The Impact of Foreign Ownership on Subsidiaries: Positive, Negative, Balanced or Neutral?

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Abstract

The paper investigates the impacts of foreign direct investment (FDI) inflows on Estonian firms. After reviewing the literature on positive and negative impacts of FDI on subsidiaries and their host countries and also on the factors leading to different impacts of FDI, it presents three case stories: Silvano Fashion Group, Estmilk Production and the impacts of Tolaram Group from Singapore on its four firms – Baltex 2000, Horizon Pulp and Paper, Qualitex and Baltex Nonwovens – in Estonia. Thereafter, managerial implications are provided. The paper concludes that it is hard to foresee all the effects a certain foreign direct investment may cause for a specific enterprise and the host economy, in general. Often, some interest groups may prevalently benefit, while some others may lose and yet for others, the impact may be minimal or the positive and negative impacts may balance one another. Moreover, the impact of FDI may change over time.

Keywords: foreign direct investments, multinational corporations, foreign subsidiaries, transition economies, case study

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1. Introduction

In the international business literature, the impact of foreign direct investments (FDI) on their host countries has achieved considerable attention. A majority of such studies have brought out positive impacts. Moreover, according to UNCTAD (2006), in 2005, out of 205 new measures affecting FDI and multinationals adopted by 93 countries, 164 made conditions more favorable for foreign investors. On the other hand, some studies have also tried to emphasize negative effects (see, for instance, Vissak and Roolaht, 2005) or pay equal attention to both (see, for example, Dunning, 1994). Still, according to some authors – for instance, Mencinger (2003) and Sinani and Meyer (2004) – there is a need to develop the field further as the results of previous studies have been somewhat mixed and the arguments for positive and negative effects of FDI are equally strong; moreover, the context under which the impacts of FDI occur has not still received much research attention. Studying such impacts is especially important for small, developing and transition economies as they could be more strongly influenced by foreign capital than large and/or more developed countries.

The paper aims to investigate the impacts of FDI inflows on Estonian firms. Estonia's smallness in terms of its population (1.34 million) and a relatively modest GDP per capita (9740 EUR in 2006) has led to its large dependence on FDI: by the end of 2006, the country's inward FDI stock per capita had increased to 94.8 percent of GDP (Bank of Estonia, 2007, Statistics Estonia, 2007). By UNCTAD's most recent Inward FDI Potential Index, Estonia was fourth in the world, following Azerbaijan, Brunei Darussalam and Hong Kong (UNCTAD, 2006).

The paper starts with a literature review. It presents an overview of the literature on positive and negative impacts of FDI inflows on host country enterprises and, to some extent, the countries, in general, and also on the factors leading to different impacts of FDI. After the methodology section, case study evidence on Silvano Fashion Group, Estmilk Production and four firms belonging to Tolaram Group from Singapore – Baltex 2000, Horizon Pulp and Paper, Qualitex, Baltex Nonwovens – is introduced and discussed. The paper ends with some managerial suggestions and research implications.

2. Literature Review

The positive impacts of FDI. According to the industrial organization approach, multinational enterprises should possess advantages – like technology, management or marketing skills, cost effectiveness, an established market or financial strength – compared to local firms (Hymer, 1976, Kindleberger, 1969). Thus, the subsidiary could acquire capital from the foreign owner and also gain in terms of technology, business techniques, skilled personnel or market channels (Hymer, 1976, Caves, 1996). Several positive impacts of FDI on host country enterprises – like improving labor quality, increasing exports and developing entrepreneurial skills – have also been demonstrated in the "flying-geese" model (Kojima, 1975, 2000). Some authors belonging to the IMP Group (Håkansson and Snehota, 1989, 2000) have stated that through network relationships (not necessarily between foreign owners and their subsidiaries), firms can mobilize and use some resources controlled by the other parties; moreover, relationships can be crucial means for increasing an enterprise's ability to innovate and to take part in technological development. Several authors (for example, Blomström, 1990; Dunning, 1994; Kaminski and Smarzynska, 2001; Lall, 1993; Lauter and Rehman, 1999) have claimed that a company may internationalize fast after acquisition by a foreign enterprise because it will get assistance in creating business contacts abroad, dealing with product design, branding, packaging, distribution, servicing and shaping a new product image; moreover, it can get access to superior know-how. It has also been stated that host country subsidiaries should gain from increased product quality and productivity and more advanced work cultures (Dunning, 1994). Their ability to hire the best workers by paying higher wages may also increase (Lipsey and Sjöholm, 2005). In addition, due to their owner's bargaining power, they may achieve higher subsidies or other benefits from their host government (Blomström, Globerman and Kokko, 1999).

Host-country enterprises can also gain from the positive impacts of FDI on the whole host economy. For instance, it has been claimed that the host country should benefit from the emergence of new industries (Kojima, 2000) and clusters, larger exports, more efficient resource allocation, knowledge and technology spillovers and, as a result, increased GDP, tax revenue and international competitiveness (Dunning, 1994). In addition, foreign investors often contribute by creating new technology-oriented jobs (Agmon, 2003), forcing their competitors to increase their efficiency (Blomström and Kokko, 1996) and increasing consumer welfare (Lipsey and Sjöholm, 2005).

