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Regional integration – changes & challenges

A case study of Bulgaria in the perspective of Swedish manufacturing TNCs

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ABSTRACT

This thesis aims to explain how foreign TNCs have been affected by a country's integration into the EU, with a focus on production networks. The research question that will be answered concerns how Bulgaria's entry into the EU has changed the structure of Swedish manufacturing TNCs' production networks.

To conduct this, a sub-question is added with the aim to research the changes and challenges in seven chosen dimensions of the Bulgarian business environment. These are: Trade, infrastructure, legislation, competitors, corruption, unregistered firms and labour.

The four selected companies in the study are ABB, SKF, Trelleborg and Volvo Trucks. We will conduct the research through a qualitative method with comprehensive case studies including interviews.

Bulgaria's EU membership has increased the trade and developed the infrastructure, which has affected the TNCs in a positive way. The product and security legislation has become stricter and the competitive environment has increased, though this has not affected the TNCs to a major degree due to their size and international setting.

However, there have been implications of a process towards *Brain Drain* in Bulgaria since the country entered the EU. Bulgaria´s business environment is moreover still very politically unstable, where corruption and unregistered firms continue to affect the Swedish manufacturing companies' affairs in the country.

After analysing the changes in the business environment, a trend of regionalism has been discovered concerning the location choice of production networks. China has lost its competitiveness as a country for low-cost production, in favour of Eastern European countries such as Bulgaria.

Keywords

European Union, Regional integration, Bulgaria, Business Environment,
Production Networks, Foreign Direct Investments, Swedish manufacturing TNCs

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LIST OF ABBREVIATIONS

CEE	Central East Europe
CEEC	Central East Europe Countries
EU	European Union
EUR	Euro Currency
FDI	Foreign Direct Investment
HR	Human Resources
IMF	International Monetary Found
IT	Information Technology
MNC	Multinational Corporations
OLI	The Eclectic Paradigm
PTA	Preferential Trade Agreement
R&D	Research and Development
SME	Small & Medium Enterprise
TNC	Transnational Corporations

1. INTRODUCTION

The Introduction is made to give a holistic perspective on the study of choice. This chapter will include a background with an incorporated problem discussion to the subject, to provide the reader with the necessary outlook. Additionally, the research question will be presented as well as the purpose of this thesis.

1.1 Background

The global economy is in a constant process of reshaping, changing the terms for all actors being a part of it. To utilize or to avoid the various initiatives in the world, cross-border activities are correlated to these global movements. Companies practicing these strategies are primarily TNCs. By creating production networks worldwide, they are characterized by their geographical spread and complexity. Making interrelationships between regions and countries of highest importance (Dicken 2011).

Meanwhile, the extent of regional trade agreements are increasing and the growth of regional integration have since the middle of the 20th century influenced the global economy. The phenomenon can be seen as a type of PTA, adding the feature that the parties are located geographically close. These agreements result in economic growth for the members by creating large markets where their producers and consumers can operate unrestricted, referred to both free movement of factors and firms. This is achieved, while to some point protecting them from outside competition from excluded countries. It exists different types of regional trade agreements depending on the extent of integration between the members (Dicken 2011).

One of the most advanced and successful regional integration organisations is by no doubt the European Union. The collaboration started when six countries in the European region decided to jointly regulate their coal and steel production in 1952 (Carleton University Center for European Studies, n.d.). However, much has happened since the founding of the supposed customs union. Today, due to the creation and development of the EMU, the union has evolved into an economic and monetary union with the future goal of reaching political harmony (Carleton University Center for European Studies, n.d.). The European Union constitutes one

vast free trade area consisting of 28 member states, after the enlargement of the countries in Central and Eastern Europe during the beginning of the 21th century. The controversial acceptance of these states' EU memberships changed the former structure of the union in several ways, primarily considering the significant gap in economic development between the new countries and the current member states (Suder 2011).

These gaps however create opportunities for TNCs to achieve competitive advantages by strategic cross-border locations. One of the characteristics of TNCs is their ability to place different parts of their value chain on the most favourable location at that specific time, making profit from beneficial conditions all around the world. The cross-border advantages can include reduction of costs, new opportunities of growth and development of new strategic strengths. The newly accessible markets of the CEECs can offer the TNCs new possibilities of placing their whole value chain within the EU to a lower cost (Suder 2011).

Concurring with previous argument, the CEE countries have become favourable destinations for western firms' FDI. Since the beginning of the 21th century, especially companies originating within the European union have invested in the region. The noticed trend can be explained by the potential new markets in the countries, but the fact that they are all low-cost production locations at the same time plays a huge role in the context (Division on Investment, Technology and Enterprise development 2007).

Yet, despite the opportunity for companies to produce at a low cost in the CEECs, the manufacturing sector in Bulgaria was in 2008 not the leading industry for foreign investments. Manufacturing FDI was ranked third behind real estate and financial activities, representing only 17 per cent of the total foreign direct investments. Furthermore, the geographical spread in the FDI in Bulgaria the same year shows that over 62 per cent of the stock was solely concentrated to the capital of Sofia (Kolev 2010).

The entry of the CEECs into the EU resulted in changed possibilities for various parties within the organisation. The membership clearly posed challenges for the union, because of the problematic integration. Before, new member states had been at the same page as the former EU countries, economically and institutionally. The CEECs tough were still young democracies created after Soviet rule, and in the

starting point of their economic development. However, this new phenomenon in the EU also opened up possibilities for companies operating within the union (Suder 2011). This mentioned statistics we believe is an indicator on the unfulfilled future potential within low-cost manufacturing all around the country for transnational companies.

With this in mind, the aim of this study is to investigate this phenomenon further and see how the Bulgarian entry into the EU has changed manufacturing TNCs' production networks. The research will be conducted in the perspective of Swedish manufacturing companies operating worldwide, including in Bulgaria.

1.2 Purpose of Study & Research Question

One of the major characteristics of global economic growth is the increasing interconnectedness of the global economy, which is created through integration between countries. The EU is the world's most integrated region and with consolidation, comes changes and challenges for all TNCs operating within the union. Manufacturing companies are particularly affected by integration, due to their widespread value chains (Dicken 2011). Moreover, companies operating in this specific sector are currently establishing in Bulgaria frequently, primarily companies of Nordic origin (Bulgarian-Nordic Chamber of Commerce 2014).

The lack of research of changes within Bulgaria since the entry into the EU, combined with a further interest in the view of Swedish manufacturing TNCs. Intrigued us to research this further and answering the following question:

How has the entry of Bulgaria into the EU changed the structure of Swedish TNCs' production networks?

In order to investigate the main research question the following sub-question also needs to be answered:

How has the entry into the EU affected Bulgaria's business environment?

The sub-question will be studied by investigating seven chosen dimensions of the business environment in Bulgaria. These are trade, infrastructure, legislation,

competitors, corruption, unregistered firms and labour. These specific dimensions were chosen, because of their importance during an integration process into the EU, explained by Suder (2011). Moreover, the majority of the dimensions represent local characteristics of the Bulgarian business environment (Landguiden 2013c).

The research of these dimensions will indicate changes and challenges of importance, which can further on affect the companies' development of their production networks.

The chosen companies to study are ABB, SKF, Volvo Trucks and Trelleborg since these are Swedish manufacturing companies in Bulgaria, established there both before and after the EU entry.

By answering this question, a contribution will be made to the persisting theoretical base within integration and its effects. Furthermore, the perspective of the Swedish manufacturing TNCs within this topic will be an additional contribution to the research area.

1.3 Limitations

The effects of the integration on the economy as a whole are practically immeasurable. Therefore this thesis will be focusing on one segment only, the manufacturing industry, which will serve as a limitation of the study. The choice of this focus area is explained by the significant amount of Swedish manufacturing companies established in Bulgaria before the entry into the EU (Bulgarian-Nordic Chamber of Commerce 2014). Moreover, these types of firms are often characterized to a higher extent by the possession of global value chains, in comparison to other industries (Dicken 2011). This thesis will consequently be limited to the changes of the business environment and production networks, in the perspective of our four studied companies.

