this section they are going to be summarized and compared to the ones from the literature review. First of all, one of the most significant and maybe surprising outcomes is the fact that according to the conducted survey there is almost no correlation between the institutional environment in Bulgaria and the way foreign investors chose to enter the market. The results from the correlation analysis could only partially confirm Hypothesis 1. The regression analysis, however, did explain almost 50% of the variety in entry mode choice which supports Hypothesis 1 more convincingly. So here is no big gap between literature and practice to be found.

It was established that most of the companies have entered the Bulgarian market by starting from scratch. In the above discussed literature all of the entry modes were outlined with their advantages and disadvantages in regard to an institutional environment in an emerging economy. On basis of that it was concluded that the most suitable entry mode in such countries is the JV. Here comes the first big gap between the conducted research and the theoretical framework. Hypothesis 2a was rejected by the conducted research since most of the companies chose starting from scratch as an entry mode strategy.

The last hypothesis 2b was completely rejected by both the correlation and the regression analysis. These results do not support the literature review conclusions as well. The theoretical framework suggests, as already mentioned, that JV is the more suitable entry mode. This means that a certain company would have fewer difficulties by choosing this strategy. However, the research shows no connection between these two variables.

As it can be seen only one of the hypotheses has been supported by the conducted research and in this way also confirms to some extend what the literature says. Nevertheless, the rest of the hypotheses show some significant gaps which can be a cause for new future studies.

5.3 Theoretical and practical implications

5.3.1 Theoretical implications

First of all there isn't much literature on this topic and even less when it comes particularly to Bulgaria. In addition to that a small part of the research made dates from the last couple of years. The theoretical framework built in chapter 2 includes most of the existing and significant literature written on entry mode strategies and institutional environment in CEE. Furthermore the literature review presents possible relationships between these two variables. A separate table was developed to summarize the advantages and disadvantages of the different entry modes. Since no extensive study on this topic was concentrated on Bulgaria, this master thesis provides new and up to date information and gives an impetus for a more deep research in the future. Another theoretical contribution is the questionnaire that has been developed especially for the case of the small Eastern-European country.

5.3.2 Practical implications

One of the most important practical implications of this master thesis is that it could give future potential investors some more perspectives. It can help them asses the investment and the institutional environment in Bulgaria. The country is a relatively new member of the European Union and has an economy that is still in transition. Nevertheless the Bulgarian market is not yet saturated with too many products and services and because of that it is still attractive for companies wanting to expand to CEE. That is why it is very important that there is enough up to date and accurate information about the market conditions. This master thesis contributes a lot in this direction.

5.4 Limitations and future research

This master thesis has a couple of limitations. The first one concerns the participants in this study. It was extremely difficult to convince people to take part in the survey. This was due to various reasons: lack of time, receiving too many requests to participate in similar projects, fear that the information would be used for other purposes etc. It was extremely difficult to get the necessary number of participants in order to be able to conduct this study. From that follows the first limitation: the survey would be more successful and more statistically accurate with more companies. So for future research I would suggest to try to get more companies to take part in it. Second of all it would also make sense to make a separate study in several industry sectors. In this way the results are going to be more accurate and significant. In addition to that I propose to conduct a qualitative study along with the quantitative one. This would help to deepen the research even further and get a better understanding of the matter.

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Appendix 1: Questionnaire

The following questions should be answered with respect to the investment in Bulgaria thinking back to the conditions at the time of the market entry.

Section A

1. Initially, your operations in the country were set up as:
   a) Merger or Acquisition - M&As – (______% owned)
   b) Joint Venture – JV - (______% owned)
   c) Start operation from scratch – Greenfield - (______% owned)

Note:

M&As is merging with or acquiring an established entity in a foreign country.

JV means that the business is jointly owned by two or more firms.

Start up (Greenfield) is establishing of a wholly owned subsidiary.

2. If there was an ownership change in later months/years in your operations in Bulgaria, please specify what change (increase or decrease of ownership, other) and in what year it was made.

____

____

3. Total number of employees in the subsidiary.

   Initially: ____________________
   Currently: ___________________

4. Please specify the specific industry you invested in:

____

Section B

Please state your opinion on each of the following factors, thinking back to the time of investment.

1. General stability of the political, economical, and social conditions:

Very unstable 1 2 3 4 5 Very stable

2. Risk of barriers to converting and repatriating your income:

Very high risk 1 2 3 4 5 Very law risk

3. Level of corruption in government and local administration:

Very corrupt 1 2 3 4 5 Very incorrupt

4. Government's ability to enforce existing laws:

Very unable 1 2 3 4 5 Very able

5. Efficiency of the government's agencies/institutions.

Very inefficient 1 2 3 4 5 Very efficient

6. At the time, were there any legal restrictions on the level of ownership that foreign companies were allowed to have in the country?
   a) Yes
   b) No

7. Did the Bulgarian government intervene with your business activities in any way? If yes, please elaborate:

____

____

____

Section C

1. Do you have subsidiaries in other foreign countries other than Bulgaria?
    a) No
    b) Yes, in 1-5 other countries
    c) Yes, 6-10 other countries
    d) Yes, more than 10
2. Why did you choose to invest in Bulgaria?
    a) Nature resources
    b) Cheap labor force
    c) Geographic location
    d) Other________________________

3. Why did you choose to enter the market with a partner? Please answer version 1 if you have entered the market by means of JV (with a partner) and version 2 – by means of M&As or Greenfield (without a partner).