The negative impacts of FDI. Although it is hard to argue against such a large number of positive impacts of FDI, it should not be forgotten that the main objective of the multinational firm is to maximize the value to its shareholders mostly located outside the host country, not to contribute to the host economy (Agmon, 2003). Thus, foreign owners can cause problems for their own subsidiaries: reduce their innovativeness (Chudnovsky and López, 1999), transfer useless, inapplicable or even harmful knowledge (Karlsen et al., 2003), make them continue with low-value-added activities instead of developing others, cut off their foreign markets or confine their linkages with the firms from outside the multinational network (Dunning, 1994). In addition to the above negative impacts, the foreign-owned company can also find itself in a difficult situation if the foreign owner goes bankrupt or sells the subsidiary to another firm; moreover, conflicts between foreign owners and their subsidiaries are also quite common (Medcof, 1997).

FDI can also cause some harm for the host economies: for example, by introducing unacceptable values, interfering in the country's politics, using transfer pricing (Dunning, 1994), lowering the GDP (Mencinger, 2003), worsening the balance of payments if the investments are made for market-seeking reasons (Brouthers, Werner and Wilkinson, 1996), cutting down their number of employees, harming the environment (Walters and Blake, 1992) and transferring their activities to other countries if their business environment becomes less favorable: for instance, if labor costs increase (Blomström and Kokko, 1996). In addition, host countries may lose national control over strategic economic sectors; moreover, local enterprises might be displaced (Chudnovsky and López, 1999).

The factors leading to different impacts of FDI. To become able to predict whether host country firms and the country itself would benefit from the investment or not, it is necessary to understand the investors' motives (Driffield and Love, 2007; Sinani and Meyer, 2004): for instance, technology-intensive industries seem to receive larger positive spillovers from inward FDI than labor-intensive ones (Blomström, 1990; Buckley, Wang and Clegg, 2007). According to Dunning (1994), FDI are made for four reasons – market-, efficiency-, resource- and strategic asset seeking – and so, different investors are interested in different business environments. For instance, efficiency- seeking FDI are mainly made for production cost related reasons, although some other factors like trained labor force are also important. Wages are also important for market seekers, while for the other investor types, their importance is much lower: for instance, strategic-asset-seekers are more interested in the level of local R&D investments and the existence of local technologies and solutions supporting or complementing their own ones (Andreassen 1995). Bellak (2007) divides FDI into two main categories: while sustainable FDI are kept in one location although the value-added may be changed, footloose FDI are moved elsewhere but the same value-added activities are kept. Ferdows (1997) has stated that initial investments and strategic subsidiary roles – an offshore factory, a source factory, a server factory, a contributor factory, an outpost factory and a lead factory – depend on several factors. For instance, while an offshore factory – a company with low responsibilities, relatively large exports and no innovative activities – is established to gain access to low wages or other factors integral to low-cost production, a lead factory should be capable to create processes, products and technologies and thus, strategic asset seeking motives are probably more important for foreign investors. According to Birkinshaw and Morrison (1995), if the subsidiary possesses strategically important skills and knowledge, and thus it is important for the rest of the corporation, then the positive impacts of FDI should prevail, while for unimportant subsidiaries, the impacts may not be as positive.

According to the investment development path model (see Dunning, 1997), economies pass five stages of growth. In the first stage, a country does not attract a significant amount of inward FDI (except some interested in natural resources) as it lacks adequate infrastructure and educated and motivated employees; moreover, outward FDI are also low. In the second stage, inward FDI are increasing as the economy starts to develop – mostly attracting labor-intensive export-oriented or import-substituting investments – while outward FDI are still low. The third stage is characterized by the increased growth rate of outward and decreased growth rate of inward FDI. The low-cost advantages of the host country are disappearing, so the firms either have to move production to lower- cost countries or to upgrade their human and technological capabilities. In the fourth stage, countries attract asset- and market-seeking investors and trade-related investments, while outward FDI to lower-cost countries are growing even faster. The fifth stage is characterized by the increase of both inward and outward FDI, but in this stage, host country firms become globalized and their nationalities become blurred so they do not necessarily act in the best interests of their home country.

Some authors (see, for example, Malo and Norus, 2006; Mencinger 2003; Meyer and Gelbuda, 2006; Sinani and Meyer, 2004) have also emphasized the importance of studying the context where the firm is operating. In the beginning of 1990s, in Central and Eastern European countries many new firms were created that had no experience, contacts or knowledge of Western markets. Moreover, several older firms were privatized (often to foreign investors for far below their market value), re-organized or even closed down as their previous markets disappeared but competition increased. It took time before such companies got accustomed to the Western markets and ways of management and became able to renew their technologies and reach high export shares, but now they are facing another challenge: how to manage to survive after the low-cost production advantage will disappear. As a result of all such changes, it cannot be expected that foreign investors have always followed similar motives when they have made their investments: for instance, cost-related reasons have become less important in more advanced transition economies while the importance of market-seeking motives has increased due to growing domestic demand (Johnson, 2006). In other words, according to the terminology of the investment development path model (Dunning, 1997), a large number of these countries have moved to the third stage of their development.