To be able to understand the companies' view on the research question, the concept of production networks and business environment, with focus on the seven mentioned dimensions, will be clarified in the contextual and empirical chapter. The choice to conduct the study based on solely seven dimensions of the business environment is explained by the limited research time and the aim to conduct a study of highest importance.

We are also aware of that our choice to conduct this thesis merely on four major Swedish manufacturing TNCs will limit our conclusions to a specific context. Firstly, each of the four manufacturing companies posses high financial results and are therefore considered as large TNCs, compared to small and medium sized manufacturing firms. This can imply that our conclusions based on these larger enterprises, are not applicable on SMEs. Rather, they solely signify a picture to the research question as a whole.

Secondly, the decision to analyse exclusively Swedish TNCs will limit our conclusion to a specific country of origin and therefore the deduction might not be fully applicable on other foreign manufacturing firms established in Bulgaria.

The chosen individuals to interview can also imply some limitations, since all the participants possess high positions within their corresponding companies. This can fail to raise the everyday perspective in the organisations. Tough, since our chosen topic of this thesis stretches over the organizations' operations in Bulgaria as a whole, the contacted people's holistic picture of the activities in the country is beneficial.

The interviews have been conducted based on the interview personas professional positions, therefore the answers may differ from their personal opinion and experiences. This can affect the validity of the study, as the finished result may be seen solely through the view of the public facade created by the companies.

The interview participants are involved in various operations within their respective companies, which sometimes makes the comparison between the results complex. Nevertheless, a majority of the interviewed personas possess practice within all sectors of the companies, regardless of their current positions.

1.4 Thesis Outline

The first chapter of this thesis consists of a short introduction with a problem discussion, the purpose of the study, the research question this thesis is based on and the limitations of the research question are given. It is important to have a well-structured and detailed introduction, henceforward it being the foundation of the chosen theoretical and conceptual framework.

The second chapter of the thesis will be the methodology chapter, which will include the choice of method, how the thesis is conducted, criticism of the

methodology, the variability and reliability of this thesis, data collection method and arguments to support the choice of methodology.

The third chapter will include the theoretical framework on which the empirical studies will be based. This chapter will include the most relevant and influential theories, explaining the operations of international companies. This, chapter will further on also explain necessary concepts, such as production network and TNCs' different location strategies for production facilities. These concepts will give a further understanding before the upcoming chapter of the empirical studies. In the end of this chapter, we will moreover present our own model, which explains how the theories and concepts are connected in our chosen context.

The fourth chapter includes the empirical study and will be divided in two sections. The first section will include a background of the economic history and business environment in Bulgaria. The second section will incorporate a background to the case companies and a review of the interview results, divided into the seven dimensions of choice and the perspective on the changes and challenges within their value chain.

The fifth chapter will incorporate the analysis, where the previous empirical chapter and theoretical framework will be analysed, based on our collaborated model. Creating a general discussion concerning how production networks can affect business environment and FDI decisions and vice versa in the perspective of the studied companies.

The sixth chapter will be the conclusion chapter, which will give a short answer to the research question and sum up the result of the study. Moreover, this chapter will also include our recommendations for further research topics on the subject, discovered during the study.

The seventh chapter will incorporate all the references that have been used to conduct this thesis, including an appendix of the interview guide.

2. METHODOLOGY

This Methodology chapter will introduce the choice of methods to reach the answer to our requested research question. This chapter will also include the reason behind the chosen research method, involving method criticism and alternative methods.

2.1 Research Design

Regional integration is becoming increasingly important in the globalized world in which we are living in today. Through this globalization along with integration, challenges of additional competition on the market will continuously follow. Therefore changes within business environment and production networks are often necessary for companies, operating in countries participating in an integration process (Dicken 2011).

A qualitative research method has been selected to execute the empirical research of the four selected Swedish manufacturing companies. The qualitative method is considered to be a suitable method for this sort of research question, since a deeper understanding is necessary to accomplish the aim. This is to get a full image of the four manufacturing companies' point of view regarding the research question of choice (Holme, Solvang 1997)

The opposite, a quantitative method is usually made when statistical data is collected to be able to conduct a statically analysis. In contrary, this method is used to give a wider perspective on the study (Holme, Solvang 1997)

The research framework consists mainly of academic literature, primarily textbooks. Articles and previous academic thesis on the topic will be used as well.

The definition for manufacturing companies that are used throughout the thesis is taken from Merriam Webster dictionary, where the word manufacturing is described as: *The act of process of producing something with machinery or by hand* (Merriam-webster- dictionary 2014).

The case studies will be conducted on the four manufacturing companies, Volvo Trucks, SKF, Trelleborg and ABB. These companies were chosen for their accomplishment of our criteria of being large globally operating enterprises founded

in Sweden. Furthermore, all of the four investigated companies were in established in Bulgaria both pre and post the EU entry tough through various modes.

The choice of conducting a case study is based on our ambition to gain a complete understanding of integration and its effects. Moreover, to get an understanding of how these companies relate to integration and how they are affected, by looking at the business environment and production networks.

2.2 Research Approach

In the introduction of this study we formulated a research question, which has governed the rest of the process of the study. As mentioned, the research question being raised regards how integration affects TNCs' production networks, which will be investigated through studies of the changes within the business environment. Due to this research approach, which will be done through two different angles, a deeper understanding of these companies' challenges and choice in relation to integration is needed to conduct the empirical background.

This type of deeper understanding is one of the main features of the qualitative method, according to Merriam (2009), Holme, Solvang (1997) and Yin (2009). Van Maanen (1979) defined the concept qualitative method as:

"An umbrella term covering an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world" p. 9.

Likewise, Tracy (2013) suggest that in comparison with quantitative method the qualitative method does not reserve the writing to the end of the report to conclude already discovered results. The qualitative method is rather used to write during the whole process of collecting, analysing and inquiring the materials. The qualitative method also indicates that the interest on the research object and respective perspective is the most important. This type of understanding is also defined as emic understanding and in this type of thesis the statistical numbers around the topic is not the focus.

Furthermore, during a qualitative research process the researchers are described as the primary instruments, because the researcher is the one collecting and

analysing the data, which gives more room for open discussion with the selected research object (Tracy 2013).

These three characteristics give a supplementary indication that the qualitative method is the most preeminent choice of approach for this thesis. Due to the aim of the research question, to get the manufacturing companies' point-of-view on challenges and changes experienced since Bulgaria's integration into the EU. This type of descriptive information can not be explained through numbers, nor "yes" and "no" answers, due to its context-specific characteristics where personal options are required. Moreover, to be able to get a deeper understanding of the companies' perspective concerning the topic, surveys are not the appropriate method. Consequently, by choosing the qualitative method the interviews and the researchers role become the primary instruments for the studies.

According to Tracy (2013) there are two different logic approaches to execute the work of a thesis, the deductive and the inductive approach. The deductive approach with emic understanding will start by looking at the theory for the topic, narrow this down to a hypothesis on the topic. Then further in the process, perform the observation and confirmed these with the original theories. Whereas the inductive approach with emic understanding starts by doing observations and find patterns that are later confirmed with theory.

This thesis will be based on an inductive approach due to its structure, where the conclusions are being drawn based on the empirical observations of the four manufacturing companies. This thesis will likewise include theories and analyse the incorporate motives behind integration, as well as the effects on production networks, which will be analysed together with the empirical data in the end.

2.3 The Case Study

To be able to construct a qualitative study on a topic, one suitable technique is to design a case study. A case study shares the same characteristics as the descriptive method mentioned above, but it also includes a detailed description within a limit system. Case study is described by Yin (2008) as:

"A case study is an empirical inquiry which investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" p. 18.