    Version 1: With a partner

    a) This secures an access to local company resources (including networks)
    b) A smaller investment is needed
    c) The risk of investing alone is to high
    d) Other________________

    Version 2: Without a partner

    a) Because of the full ownership full control over operations
    b) Fear of information leakage and loss of competitive advantage
    c) Other_________________
4. Did the opening of the subsidiary take longer than expected? If yes, please answer also questions 5 and 6.
    a) No
    b) Yes
5. How much longer did it take?
    a) 1-3 months
    b) 4-6 months
    c) 7 months to a year
    d) More than a year
6. What were the reasons for the delay?
    a) Internal
    b) Slow bureaucratic procedures
    c) Unexpected problems
    d) Other__________________
7. Was there any kind of difficulties by entering the Bulgarian market? If yes, please

answer question 8 as well.

a) No
b) Yes

8. What kind of difficulties?
    a) With the government and local agencies and institutions
    b) Cultural clashes with the local partner/work force
    c) Lack of transparency on the market
    d) Other________________

Section D

The answers are formed by means of scale from 1 to 5, where 1 is strongly disagree, 2 – disgree, 3 – neutral, 4 – agree, and 5 – strongly agree.

1. When opening the subsidiary in Bulgaria the local bureaucratic procedures made your work slower and more complicated.

1 2 3 4 5

2. The property rights of the company are well secured by the Bulgarian law.

1 2 3 4 5

3. There is a high level of transparency on the Bulgarian market.

1 2 3 4 5

4. There are many nonmarket transactions on the Bulgarian market.

1 2 3 4 5

5. The administrative services in Bulgaria are poor.

1 2 3 4 5

6. There are too many procedures in order to start a business in Bulgaria.

1 2 3 4 5

7. One could say there are many land ownership restrictions.

1 2 3 4 5

8. There are sectoral investment restrictions in Bulgaria.

1 2 3 4 5

9. There is high capital control in Bulgaria and the most of the transactions require government control.

1 2 3 4 5

10. Considering the institutional environment there is a high risk when investing directly in Bulgaria.

1 2 3 4 5

11. Before entering the Bulgarian market you were well aware of the institutional environment in the country.

1 2 3 4 5

12. The process of entering the Bulgarian market was harder than expected.

1 2 3 4 5

13. If you had the possibility you would choose the same entry mode as you already did.

1 2 3 4 5

14. The Bulgarian law supports FDI in the country.

1 2 3 4 5

15. All in all the investment in Bulgaria was worth it.

1 2 3 4 5

Appendix 2: Correlation matrix

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.	Entry Mode	1,00														
2.	Pol., Ec. and Soc. Stability	,21	1,00													
3.	Conv. and repatr. income risk	-,01	-,08	1,00												
4.	Corruption level	,04	,53**	,02	1,00											
5.	Gov. ability to enforce laws	,33*	,41**	,15	,29*	1,00										
6.	Agencies/Institut. efficiency	,12	,60**	,04	,51**	,61**	1,00									
7.	Bur. proced. made your work slower	-,17	-,37**	,01	-,23	-,54**	-,65**	1,00								
8.	Property rights well secured?	,12	-,43**	,39**	-,49**	-,12	-,27	,22	1,00							
9.	Lev. of transparency on the market?	-,01	,45**	,11	,50**	,48**	,63**	-,19	-,24	1,00						
10.	Many nonmarket tranactions?	,10	-,23	-,19	-,44**	-,04	-,18	-,09	,22	-,41**	1,00					
11.	The admin. services are poor	-,10	-,48**	-,04	-,42**	-,29*	-,59**	,45**	,39**	-,40**	,13	1,00				
12.	Too many proced. to start a business?	-,32*	-,14	,08	-,32*	-,29*	-,20	,27	,15	-,20	,21	,05	1,00			
13.	Many land ownership restrictions	,15	-,27	,10	-,16	,18	,04	-,07	,30*	-,10	,18	,22	-,22	1,00		
14.	Sectoral invest. restrictions	,30*	-,29*	-,22	-,35*	-,35*	-,42**	,12	,19	-,48**	,44**	,33*	-,07	,18	1,00	
15.	High capital control by gov.	-,06	-,06	-,16	-,17	-,26	-,14	-,05	,04	-,38**	,34*	,16	,01	,12	,52**	1,00