Based on the literature review, Table 1 was constructed. It can be also concluded that foreign direct investments can both positively and negatively affect foreign subsidiaries and also their host country, in general. The impact depends on several factors including the country's business environment and the subsidiary's resources and capabilities. The impacts of FDI on some Estonian enterprises and also some factors that led to such impacts are discussed after the methodology section.

Table 1. The impacts of FDI and the factors leading to them

The positive impacts of FDI	The negative impacts of FDI
For the subsidiary: • business contacts • capital, technology, know-how and other resources • managerial, entrepreneurial and marketing skills and techniques • higher productivity • improved labor quality through increased ability to increase wages • increased product quality • additional market channels • increasing ability to innovate • assistance in dealing with product design, branding, packaging, distribution, servicing and shaping a new product image • higher subsidies or other benefits from their host government ***For the host country:*** • the emergence of new industries and clusters • export growth • more efficient resource allocation • knowledge and technology spillovers • increased GDP and tax revenue • new technology-oriented jobs • competition and consumer welfare growth	***For the subsidiary:*** • restricted access to foreign markets • the obligation to continue low-value-added activities instead of developing others • reduced innovativeness • transferred knowledge is inapplicable or harmful • confined linkages with the firms not belonging to the multinational network • conflicts with foreign owners • the problems arising from the bankruptcy of the foreign owner or the sell-off of the subsidiary to another firm ***For the host country:*** • introducing unacceptable values • interfering in the country's politics • using transfer pricing • lowering the GDP • worsening the balance of payments • cutting down the number of employees • harming the environment • transferring activities to other countries if the business environment changes • lost national control over strategic economic sectors • the displacement of local enterprises
The factors leading to positive impacts of FDI • high technology-intensiveness of the industry • the subsidiary is capable to create processes, products and technologies and thus it is important for the rest of the corporation • the country is highly developed	**The factors leading to negative impacts of FDI** • the subsidiary does not possess strategically important skills and knowledge, it has low responsibilities, it is not innovative and thus it is not important for the rest of the corporation • FDI are mainly made for production cost- or market- related reasons • the country lacks adequate infrastructure and educated and motivated employees

3. Methodology

This paper is based on case studies because this approach allows combining previously developed theories and new empirical results, answering "how" or "why" questions, investigating complex contemporary phenomena within their real-life context and developing new, empirically valid and even testable theoretical and practical insights (Eisenhardt, 1989; Ghauri, 2004; Gummesson, 2006; Hillebrand, Kok and Biemans, 2001; Tsoukas, 1989; Yin, 1994). The need for case study and firm-level data is also increasing in studying multinationals' activities (Gestrin, 2002) and their impact on host economies (Chudnovsky and López, 1999). Moreover, this method is appropriate for conducting research in countries where the sample base is too small for using statistical generalization (Chetty, 1996).

In the multiple-case approach there is no ideal number of cases (Eisenhardt, 1989). For instance, according to Gummesson (2003), it is possible to justify using any number of cases from one to several, even hundreds: this depends on the research purpose and questions. On the other hand, once a pattern emerges, each new field site adds to the research data at a diminishing rate (Stuart et al., 2002). Consequently, in this paper, the task was not to examine as many companies as possible, but to get a sufficient understanding of some Estonian companies' different experiences with their foreign owners.

This paper contains three stories. The first case firm – Silvano Fashion Group – has been locally-owned and foreign-owned twice in its history. It was selected because of having both positive and negative experiences from being foreign-owned; moreover, currently the impact of foreign ownership is in a way neutral: its new foreign owners are its previous local owners as they transferred the ownership from an Estonian firm to their other company registered in Latvia. The second case firm – Estmilk Production – has also been foreign-owned twice. Its first experience from foreign ownership was prevalently negative, while the current experience has been both negative and positive. The third case story is about the impacts of one foreign owner – Tolaram Group from Singapore – on its four firms in Estonia (it also has some other activities in this country, but these have been relatively small, so they have been excluded from this study). Some of them have mainly gained, while some others lost.

To increase the findings' generalizability, it was decided to select enterprises of different sizes and ages, from dissimilar industries and with dissimilar impacts of foreign owners. The cases are mainly based on secondary data sources including annual reports, the companies' homepages, newspapers and public databases, but they also contain some interview material collected in 2002.

4. The Impact of Foreign Ownership on Silvano Fashion Group

The period of local ownership. The predecessor of Silvano Fashion Group – a designer, manufacturer and retailer of women's garments – was a sewing team "Osta" founded in 1944. Based on it, a state-owned company named after a revolutionary activist Vilhelmine Klementi (1904 – 1929) was established in 1950. Its production was oriented to the Soviet market. In the beginning of 1990s, the firm had 1600 employees. In 1992, it was reorganized into a state-owned firm RAS Klementi that included two other sewing factories: RAS Pärnu Õmblusvabrik (it was sold in 1993, and that reduced Klementi's production capacity by 40 percent) and RAS Rapla Rõivas (it was sold in 1996, but this did not affect Klementi that much). In March 1994, 80 percent of Klementi was privatized to AS Klementi Kaubandus owned by the firm's employees and in October 1995, the remaining shares were sold through a public offering. During the following years, the firm's ownership structure changed several times. Despite of that, it became a successful exporter: in 1996 its export share was 67 percent. The firm mainly exported to Finland, Sweden, Latvia and Lithuania and it also had a shop in Tallinn. In May 1997, Klementi was listed at the Tallinn Stock Exchange. In the same year, it opened another shop in Tallinn and a year later, established a subsidiary Klementi Trading OY in Finland. 1998 was a year of an economic slowdown in Estonia; moreover, the Russian crisis began. Still, Klementi managed to even increase its turnover by using more aggressive marketing techniques, opening two additional shops and starting exporting to the UK and Austria.