The choice to create a case study is therefore explain by the thesis aim, to create an understanding of the concept of integration and later try if the existed theory within integration will be applicable in a real-life scenario on the chosen case study firms.

The case studies will be performed through semi-structured interviews with the four manufacturing companies by telephone and available literature on the companies' web pages.

A semi-structured interview is conducted when "what" and "how" questions should be answered. An interview guide with prepared questions is being used, however solely to give the interview an increased structure. The questions are not specific and the order can be changed, based on the on-going discussion during the interview. Therefore, this method also gives room for the respondents and the researchers to engage in a rewarding dialog during the interviews (Eriksson, Kovalainen 2008).

The choice of doing semi-structured telephone interviews with the companies is explained by the aim of the thesis, to get an overlook of the companies' options, which implies the foundation of the empirical chapter. Therefore short answers is not applicable and attendant questions are most likely needed to get the desired holistic picture of the companies' opinions, which is possible with an unstructured interview. In line with Eriksson and Kovalainen (2008) we used a prepared interview guide as a base for our interviews, which can be seen in appendix 1.

The choice of telephone interview was generally preferred, due to the long geographically distances between Sweden and Bulgaria, combined with the short amount of time to complete this research. Making it impossible to fulfil a trip to Bulgaria, to be able to conduct the interviews in person.

However according to Adams et al. (2007) this method of data collection can pose challenges since the interviewers' lack of receiving respondents' body language and expressions. Phone interviews can also create time pressure since they have the characteristic of proceeding during a limited time span. In contrary, phone interviews make it easier to take notes and listen simultaneously, in comparison with face-to-face interviews. Furthermore it makes it possible to conduct a higher quantity of interviews during a shorter time period to a lower cost (Adams et al. 2007).

The determination of representative companies to participate in these types of interviews is always very crucial for the result in the empirical chapter. Thus, the selected is made systematically depending on theoretical and strategic criteria that is defined before making the choice by the authors (Holme, Solvang 1997).

This selecting theory was in mind when choosing the four Swedish manufacturing companies: Volvo Trucks, SKF, ABB and Trelleborg. These were mainly chosen due to their the harmonization with our criteria to be of major size, which classifies them as TNCs, their Swedish origin and the fact that all of the four enterprises were established in Bulgaria before and after the country entered the EU.

2.4 Data Collection

	ABB	ABB	SKF	Volvo Trucks	Trelleborg
Name	*Ahmed Hassan*	*Mats Holmberg*	*Mihail Georgiev*	*Peter Ericsson*	*Ruslan Papazyan*
Position	*Factory Manager*	*Head of Public Affairs*	*Managing Director of SKF Bearings Bulgaria*	*CEO of Volvo Truck Bulgaria*	*General Manager*
Located	*Plovdiv, Bulgaria*	*Västerås, Sweden*	*Sopot, Bulgaria*	*Sofia, Bulgaria*	*Sofia, Bulgaria*
Type of Interview	*By Telephone*	*By Telephone*	*By Telephone*	*By Telephone*	*By Telephone*
Duration of the interview	*45 minutes*	*40 minutes*	*62 minutes*	*55 minutes*	*70 minutes*

Table 1. Description of Interviews
Source: (Mr. A. Hassan, 2014 interview, 7 May) (Mr. M. Holmberg, 2014 interview, 16 April) (Mr. M. Georgiev, 2014 interview, 23 April) (Mr. P. Ericsson, 2014 interview, 24 April) (Mr. R. Papazyan, 2014 interview, 23 April)

This thesis has initially been based on literature in the form of textbooks, academic journals and Internet based reports and documents from different international authorities. The major part of the literature has approached the EU integration and its effects, moreover the concept of business environment and production networks. The

creation of the plan for the interviews was founded on this literature along with the four companies' web pages, constituting the empirical data.

To experience the view of ABB we interviewed two staff members possessing two different positions in the company. Mats Holmberg is titled Head of Public Affairs for ABB, considering Sweden and Northern Europe, currently located in Västerås, Sweden. Mr. Holmberg is responsible for all of the company's links to organisations and governments, regarding both local and other foreign connections in the countries where ABB operates. Mr. Holmberg has worked within ABB since 1985 as manager director and marketing manager in five different countries, making his extensive foreign experience exclusive.

Furthermore, we interviewed Ahmed Hassan, who currently is the Factory Manager for ABB's new production unit in the Plovdiv area in Bulgaria. Mr. Hassan has worked for ABB since 2006 on positions involving operations such as communication and export. He has also worked within sales and purchase as well, where most of them were linked to the Bulgarian market and the surrounding area. In August 2012, Mr. Hassan moved to Bulgaria where he first, during the construction of the new Green field investment, occupied the position as project manager. Therefore Mr. Hassan possesses total 8 years of experience of the Bulgarian market, including time both before and after the EU entry. By occupying his current position, Mr. Hassan has been the responsible person throughout the process of the start-up of a new unit in Bulgaria.

To state the perspective of Volvo Trucks we interviewed Peter Ericsson, which currently is the CEO of Volvo Trucks Bulgaria since January 2014. Due to his short time on the position, Mr. Ericsson had assistance from the Financial Manager of Volvo Trucks in Bulgaria, Mr. Prokop Prokopov. Hence his position, Mr. Ericsson has a general responsibility for all of Volvo Trucks' operations in Bulgaria. Regarding employees, export & import issues, clients, and contacts with authorities among others. Mr. Ericsson has worked for Volvo Trucks for about 20 years, on positions regarding both production and marketing & sales of products, most of them linked to Bulgaria and the region of Eastern Europe. Mr. Ericsson has therefore a wide experience within the company of Volvo Trucks, as well as a holistic picture of the development of the Bulgarian market pre and post the EU entry.

For SKF we interviewed Mihail Georgiev, the current Managing Director of SKF Bearings Bulgaria EAD since around 2 years. Mr. Georgiev is the executive head of the Bulgarian establishments of SKF, responsible for all the daily operations included in the business. Mr. Georgiev has worked within SKF since 2009. However, before Mr. Georgiev occupied high manager positions within different Bulgarian manufacturing companies, such as the packing and paper TNC, Mondi. Mr. Georgiev is also born in and has lived the majority of his life in the country, making his extended experience both professional and personal.

All the interviews with these people that are stated in Table 1 above were all planned well in advanced and the guideline questions for the interviews were sent to the participants one week beforehand by mail, to increase the quality of the interviews.

The interviews were conducted through telephone, online conference system such as Cisco Webex and through smartphones apps such as Viber. All interviews were recorded with a recording machine, with the participants' approval and notes were taken during the interviews. The recorded interviews and the notes were afterwards used to write a synopsis about the shared information during the interviews. These synopses were later sent to the respective participant for review and correction, along with possible follow-up questions. This was made to further increase the validity of the qualitative interviews.

The interviews persisted for approximately 60 minutes each. Moreover, all of the participants discussed further questions if it existed any doubts about the answers or questions after the interviews. Throughout all of the five telephone interviews, both authors were present and engaged. The interviews with the companies of choice, gave us the opportunity to connect the theory of integration and the effects of it to a real-life context.

2.5 Criticism of Methodology

All alternatives of research methods will relentlessly include both advantages and disadvantages. Consequently, this also includes the chosen method of this thesis, the qualitative method.

The most significant limitation of the qualitative method approach is constituted by that the perception and point of view, that will be taken from only four

major actors within the industry. This will naturally influence the observed empirical material negatively, because of the problem to convince that the results are representative for the industry and foreign companies as whole. Nevertheless, the supposition is still referring to the qualitative method as the most appropriate method to fulfil the aim of this thesis.