The period of foreign ownership. In January 1999, Klementi's minority shareholder P.T.A. Group – Finland's leading garment manufacturer – acquired additional 43 percent of the company. By 2001, its share grew to 79 percent. The firm at first gained from having a foreign owner. It received capital and became able to invest in machinery and a new system for measuring and organizing work time, to increase its turnover, to build a logistics centre that was responsible for the whole P.T.A. Group's raw material and production flows, to develop a new corporate style, and to open 14 new shops in the three Baltic countries. It also established a subsidiary UAB Klementi Vilnius in Lithuania. Moreover, Klementi obtained the right to sell its garments in Finland under the owner's trademark Piretta. It also became one of P.T.A. Group's main subcontractors: 30 percent of the parent's garments were sewn in Klementi and sold to the parent firm at market prices (in total, such orders accounted for 13 percent of Klementi's planned turnover in 2002). On the other hand, the impact of foreign ownership was not entirely positive: for instance, in 2000 its collection did not become as popular in Lithuania as it had hoped and it did not manage to develop its spring collection for Scandinavia on time; this led to decreased orders. Moreover, Klementi had a 0.2 million EUR loss in 1999; in 2000 and 2001, it earned a profit of only 0.1 million EUR. In the first quarter of 2002, Klementi had a loss of 0.3 million EUR because its foreign owner reduced its orders considerably, so the Estonian firm had to offer subcontracting services for a lower price to other customers. Moreover, in order to alleviate its owner's liquidity crisis, Klementi was ordered to sell its products with large discounts.

The period of local ownership. In April 2002, the bankruptcy of P.T.A. Group OY was declared. Its Estonian subsidiary was also on the verge of bankruptcy as it its former owner did not pay for its subcontracting services. The company had to take large loans from two

Estonian banks in order to continue operating. During that year, it dismissed 200 employees out of 650. In the first half of 2002, the firm earned a loss of 1.2 million EUR. In July 2002, an Estonian venture capital company Alta Capital and its co-investors acquired Klementi together with several P.T.A. Group's internationally recognized trademarks (PTA, Piretta, MasterCoat, Avenue, Clubline and Mallimari), some customer relationships, stock reserves and machinery. Klementi increased its exports to several Nordic countries and paid more attention to design. In 2003, the company established two subsidiaries: Klementi AB in Sweden to enhance the wholesale of the firm's products there (its activities were ended in 2004 after Estonia's accession to the EU as it became easier to supply the customers directly from Estonia) and SIA Vision in Latvia. It closed down four shops in Lithuania and liquidated its subsidiary UAB Klementi Vilnius as it decided to co-operate with a local firm Apranga that had its own shops there. In 2004-2005, Klementi experienced difficulties in Scandinavia: P.T.A. Group's bankruptcy had made its customers cautious; moreover, the new collections did not become popular there and so the firm lost some larger orders. As a result, it decided to stop its activities in Sweden and Norway in the first half of 2005. At the same time, the firm began preparations for opening shops in Russia and the Ukraine. In March 2006, the company promised to pay more attention to retail trade, to establish a subsidiary UAB PTA Prekyba in Lithuania in order to co-ordinate the opening of shops there, to open new shops in Russia and the Ukraine by 2009 and in Poland, Hungary and the Czech Republic by 2012. In August 2006, the firm's name was changed to PTA. It announced its plans to increase the number of shops to 100 by the end of 2007 and to 400 (in the three Baltic countries, Belarus, Ukraine, Kazakhstan, Poland and the Czech Republic) by 2010.

The period of foreign ownership. In October 2006, a public limited company Silvano Fashion Group AS was incorporated into PTA through a reverse takeover (the owners of Silvano's shareholder – SIA Alta Capital Partners registered in Latvia – who were also the main shareholders of PTA before the deal, acquired a 94.9 percent of PTA and PTA became a 100-percent shareholder of Silvano). The acquisition added a new segment – lingerie – to the corporation (due to acquiring a Latvian lingerie producer Lauma, a Belarus lingerie producer Milavitsa and a Russian retail chain Linret operating Oblicie stores), and this formed 64 percent of its sales revenue in 2006. Moreover, it changed the company's sales structure: while before, the main export markets of PTA were Finland and Latvia, in 2006 they were Belarus and Russia. Poland also became important: in November the firm acquired a lingerie retail chain Splendo with 7 shops there. In addition, the firm sold its lingerie in many other countries, including Uzbekistan, Israel, Germany, the Czech Republic and the UK. In the end of 2006, the company opened its first two PTA shops in Russia. In the first quarter of 2007, the number of PTA shops was increased to 19 and the number of other shops to 38. In the future, PTA plans to pay most attention to two retail trade chains: PTA and Oblicie, but it also continues to operate some Lauma, Milavitsa and Splendo shops. In the long term, the company plans to become one of the leading producers of women's clothing, accessories and lingerie in the three Baltic countries, Russia and the Commonwealth of Independent States as these markets are still growing fast, while Western markets are relatively stable. In July 2007, the enterprise became listed at the Warsaw Stock Exchange. In August, it was renamed Silvano Fashion Group. PTA's former operations continued under the previous trademark. The firm announced that a new subsidiary PTA Group would be created to continue the operations under the PTA brand.

5. The Impact of Foreign Ownership on Estmilk Production

The period of foreign ownership. In the mid-1990s, an Afghan businessman Mohammad Yagub Haidary moved to Estonia. He rented a nearly bankrupt company Rapla

Dairy, renamed it Lacto and opened Estonia’s most modern milk-powder factory in 1998 that cost 13 million EUR. As the owner did not have a long-term strategy, the company had cash-flow problems from the beginning. They deepened in 2001 as purchase prices of dairy products fell twice in world markets. Moreover, Lacto deceived several Western European partners by re-packaging and re-labeling milk powder and butter (imported from Russia and New Zealand, respectively) and selling them as Estonian. It also sometimes took advance payments from buyers but never sent them the merchandise. This destroyed Lacto’s image in Europe, thus it had to export to less profitable markets in Africa and the Middle East. The owner was also accused of using the company’s funds for personal purposes (the court case has not been ended yet): for instance, building a villa and a garden around it. Moreover, the firm did not pay the correct amount of VAT. In total, its debts to different creditors increased to over 14 million EUR. In January 2003, the court declared the company bankrupt. Some of its debts were by that time transferred to Rapla Dairy that also went bankrupt in 2003. Haidary fled the country.

The period of local ownership. In February 2003, Estmilk Production was founded to operate the bankrupt plant. A local company Leonarda Invest acquired it from another local company Hansa Leasing. Soon Estmilk Production found a strategic partner: a Russian company Nutritek Group, one of Russia’s largest producers of milk products, infant formulas and various specialized nutrition for babies. At first, Estmilk Production lacked operating assets and it also took some time to restore its contacts with some previous customers. Moreover, the procurement prices of milk increased more than 30 percent, while the market prices of butter and milk powder did not increase that much. Still, in 2003 the firm managed to have a turnover of 6.5 million EUR, an export share of 78.3 percent (most of exports went to Germany, France and Holland, but some also to the Czech Republic, Denmark, Russia Iraq, Iran, Egypt and Algeria) and a net loss of only 0.16 million EUR.

The period of foreign ownership. In October 2004, Estmilk Production was acquired by Nutritek for about 11.5 million EUR. The new owners announced that they would soon start producing instant food for babies with specific dietary needs: the area in which the parent company had developed special skills. Still, that year ended with a loss of 1.54 million EUR, but the turnover increased to 18.1 and exports to 15.6 million EUR. The firm's main export markets were France, Germany, Denmark, Holland, the Czech Republic, Lithuania and Italy. In the beginning of 2005, Nutritek promised to invest 6.5 million EUR into the development of its subsidiary and to increase its turnover to 38 million EUR. Unfortunately, the parent company lacked capital to invest as soon as it had promised because it had expanded its activities in several countries very fast. So, Estmilk Production took large loans and experienced serious difficulties: in March 2005 its CEO (soon released from his post) announced that the company was practically bankrupt. The commercial register threatened to terminate it because of negative share capital. However, Nutritek was able to raise additional capital and invest into Estmilk Production, so the firm remained active. Still, in 2005, it lost 1.27 million EUR, its turnover decreased to 4.25 and exports to 2.41 million EUR because the restructuring process, although not stopping the production completely, restricted the firm's ability to use its full capacity. The restructuring of the firm continued until the end of November 2006. That year ended with the loss of 4.03 million EUR because of the restructuring and the problems with receiving the export permit to Russia (it was granted in the second half of that year but Estmilk Production had hoped to receive it several months earlier). The firm's turnover decreased to 3.60 and exports increased slightly to 2.47 million EUR. The main export markets were Holland, Russia, Lithuania, France and Nigeria. In May 2007, the firm decided to continue only with the production of breast-milk substitutes and butter (as a side product) for the Russian, Latvian, Lithuanian and Estonian market, but also export to some extent to Belarus and the Ukraine. It plans to double its production capacity in 2008 as the demand is high on the Russian market.

6. The Impact of Foreign Ownership on Four Firms Belonging to Tolaram Group

In the end of 1994, Narinder Kumar ("Sonny") Aswani visited Estonia to seek for new business opportunities. He was a representative and one of the owners of Tolaram Group: an international group (with operations in more than 20 countries in Asia, Africa, Europe and America) headquartered in Singapore. Soon the company made several investments to Estonia.