The final conclusion of this study will be based on the interviewees' perception of the effects of integration, together with the existing literature on the subject that will be presented in the theoretical framework. As of the interviewees' possible different thoughts and experiences on this thesis topic, the theoretical chapter will play a significant role in making the thesis more reliable. This will be taken into account, when collecting material and completing this part of the thesis.

Additionally, the choice of doing telephone interviews instead of face-face interviews makes it impossible to actually see the production/sales units where some of the representatives are positioned in Bulgaria, moreover to read the interviewees body language. This is something that could have served to an even deeper understanding of the companies' preferences on the topic, but was unfortunately not possible.

2.6 Validity & Reliability

Validity and Reliability are two important concepts to further analyse the quality of a qualitative research. Both of these concepts, especially reliability, are more difficult to achieve conducting a qualitative method consequently to the nature of the method where the researchers are the primary instruments. The knowledge and consideration of the two concepts throughout the research process are therefore essential to a higher extent, than in the use of a quantitative method (Cohen, Manion & Morrisson, 2007).

The term validity can be described as how successful the thesis has been in answering the research question, how well the tools that have been used through the research process worked and if these tools have measured what they are aimed to do. In the qualitative method, the term validity can also be referring to the honesty, affluence and the participations approach in the research (Cohen, Manion & Morrisson, 2007).

In this thesis it is impossible to accomplish full validity, due to the prejudices of the interviewees in form of their personal opinions, experiences and attitudes.

However, during the whole process the research question and aim of the thesis have been considered to overcome a higher degree of validity. To further accomplish increased validity, relevant descriptions of concepts such as value chain, production networks and business environment will be explained. Appropriate integration theories will also be included to be able to answer the research question better and by that create a further understanding and validity.

Choice of participants in this thesis has also been carefully selected, due to our criteria. Where earlier experience about the research topic and positions within the organisation have been taken into account. All of the selected participants have also had the chance to review our empirical results after the interviews. The choice of data collection has been made in consideration of getting the highest degree of validity in reflection of the research questions. Furthermore, analysing the empirical studies together with the contextual and theoretical background has attained a carefulness of generalizations through the whole process of researching.

Reliability is a concept used to measure the trustworthiness of the study. This term can be explained by having the opportunity to get the same result of the thesis, even if the authors were somebody else (Yin 2009). The reliability within the qualitative method is similarly described as the degree of fidelity to real life, completeness and depth of responsiveness plus meaningfulness to the readers of the research report (Cohen, Manion & Morrison, 2007).

To increase the degree of reliability in the empirical results of this thesis, the interview questions were carefully planned and send out in beforehand. A review was also send out to all the companies' contenders after the interviews, with the possibility for the participations to add additional information or correct the information taken during the interview. This was made to avoid misunderstandings. If something was perceived as unclear during the interviews, the question was asked again during another time, instead of base the empirical conclusions on beliefs.

Additionally, the fundamental questions have been the same during all the interviews, but have been open-ended to get unforeseen issues raised that can increase the reliability. Creating engaging discussions between the participants and us.

We are aware of that the reliability of the thesis would become increased if a higher number of interviews with additionally employees, occupying different positions within the companies had been conducted. Nevertheless, due to the lack of

time and the information provided in the interviews that was hold, this was not seen as an issue concerning the reliability of the research material.

3. THEORETICAL FRAMEWORK

This chapter is presenting the Theoretical framework needed to analyse the empirical study, which will be dived up into two sections. The first part will include the theories and models used for analysing transnational companies' operations and investments in foreign markets. This section will furthermore also include a theory concerning the outcomes of integration through agreements. The second part will include descriptions of the consequential concepts of production networks and TNCs' different location choices for production facilities. In the end of this chapter we will also present our elaborated model, which describes how the presented theories and concepts are affected by each other.

3.1 Theories

3.1.1 The Eclectic Paradigm - The OLI Framework

The *Eclectic Paradigm* or The Eclectic Theory that it was called initially is used to understand the internationalisation decisions of companies. The theory are giving a meaning to the questions if a firm will internalise, where they will do it and how it will do it. Hence, this theory is also applicable on foreign direct investments and foreign activities of multinational enterprises (Dunning 1981).

The paradigm is based on three independent variables connected to each one of the questions above, referred to as the *Ownership* advantage, the *Location* advantage and the *Internationalisation* advantage, all explained below.

- The Ownership advantages:

The ownership advantages are representing the specific advantages possessed by the company who wishes to engage in or increase their foreign direct investments. Examples of these include trademarks, economies of scale and production techniques. The ownership advantages are answering the question if a company will seek foreign activities or not, the greater the competitive advantage of the firm, the more eager it will be to follow through with the FDI establishment (Dunning 2000).

- The Location advantages:

The location advantages identify the favourable features of the host country, which the company can use to utilise their ownership advantages. This can imply the

existence of raw material, low wages, low taxes or removal of tariffs. Furthermore, these determine the location of the FDI when the firm has decided to internationalise. If the resources needed for the practice of the ownership advantages are immobile, the company tend to engage in FDI where they can strengthen them (Dunning 2000).

- The Internationalisation advantages:

Internationalisation advantages are the profit of developing own production, rather than outsourcing the activity. The company needs to analyse the most efficient use of its core competencies, however at the same time protect them as much as possible. This concept is explaining how a company will internationalise, the bigger the benefits from establish own production the more likely it is for the company to pursue the FDI instead of outsourcing the activity to a foreign firm (Dunning 2000).

It exists different types of FDI, based on the main motive behind the will to internationalise. Moreover, the industry and the value added activities the company is engaged in, affects these various motives along with the specific objectives and strategies characterized by the enterprise (Dunning 2000).

- ***Market seeking***

Meaning FDI done to serve a specific foreign market. This can also be referred to as demand oriented FDI. This type of investments has increased in both importance and extent during the 21th century, primarily in fast growing industries. The increase in market seeking FDI can be related to the increase in strict trade barrier, especially in China and other Asian countries. Where the global enterprises are forced to create market penetration strategies, based on establishments on the market (Dunning 2000).

- ***Resource seeking***

Signifies FDIs done to gain access to natural resources, for example minerals and labour. This type of FDI is also known as supply oriented, but has experienced a steady decrease. This is a result of numerous of contemporary changes in the market factors. The rise of less resource intensive products plays a big role along with a higher degree of recycling and use of synthetic materials. However, foreign immobile resources are still needed in production that can only be reached through this kind of investments. Especially if they can be considered as rare, making the resource seeking FDI yet irreplaceable to some extent. Supply oriented FDI, together with the market

seeking FDI mentioned above imply the most common sorts of investments done especially for first-time internationalising companies (Dunning 2000).

- ***Rationalised / Efficiency seeking***

Involves investments done to increase effectiveness of activities or achieve a successfully niched portfolio. However, because of the similarities in the effects, this motive is often connected to the two types of FDI above. Further this type of FDI requires the TNCs to already produce in at least one foreign country, along with the low existence of trade barriers between the countries to keep the sought efficiency to a continued low cost (Dunning 2000).

- ***Strategic Asset seeking***

Refers to investments done to strengthen the company's competitive advantages or to decrease the consequence of the competitors'. This type of FDI possesses the highest importance hence to the increasing need for competitive advantages among companies. However, since these advantages are crucial for most enterprises, the economic benefits of relocating the value embedded activities must be significant due to the high risk of losing the control of them to some extent (Dunning 2000).

3.1.2 Competitive Advantage & The Value Chain

Competitive advantage is a concept explaining an attribute or a combination of attributes, that gives a specific company the opportunity to better compete with other competitors. These attributes can be external as well as internal, for example by the access to natural resources or employing highly skilled personnel. Yet, new technique can create competitive advantages by the development or enhancement of new products or by so called streamline production (Porter 1985).

The idea of the value chain is to analyse all value added activities and their interaction in a company, to identify the sources of sustainable competitive advantages. This can detach the operations within a company into a consecutive stream of activities, which in order can distinguish the cost and the potential sources of differentiation (Porter 1985).