Baltex 2000. In March 1995, Tolaram Group acquired a textile and yarn producer Balti Manufaktuur and renamed it Baltex 2000. It later involved two co-investors – the EBRD and a Dutch development fund FMO – with 16.21 and 14.52 percent, respectively. At first, the company grew quickly and its export share increased to more than 90 percent of turnover (the main markets were Finland, Italy, Germany, the UK, Portugal and Switzerland), moreover, it received the ISO 9002 certificate and renewed some of its technology, but in 2000, its situation started to worsen as the textile and yarn prices in the world market decreased; moreover, although the prices of raw materials started to increase soon after, the prices of finished products did not follow. In 2000, 2001 and 2003-2005, the firm did not manage to earn any profit. The press accused the company of paying relatively large sums to La Pupa Trading – a Singaporean firm where the owners of Tolaram also had their shares – but actually the sums were not that remarkable: they were the largest – 0.57 million EUR – in 2000, but this was only 2.5 percent of its turnover. In 2000-2005, the firm had five different CEOs. By the end of 2005, it was clear that the owners would not be able to invest considerably into the enterprise. This company had taken large loans – 11.5 million EUR –

moreover, most of them had a deadline in 2005 or 2006. The local banks and the shareholders refused to assist as the firm's turnover had decreased to 10.8 and net loss increased to 7.9 million EUR (in 2004, they were 16.3 and 3.5 million EUR, respectively, while in 2000, Baltex 2000 had a turnover of 23.5 and earned a profit of 2.04 million EUR). Moreover, several customers cancelled their orders as they got cheaper offers from Chinese producers. So, the production was stopped in December 2005 although the company had just installed some new expensive machinery. The firm lay off most of its 600 employees. Instead of textile production, the owners of Baltex 2000 decided to develop its real estate: to build apartments in its previous production facilities and also construct some new apartment blocks, recreational facilities and business premises on its territory. They transferred the real estate of Baltex 2000 to their other company Phoenix Land. In total, Tolaram has promised to invest 300 million EUR into this project.

Horizon Pulp and Paper. In July 1995, Tolaram bought a bankrupt Estonian company Horizon Pulp and Paper (its production had stopped in 1992). Its owners (Asean Interests Ltd belonging to Tolaram; in 1997 the IFC acquired a 17.5 percent ownership but according to the shareholders' decision in 2004, the enterprise will acquire the share of the IFC by the end of 2008) invested considerably into Horizon's development and restored its production only three months later. The firm started producing paper products for the packaging industry, but also tissue and toilet paper and in 2004, received the ISO 9001:2000 and ISO 14001:1996 certificates. The company quickly established itself in foreign markets: it is regularly exporting to more than 40 countries all over the world, about 70 percent to the European Union and the rest to Africa, Middle East and Asia. Horizon Pulp and Paper has earned a steady profit since 1997. In 1996-2006, its turnover increased from 7 to about 40 million EUR. The firm has also invested considerably in pollution reduction (this was a problem at first). With more than 500 employees, it is the largest employer in Kehra (a small town with a population of 3100).

Qualitex. In February 1996, Tolaram Group bought a bankrupt textile factory in Sindi, South-West of Estonia and renamed it Lotus Colours 2000 (in 1999, the company was renamed to Qualitex). In February 1997, this factory became a fully owned subsidiary of Baltex 2000. The owners invested considerably into the firm's development, so it became the most modern in the region. Still it took several years before the factory started operating at full capacity: for instance, in 1996 its turnover was 0.2 and in 1998, 0.4 million EUR; it increased to 5.9 million EUR in 2000. However, fast growth has not continued: in 2006 its turnover was 6.1 million EUR. Qualitex has sold its products to several Estonian, but also some foreign customers (for instance, Nike and H&M). It produces a variety of fabrics – including aromatherapy, anti soil, dry fit and health guard fabrics (some of them developed in co-operation with a Danish firm Moruf Stof) – and knitted garments and exports them to Sweden, Finland, Germany, Lithuania, the Czech Republic and other countries (in 2006 its export share was 53.8 percent). It has about 150 employees. In 2002-2004 Qualitex received the ISO 9001: 2000 and ISO 14001: 1996, Öko-Tex and IVN certificates. In these three years and also in 2006 the firm managed to earn a profit (0.02 million EUR in 2006), but in all the other years, it had losses (for instance, 2.1 million EUR in 2001 and 0.2 million EUR in 2005). In the near future, the company plans to buy some more machinery and software, increase its profits and start exporting to Russia and Belarus.

Baltex Nonwovens. In May 1997, Tolaram acquired an Estonian company: Mistra Viva – a producer of blankets and pillows – and renamed it Baltex Nonwovens. This company had been established in 1988 with a goal to supply the Russian market, but due to the worsening of relationships between Russia and Estonia, it never became able to reach its full production capacity. Tolaram started to develop the enterprise. In 1999, it reached a turnover of 1.31

million EUR and an export share of 93.6 percent (the main foreign markets were Holland, the UK, Russia, Latvia and Finland), but a part of its production line was destroyed by fire in 1999. Although the firm was insured, that year still ended with a loss (the company had not earned any profit in earlier years, either). So, the owners decided to liquidate the firm. In November 2000, the plant and its equipment were sold to an Estonian home textiles producer Toom Tekstiil. The liquidation process was officially ended in March 2001.

7. Discussion

From the above it can be concluded that the case companies have not equally benefited or lost from FDI (see also Table 2). Klementi, a predecessor of Silvano Fashion Group, was at first positively affected by the takeover by P.T.A. Group from Finland: it became able to expand its activities and to open new shops, to build a new logistics centre, to renovate its machinery and to use the owner's trademark Piretta. The bankruptcy of this owner in April 2002 led its Estonian subsidiary to quite serious economic difficulties. It took several years before the company became able to earn profit again. On the other hand, the firm probably would not have grown so much in 2006 if it would have still remained under the ownership of its previous Finnish owner: its current owners have invested considerably into the company and developed it into a corporation incorporating two lingerie producers and three retail chains. Due to the latter, in 2005-2006, the company's turnover increased from 7.3 to 27.0 and exports grew from 3.8 to 22.3 million EUR. Still, it cannot be said that such a fast growth in 2006 was caused by a change from local to foreign ownership: although in October 2006 officially SIA Alta Capital Partners registered in Latvia became the firm's main owner instead of an Estonian-registered firm Alta Capital, these companies had the same owners. So, the transfer of ownership in itself did not lead to any positive or negative effects.

Table 2. The impacts of FDI on the case firms

Case	Positive	Negative
Silvano Fashion Group	***Ownership by P.T.A. Group (Finland):*** • additional capital • new machinery • a new corporate style • the owner's trademark Piretta • local and foreign expansion • a new logistics centre • a new system for measuring and organizing work time ***Ownership by SIA Alta Capital Partners (Latvia):*** • -*	***Ownership by P.T.A. Group:*** • no profit for some years • reduced subcontracting orders in 2002 • an order to sell products with large discounts • serious problems in 2002 when the owner went bankrupt ***Ownership by SIA Alta Capital Partners:*** • -*
Estmilk Produc-tion	***Ownership by M.Y. Haidary (Afghanistan):*** • additional capital • new machinery • foreign expansion ***Ownership by Nutritek (Russia):*** • restructuring process started and completed (in 2006) • new product and customer segments • new machinery • additional capital • new export markets	***Ownership by M.Y. Haidary:*** • no long-term strategy • cash-flow problems • large debts • illegal business practices • destroyed image • bankruptcy ***Ownership by Nutritek:*** • no profit • lack of capital in 2004/5 • reduced turnover
Four firms belon-ging to Tola-ram Group	***Baltex 2000:*** • fast local growth and international expansion until 2000 • ISO 9002 • new machinery ***Horizon Pulp and Paper:*** • additional capital and new machinery • foreign expansion • new products • ISO 9001:2000 and ISO 14001:1996 ***Qualitex:*** • additional capital and new machinery • foreign expansion • new products • ISO 9001: 2000 and ISO 14001: 1996, Öko-Tex and IVN certificates ***Baltex Nonwovens:*** • foreign expansion • some capital and machinery	***Baltex 2000:*** • no profit in 2000, 2001 and 2003-2005 • 5 CEOs in 2000-2005 • large loans • somewhat questionable business practices • end of activities in 2005 ***Horizon Pulp and Paper:*** • pollution (but the level is being reduced) ***Qualitex:*** • no remarkable turnover growth since 2000 • losses in 1997-2001, 2003 and 2005 ***Baltex Nonwovens:*** • no profit • liquidation

*The firm's ownership formally changed in October 2006, but actually the new foreign owners and the previous local owners belong to the same owners, so the impact of ownership change in itself is neutral.

In the case of Estmilk Production, foreign investors also had both positive and negative impacts on the firm's development. Mr. Haidary modernized the factory and during his ownership, the firm internationalized quickly, but he did not have a long-term strategy; moreover, by deceiving several Western European partners he destroyed Lacto's image in Europe. In addition, he sometimes allegedly used the firm's funds for personal purposes and tried to avoid VAT payments. So, as a result, the company went bankrupt. The new foreign owner, Nutritek Group from Russia, has also not always been able to support its Estonian subsidiary: the firm has not earned any profit yet and in the beginning of 2005, Estmilk Production was on the verge of bankruptcy as Nutritek lacked capital to invest in it in the amount it had promised. It seems that by now, the situation has improved: the restructuring of the firm was completed in the end of 2006. Still, it is too early to be certain if will become able to develop as fast as the foreign owner as promised.

Tolaram has made several investments to Estonia; however, their impacts on its subsidiaries have not been similar. Baltex Nonwovens clearly lost from FDI: it went bankrupt as the parent firm did not restore its production line after the fire. In the case of Baltex 2000, the impacts were also prevalently negative – textile production was ended and most of the employees laid off in 2005 although the owners had invested considerably into the firm – but the investments into its real estate may lead to some positive impacts for the host economy. Horizon Pulp and Paper, in turn, has mostly gained: the owners have modernized its machinery and the firm started to grow and earn profit almost from the beginning. Qualitex has also been modernized, but its development has not been as stable: some years have ended with a profit, some others with a loss; moreover, the firm's turnover has not grown remarkably during the last six years.