Porter (1985) declared that all different industries and even companies within the same industry have different value chains. However, he promoted a generic value chain model that comprises a sequence of activities found to be common within many

types of companies. This generic value chain consists of nine activities linked together, divided in primary and support activities (Porter 1985).

The five primary activities are:

- ***Inbound logistics:*** Activities associated with receiving, storing and distribution of raw materials.

- ***Operations:*** Activities related to transform inputs to complete products.

- ***Outbound logistics:*** Activities concerning warehousing and distribution of the product to consumers.

- ***Marketing and sales:*** Activities associated to promote a need for the product.

- ***Services:*** Activities concerning support and service after the product being sold.

Moreover, the four support activities are:

- ***Procurement:*** Activities regarding the function for inputs such as materials, supplies, machinery and equipment.

- ***Technology development:*** Activities concerning to improve and develop the process of the product.

- ***Human resource management:*** Activities regarding hiring, recruiting employees, internal training, development and compensation of employees.

- ***Firm infrastructure:*** Activities associated to the organizational structure such as control systems, planning, finance etcetera.

The company's profit is based on its ability to perform these activities efficiently. Though, a successful reconfiguration of the activities can also provide the company with competitive advantages, by creating a cost or differentiation advantage. The theory of the value chain raise the advantage of integration as well, stating that it can reduce cost significantly primarily due to the decrease of transportation costs (Porter 1985).

3.1.3 Trade Creation vs. Trade Diversion

The effects of regional integration and increasing internal trade is often analysed through two opposing concepts, referred to as *Trade Creation* and *Trade Diversion* which was a theory first constructed by Viner in 1950.

When a regional agreement is formed it can create these outcomes, sometimes simultaneously. In addition this theory is not merely applicable on changes in trade, it

can also be used for explaining shifts in FDI from TNCs. The diversion signifies the loss of former flows due to the creation of the regional bloc. The joining country tends to replace a former business partner outside the agreement with a new one inside with a similar supply, gaining advantages from the reduced barriers (Dicken 2011).

The creation on the other hand states the gain of economic growth within the regional agreement, hence to the changed flows. When the barriers are reduced the production tends to allocate where it is most effective, replacing domestic production in inefficient countries. This changes reduces the prices for customers, yet often force domestic companies to go out of business (Dicken 2011). Still, it is impossible to determine if the outcome will be positive or negative before the union is actually implemented (Viner 1950).

3.2 Concepts

3.2.1 Production Networks

The term production network is described as complex nets of production circuits and systems used to produce, distribute and consume all types of products, goods, supplies and services (Dicken 2011), which originate from the theory of companies´ value chain (Porter 1985).

The major characteristic for production networks is especially their geographical spread and their ability to integrate functionally across states. These certain production circuits are supplementary constructed by the four basic elements of a production chain; Inputs, Transformation, Distribution and Consumption (Dicken 2011).

The production networks are continuously reshaping the global economy, yet this is done through he acts and relationship of the five major actors. Together they continuously reshape the global economy picture, through their different involvements in these circuits. These actors are TNCs, states, labour, consumers and civil society organizations (Dicken 2011).

Productions networks are mainly controlled by TNCs, having the capability to coordinate and control all processes within the value chain domestically or across borders. The significant characteristic of TNCs is their ability to take advantage of geographically differences, both within the distribution and factors of production such

as labour and natural resources. TNCs are also good at gaining benefits by beneficial taxes and trade barriers within states. Additionally TNCs have a geographical flexibility that makes it possible to exchange and move their resources and operations between different locations, both on an international level and within the home country. Consequently, the TNCs' ability to reform the global economy is stated in their decision where and if they will establish in a country and how they choose to organize their flows and activities (Dicken 2011).

The selected location of TNCs can as well affect the economic development of the host country. Linked to the value chain it can be concluded that activities in the production circuits described as value adding, can provide the host countries with a surplus above the initial cost. Activities contributing to the growth of sectors within the economy are logistics, technology and knowledge in labour or processes (Dicken 2011).

The power of the TNCs varies within both countries, regions and industries, yet the places in the world where TNCs do not possess any economical influence at all are limited. In some countries the influence of TNCs is crucial for the country's wealth and development (Dicken 2011).

The national state is another important player in this sense, since all of the five basic elements of a production network are regulated to some degree. These regulations are embedded in the political structure, developed by the national state and supranational institutions such as EU (Dicken 2011).

Labour, is the third driving factor in production networks, hence it represents the knowledge and skills available needed for production. The significance of labour being more flexible than transnational capital in TNCs makes their role less important, looking at the influence on production networks (Dicken 2011).

Ever since the middle of the 1990´s, International Business researchers have discovered a trend within the operations of TNCs. They have seen a trend were they are starting to organize their production networks regionally to a higher extent. Relocating a major part of their assets and activities to their home region (Muller 2004) (Rugman & Brain 2003) (Elango 2004). Muller (2004) described this process as:

" For Western core companies, regionalism has become the institutional framework of choice within which the struggle for preservation of their core positions is played out… " p.14

The advantage of regionalising of production networks is the opportunity of faster distribution of products. It also makes it a lot easier for the companies to customize products according to specific customer preferences as well as enable small stockholding. The trend of regionalisation has moreover encouraged TNCs to utilize their subsidiaries' various potentials. However, the disadvantages of this regionalisation trend are the loss of possible economies of scale, due to the production of smaller amounts suitable for the regional demand (Morrison & Roth 1992).

Furthermore, regional political structures such as the EU, has also encouraged TNCs to regionalise their production networks more through initiatives, such as the enlargement of the EU.

" The EU can be seen as a gigantic international production complex made up of the networks of TNCs which straddle across national boundaries and form trade networks in their own right" (Amin 2000) p. 675.

Still the decision to regionalise the production networks and locating them within the EU, is a complex decision. The companies are forced to meet the larger supply and therefore creating economies of scale, where all EU citizens need to prefer the same type of product. While simultaneously they need to satisfy the demand of the EU, which is characterized by cultural and social differences, making the task nearly impossible. Therefore a discussion concerning integration worldwide and the importance of local preferences are consequential, in the process of developing regional production networks within the EU (Dicken 2011).

3.2.2 The TNCs' Location Choice of Production Facilities

A common movement among TNCs is to scatter their production activities geographically, while keeping their R&D and marketing and sales activities close to their country of origin. The explanation of this as well as the specific location decision of the individual establishments is linked to its organisational and technological importance in the company. Furthermore, geographical availability of local-specific resources can also be a reason behind a location decision. Therefore the choice of production location is highly complex, where several of factors need to be taken into account (Dicken 2011).

Dicken (2011) suggests four different categories of geographically orientations, considered by TNCs in the decision of locating their production, which are explained below.

- Globally concentrated production:

All products are produced within one single country or even within one single geographical location, to satisfy the demand of the whole world market.

- Host market production:

Each production unit will produce a variety of products to satisfy the whole demand of the national market in where the unit is set up. There will be no sales across national borders and the size of the unit will be decided by the size of demand at the national market.

- Production specialization for a global or regional market:

Every production unit is only producing one significant or special product, to satisfy the demand of several countries or a whole region.

- Transnational vertical integration:

There is two different ways of organizing its production through transnational vertical integration. The first type, is when each of the production units within a geographically area is specialized to perform an individual part of the production process. The second kind is when each production unit will perform a separate operation within a production process. These components will afterwards be transported to other countries for further input and assembling (Dicken 2011).

There are two important factors to consider, when making location decisions for the activities within the production networks of TNCs. These are the access to knowledge and the access to labour (Dicken 2011).

The existence of knowledge is sought for activities primarily requiring technological innovation concerning the companies' process and product. Furthermore, a high degree of skilled labour are often found in geographical clusters, located close to the right kind of institutions such as universities and research institutes. The education level is a factor associated with a substantial variety among countries, whereas the knowledge is correlated to the income per capita (Dicken 2011).

The access to labour can be defined by the productivity and the controllability, yet primarily though the wage cost. The cost of labour is known for being unevenly

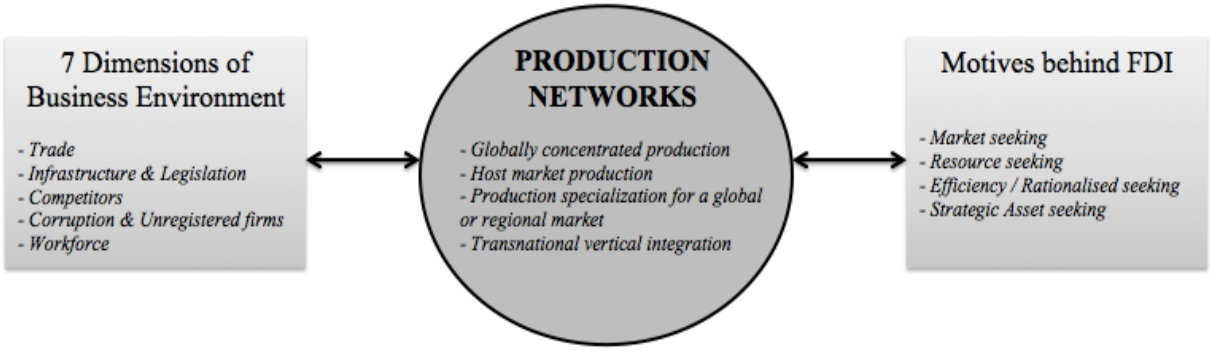
distributed across the globe, as well as across industries. However, these variations are a main factor behind the TNCs' location decisions concerning the production units, due to their seek of the lowest production cost possible (Dicken 2011).

On the other hand, the choice of production location is solely partly based on a comparison between different countries' labour costs. The interconnectedness between the parent company and production units have become increasingly important, hence to the geographical distances and less control of the supply chain. A lack of this crucial relationship could create higher costs in the end due to delayed products. As well as complex issues in the next step of the value chain if something unexpected happens on the location of production (Dicken 2011).

Even though input and labour costs are higher in the TNCs' home region, than in other parts of the world, many of these firms have in recent years relocate closer to their home markets. The main reasons for this have been to satisfy the demands of the customers in time and to the rising energy prices, that has increased the transportation costs. The strict trade laws and rising labour costs in the developing countries in the East have also been driven factors. This phenomenon has clearly influenced the trend of European origin firms in later years, since they have established their production units in Eastern Europe countries instead of in previous low-cost countries such as China (Milne, 2008).

3.3 Theoretical & Conceptual Application Model

In association with the entry into the EU, the four manufacturing companies and their production networks are affected by the changes in the Bulgarian business environment, through the chosen seven dimensions. To illustrate this relationship we constructed a descriptive model, demonstrating both the effects of the business environment and the motives behind FDI on TNCs' production networks and vice versa. This model is supported by theories such as the OLI framework, production networks, Porters' value chain and our empirical studies.



Model 1: The Theoretical & Conceptual Application Model elaborated by the authors

As the theoretical chapter has explained, there are four types of geographical location strategies of TNCs, considered during the decision of where to establish their production.

- Globally concentrated production
- Host market production
- Production specialization for global or regional market
- Transnational vertical integration

TNCs disperse their production activities to a higher extent geographically, in comparison with for example their R&D and marketing and sales activities. This is based on the firm's implemented organizational strategy (Dicken 2011). The choice of strategy however, can be explained by what types of motive the company has behind their foreign investments.

According to Dunning (2000), there are four types of motives behind FDI, which are: Market seeking, resource seeking, rationalised/efficiency seeking and strategic assets seeking. Moreover, geographical availability of local-specific resources could also be a reason behind TNCs' chosen production location within the production networks (Dicken 2011). Furthermore, the preferential location can be explained by how the Bulgarian business environment influences production network in the perspective of the chosen seven dimensions (Model 1).

At the same time, the location of production networks affects what type of motives the company are seeking with its further FDI. According to Dunning (2000) the industry and the value added activities, in which a specific company engage

affects the motives behind the intended FDI operations. The strategic organization is therefore characterizing the enterprises' aim of the investments (Model 1).

Production networks are not only integrating TNCs, the location of these also influences the national and local economies in which they are established. These influences can be seen through developments of the business environment and the increased stability of the economy due to establishments of FDI (Dicken 2011)(Model 1).

4. EMPIRICAL STUDY

This chapter is presenting the Empirical study needed for the upcoming analysis. The empirical study includes an introduction of Bulgaria, followed by a background to the chosen Swedish manufacturing companies. Their perspective on the changes within the business environment and production network since Bulgaria´s entry the EU is also stated, which was gathered through the interviews with the representatives from the respectively companies.

4.1 Introduction of Bulgaria

4.1.1 Economic History of Bulgaria

During the late 20th century Bulgaria began the transformation to a market economy with support from the IMF. Through a combination of the process of privatisation of former state owned businesses and the fixation of the local currency to the D Mark, the Bulgarian economy slowly developed. Through the beginning of the next century the economic management was influenced by the qualifications needed for EU membership, which was proven successful with a decrease of unemployment and increased GDP growth as a result. During this time the local Bulgarian currency got linked to the Euro, instead of the previous D Mark as well (Landguiden 2013c).

By the end of the EU negotiations in 2004, the economy of Bulgaria continued to grow and the consumption along with the foreign investments experienced a stable increase. Despite widespread problems with corruption and organized crime, the attraction for Bulgaria proceeded and the business climate on the market was explosive (Landguiden 2013c).

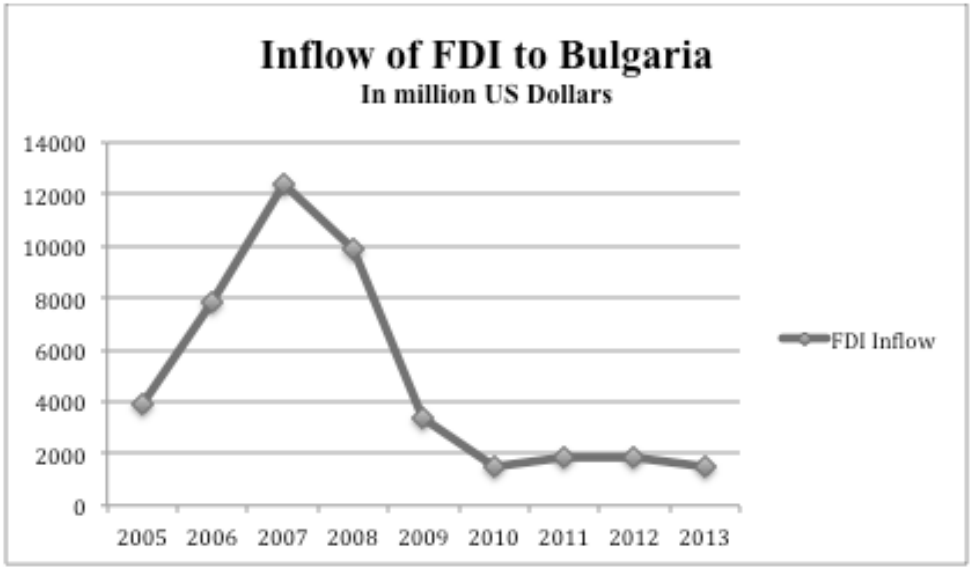


Chart 1. Inflow of FDI to Bulgaria

(UNCTAD 2012) (Bulgarian National Bank 2014)