It cannot be stated that all the positive or negative developments in these firms happened only because of their foreign owners' activities. For instance, for PTA Group, Estonia's accession to the EU in May 2004 tightened the competition and led to significant outflows of employees; this forced the firm to optimize costs, decrease the share of subcontracting and increase production efficiency. Lacto's problems deepened in 2001 as world prices of dairy products fell twice. Tolaram's firms were also impacted by some external factors: for instance, the fire in Baltex Nonwovens harmed the company considerably and thus it went bankrupt a year later. Baltex 2000, in turn, suffered from the liberalization of the world textile trade: it lost customers to Asian producers as the production costs are lower there. Qualitex and Horizon Pulp and Paper have also had to deal with increasing labor costs in Estonia: they have had to modernize themselves and to start developing their products more actively.

In addition to the external factors impacting these firms during the time they were foreign-owned, they were also affected by the events that took place and processes that started before they were acquired by foreign owners: for instance, the dissolution of the Soviet Union and the worsening of Estonia's relationships with Russia soon after that forced the firms to seek for new foreign markets; moreover, the poor state of many case companies – for example, the lack of modern technology and sufficient financial resources for acquiring it – led to their need for involving foreign investors. In the first half on the 1990s, labor costs were much lower in Estonia than they currently are – in the fourth quarter of 1991, Estonia's average monthly salary was 7.3, five years later, 211.5, in 2001, 375.6 and in the second quarter of 2007, already 738.0 EUR (Statistics Estonia, 2007) – and thus, the investors often had cost-related reasons for acquiring the case firms. The increase of labor costs caused very serious difficulties for some case firms: for instance, Baltex 2000 closed down its textile production. It is hard to say if the production would have continued if this firm would have had different foreign or local owners.

8. Conclusions

The paper demonstrated that subsidiaries may both win and lose from being foreign-owned. Some enterprises gain: for example, in terms of know-how, capital, technology and foreign market contacts. On the other hand, some other companies' activities and even existence may be hindered by the owners' poor economic state, negligence or, in some cases, even criminal actions.

It is almost impossible to foresee all the effects a certain foreign direct investment may cause for a specific enterprise and the host economy, in general. From this specific investment, some interest groups – for instance, the subsidiary's employees – may benefit, while others – for example, those employed by its local competitor – may lose (or the other way round if the foreign-owned firm goes bankrupt). Moreover, the impact of FDI may change over time: for instance, some previously successful companies may be closed down later, while some nearly bankrupt firms may be revived; some enterprises may later develop activities with a considerably higher value-added, while some others may be forced to end them. So, it is extremely hard to offer any universal managerial suggestions. Naturally, foreign (and local) partners should be selected very thoroughly. Inward FDI should be sought only if the firm hopes to develop faster afterwards, for example, to get access to some foreign markets or receive necessary technologies or knowledge. As foreign investors' motives and their impact on the host country firms are interrelated, it is very important to find out if their and the potential recipient's long-term goals coincide or not. It is also necessary to learn as much as possible from the owner and to be prepared for the potential problems: for instance, what to do if the owner gets into serious financial difficulties.

As this paper was based on a small number of cases, it is not possible to estimate how much Estonia as a country has gained or lost from foreign direct investment inflows. To calculate at least a rough value, much more data – official statistics, survey and interview materials – have to be collected and examined. Moreover, the paper concentrated mostly on the direct impact of FDI: the effect of foreign owners on their subsidiaries. The indirect impact – for instance, the one on the subsidiaries' local and foreign network partners or competitors – still has to be studied.

This paper concentrated only on Estonia. On the other hand, in other countries, the impacts of FDI do not have to be similar as different host countries – for example, smaller/larger, more/less advanced – attract dissimilar types of foreign direct investments. The differences between foreign owners could also lead to dissimilar impacts on their subsidiaries as, for example, large/small, agricultural/manufacturing, new/more experienced companies may make different types of FDI.

It would be also interesting to analyze more thoroughly a specific multinational's impact on its subsidiaries in different countries. It is quite likely that economic, cultural and other differences between these countries, but also the dissimilarities between foreign subsidiaries, influence the multinational's policy toward them and thus its impact of FDI may differ: positive impacts may prevail in some cases and negative in some others; moreover, they may change over time – a firm may at first benefit from FDI but lose later or the other way round.

More attention should be also paid to the impact of certain foreign direct investment policies on different countries and to the differences in their history and levels of economic development: for instance, due to such dissimilarities, a specific policy may be successful in one country but fail in another. It could be also interesting to study if certain countries or groups of policy-makers are more interested in different impacts of FDI: for instance, if they prefer to create a large number of jobs in a labor-intensive sector or to establish enterprises with a small number of employees but a large value-added.

Finally, it should be examined more thoroughly why FDI fail (for instance, foreign owners go bankrupt or do not manage to develop their subsidiaries to the extent they had promised). Then, it should become clearer how this could influence foreign subsidiaries. Only after that, is should become possible to offer more specific managerial suggestions and indicate what changes host countries should make in order to attract more foreign direct investments that support not only their subsidiaries, but also locally-owned firms.

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