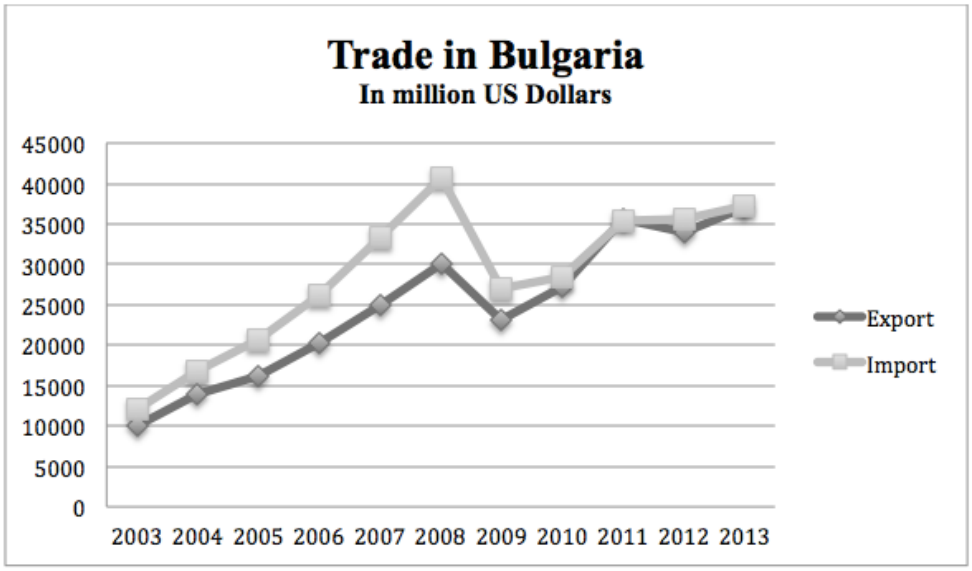


Chart 2. Trade in Bulgaria

(UNCTAD 2013)

The period of significant increase in inflows of FDI to Bulgaria started in 2006, when the number reached 7 800 million US Dollar, which represented a raise from 2005 of almost 4 000 million US Dollars. However, the Bulgarian inward FDI flows peaked in 2007, the year of the country's official EU entry, when it was recorded to over 12 300 million US Dollars as seen in Chart 1 above. This created a growth percentage between these years of 37 per cent, and the forecasts for Bulgaria's

economy was promising (UNCTAD 2012). Along with the rise in FDI, the import also reached high numbers during this period. From a worth of about 9 500 million US Dollars in 2003, the all time high was set in 2008 when the export measured almost 35 000 million US Dollars. The exports also experienced a steady growth during this period of time, even though it did not match the rise of imports or FDI. The increase in export was balanced around 1 000-3 000 million US Dollar per year during the period between 2004 and 2008, which is shown in Chart 2 above (UNCTAD 2013).

Although, after the EU entry in 2007 the inflation started to increase once more, which raised the concern among investors. Yet, this was only the start of the massive decline, which struck the country when the financial crisis became reality in the end of 2008. The crisis hurt all the European countries, however the effects on Bulgaria were severe. The former steady rise of the economy stopped abruptly and the GDP growth went from around 6 per cent per year to a shocking minus 5 per cent during this period. Furthermore, the Bulgarian export fell with 23 per cent, which was a decrease above the average in the European countries (Landguiden 2013c).

Looking at the statistics, the growth in exports continued throughout the year of 2008, however in 2009 the devastating results of the crisis started to show with a decrease of around 6 000 million US Dollars in worth (UNCTAD 2013). The FDI inflows from this period states the decline in the economy as well, in 2008 the total amount measured around 9 800 million US Dollars. Unfortunately, the biggest drop was still to come and when the FDI flows to Bulgaria in 2009 only were recorded to about 3 300 million US Dollars, at that time the effects from the financial crisis was a fact (UNCTAD 2012).

In 2011 the Bulgarian GDP showed a small increase from its former negative development, although the next economic crisis had started already to spread in other European countries. This soon affected Bulgaria as well and the decrease was primarily related to the economical issues of Greece, Bulgaria's most important trading partner (Landguiden 2013c). Hence, the FDI inflows continued to fall in 2010 resulting in just about 1 500 US Dollars, the lowest number since 2002 (UNCTAD 2012). The trade in contrary failed to show the effects from the European crisis and actually bounced back a bit during this time, resulting in increases once again. Both

the export and the import of Bulgaria climbed back to reach about 30 000 million US Dollars during this year (UNCTAD 2013).

The two crises over the years have dashed all former expectations of Bulgaria's EU membership and economic development. Moreover, they have caused a decrease of the Bulgarian inflow FDI with a total of 88 per cent during 2007- 2010 (UNCTAD 2012).

Currently, Bulgaria still struggles to recover wholly from this economic backlash, resulting in humble increases in both trade and inflow FDI during 2011 and 2012 (UNCTAD 2012)(UNCTAD 2013). At the moment the economic growth of Bulgaria is stagnant, primarily due to the recent EU economic crisis, but also due to the institutional instabilities in the country (The Heritage Foundation 2014).

The latest ratio of inflow FDI from 2013 although shows a small decrease, ending in the number of just over 1 500 US Dollar with the exchange rate of 1,39 (Bulgarian National Bank 2014). While in contrary, both the export and the import of Bulgaria continued to show small increases of 3 000 respectively 2 000 million US Dollars (UNCTAD 2013).

4.1.2 Business Environment in Bulgaria

The entry into the EU harmonize the business environment between all member states, due to the free movement of capital, labour, goods and services within the member area, also referred to as the single market. To be accepted as a EU member a country needs to achieve the so-called Copenhagen criteria, which consist of three parts constituted as the political, the administrative and the economic criteria (Sveriges Riksdag 2013). These demands forced big changes in the former economy of Bulgaria. Yet, the specific characteristics of each country always play a significant role to some extent.

Therefore it is of importance to create a deeper understanding for the shift from an individual business environment in each country to a shared one in the European region. As well as have knowledge about the Bulgarian environment for business along with the factors in the past that can influenced the current state (Suder 2011).

To help domestic and foreign companies benefit from the single market, the EU has the sole right to most of the decisions concerning trade with countries outside

the union. Therefore a EU membership might change the trade patterns of a country, because of the increased trade barriers to non-member states (Suder 2011).

The legal and regulatory system that existed in Bulgaria has been seen as problematic and complicated by foreigners and therefore might have hold investors back. The modifications done to harmonize the former Bulgarian rules to the regulations of the EU, has although done the start-up process of businesses easier (The Heritage Foundation 2014). Beyond this, the EU has legislated the welfare of citizens through the so-called competition policies, including directivities about antitrust, mergers and state aid among others, guarantee fair competition structure within the single internal market (Suder 2011).

The most important change in the business environment since a EU entry is the increase in competitiveness linked to the free movement of goods and services. Due to the creation of the single market, the country's market opens up for all companies within the EU after the implementation of the membership. Linked to the increasing competitiveness, naturally the trade between the countries within the union will increase significantly. This logically put pressure on the domestic companies, as well as the former established companies in the country. Consequently, enterprises are forced to increase their efficiency to become profitable in the new business climate and to be able to compete against their new market competitors (Suder 2011).

A major problem in Bulgaria throughout the modern history has been the organized crime and corruption. Where the infiltration of the government has made the business environment unstable and insecure for both foreign and domestic investors. EU has raised their concern for these serious issues numerous times both pre and post the Bulgaria entered the union. This resulted in a withdrawal of total 500 million euro in financial support in the year of 2008. Which was a consequence of the lack of reforms to solve these matters, and the suspicion that the organized crime had infiltrated the support system of the EU. This has never happened to another member state before (Landguiden 2014e).

Another important factor in the Bulgarian business environment is the expansion of the informal sector, which has made it impossible to extract actual business statistics through the years, such as unemployment rates (Landguiden 2013a).

On the other hand, that is not the only way it complicates business in the country. The informal sector is estimated to represent 40 per cent of the economy, making the competition structure for both foreign and domestic companies highly complex (Landguiden 2013a). According to the most recent enterprise surveys in Bulgaria (2009), over 54 per cent of the companies on the Bulgarian market compete against unregistered or informal firms (The World Bank 2013).

Labour is a factor of high importance in the EU's single market and is seen as a common concern within the union (Suder 2011). This can be an advantage for Bulgaria, since their population was estimated to 7.3 million in 2012, which in comparison to other European countries, makes it a small internal market. Furthermore, the population growth in the country is currently negative and was decreasing by 0.6 per cent per year in 2012 (Landguiden 2014b).

The EU has additionally created a complementing agreement called Schengen to further accomplish an integrated labour market. Schengen includes only some of the member states, due to the hard requirements for joining (Sveriges Riksdag 2014). Sadly, due to the previous mentioned high rate of organized crime and corruption in Bulgaria, the country was denied entry into this agreement. Making the flow of Bulgarian labour inside the union harder (Landguiden 2014d). Yet, labour in reality has proven to be relatively immobile and non-homogeneous mainly explained by the language and cultural differences within the union (Suder 2011).

4.2 The Companies

With the Bulgarian economic history and business environment in mind, the Empirical studies of each of the four case companies will be presented below. A collective table in the beginning will clarify and compare the representatives' attitudes towards the chosen dimensions. The companies will firstly be introduced through a background. Secondly, their separate options about the chosen seven dimensions of business environment, which was conducted through the interviews, will be presented.

	ABB	SKF	Volvo Trucks	Trelleborg
Trade	Big improvement, Decreased cost of transport & administration	The most important change, Gained resources	Essential for the business, lower costs & enlarger market	Important improvement, economic stability
Infrastructure & Legislation	Improved roads & tougher safety legislation	No major improvement	Roads need further improvements, harmonized product legislation	Only limited road improvements, do not always comply with legislation
Competitors	No Change	No Change	No Change, costumers "flag out" business	No Change
Corruption & Unregistered firms	Big improvement, follows their *Code of Conduct*	Some improvement, follows their *Code of Conduct*	A huge problem! Abstain public procurement	Exists, but not exposed
Workforce	*Brain Drain,* lately some improvement	*Brain Drain*, labour comes back	*Brain Drain*, need improvements in education	*Brain Drain*, need improvement in education, labour comes back

Positive Changes
Negative Changes
No Change

Table 2. Summary of Empirical research results
Source: (Mr. A. Hassan, 2014 interview, 7 May) (Mr. M. Holmberg, 2014 interview, 16 April) (Mr. M. Georgiev, 2014 interview, 23 April) (Mr. P. Ericsson, 2014 interview, 24 April)(Mr. R. Papazyan, 2014 interview, 23 April)

4.2.1 ABB

4.2.1.1 Background

The multinational corporation ABB as it is known today was created through a merger between the Swedish ASEA and the Swiss BBC, in 1988. By the time of the accomplishment of the merger, ABB was considered one of the biggest electrical companies in the world. The two companies were sharing several similarities before the merger, since both were established early in the industrial age and were known for their successful technical innovations (ABB 2014d).

Hence to the fact that the organisations possessed patents for revolutionary products, they both already were relatively globalized in the end of 20th century. Both ASEA and BBC established their first units in Bulgaria in the year of 1971, although the establishments were only representative offices. When the merger took place, these two offices was brought together and created ABB's first Bulgarian unit. ABB soon after that decided to bring their production to Bulgaria as well and acquired a plant in the town of Sevleivo in 1996. During following years, the Bulgarian plant of ABB expanded bit by bit, to be able to produce more units and a wider variety of products. However, only one establishment could not manage the new higher demand and more capacity was needed. At the start of the 21st century the company opened up their third production plant and their second sales offices in the country (ABB 2014c).

Today, ABB has six units representing different parts of their value chain, located in Bulgaria (ABB 2014b). Currently it possesses four production units, since the fourth plant was finished in 2013 (Mr. A. Hassan 2014, interview 7 May). Furthermore, ABB controls two additional locations in Varna and Sofia, focusing on sales, after-sales service activities and installation (ABB 2014b)(ABB 2014a).

ABB in Bulgaria produces products mainly for the internal market and neighbouring countries within the Black Sea region. ABB in Bulgaria is also the main producer for the Italian market, since the former production unit located there was moved (Mr. M. Holmberg 2014, interview 16 April). ABB Bulgaria is operating within four of the company's business sectors; Transformers, Low-, Medium- and High Voltage products. Currently, the enterprise employs around 1 500 people in Bulgaria (ABB, 2014b).

In general, the company ABB is today a highly multinational cooperation, with a clear aim for achieving a transnational strategy. The organisation is operating in around 100 countries around the world, consisting of over 300 manufacturing units. The concern achieved a turnover of over 3.3 billion Euros in 2013 (ABB 2013).

4.2.1.2 Interview

4.2.1.2.1 Trade

Since the EU entry of Bulgaria in 2007, the country has gained access to numerous of opportunities. This has made the country become more attractive for foreign direct investments according to ABB.

The reduction of trade barriers has enabled tremendously for ABB's so called *Intra community trade,* since the cost of transport, administrations and customs has decreased greatly according to Mr. Hassan. Particularly has the lowering of transportation costs been beneficial for ABB, because of their need to import components and export finished products states Mr. Holmberg.

4.2.1.2.2 Infrastructure & Legislation

The infrastructure has become more developed since the EU membership, due to the EU financing of large projects for the construction of roads. This has made the transportation through and within the country much easier, which facilitates the work of ABB since their units are scattered around the country. However, previous issues linked to infrastructure have not been experienced mainly due to the factories' independency. Completely different components and products are produced in the different facilities, making collaborations to a larger extent rare. Yet, the infrastructure in Bulgaria is still undeveloped and poor, especially in comparison with other European countries.

The entry of Bulgaria into the EU implied many changes to harmonize the legislations for products and safety. These laws are mandatory and Bulgaria was therefore forced to obey them instantly by the time of the membership. Although, currently Bulgaria still struggles to incorporate these laws.

Mr. Hassan says:

"(...), They still have some problems to implement the new EU regulations"

The existence of language and knowledge barriers makes posterior corrections in already constituted laws very common.

However, Mr. Hassan considers the country's current safety legislations to be improved, proven during the recent construction of ABB's new production unit. Discussions of safety regulations concerning fire prevention and emergency exits as well as safety during the construction, was raised during the whole process.

These changes have although not affected ABB to a higher extent, since the company is a global organisation, therefore it always has followed the international regulations. Moreover, it has strict internal regulations concerning products and safety. ABB supposes that the complex changes in legislations have probably been a greater issue for SMEs in Bulgaria.

4.2.1.2.3 Competitors

Through the expanded market as an effect of the free movement within the EU, the numbers of competitors has naturally increased. Currently though, ABB do not perceive any local Bulgarian firms on the market as notable competitors. ABB's biggest competitors are instead solely other TNCs in the same industry. Fanuc and Siemens are considered to be their main competitors. These two companies are also operating according to similar strategies as ABB in Bulgaria, establishing production in the country as well.

However, Mr. Holmberg believes that ABB's rich history in Bulgaria indicates on commitment and involvement in the development of the country, to local customers, which have strength their brand in compare with their competitors.

4.2.1.2.4 Corruption & Unregistered Firms

ABB are well aware of the corruption problem in Bulgaria and the issues of corruption was something that frightened Mr. Hassan, when he received the position as project manager of the construction of the new ABB factory. This was mainly due to the requirements of his position to handle all permits and connections with the Bulgarian authorities.

In contrast, Mr. Hassan became amazed when he did not experience any dimension of corruption, during the whole construction process of the factory. The contact with the associated authorities has been totally indolent, with only some minor bureaucratic issues that was relatively time consuming. Still, since the factory was completed after 9 months, the bureaucratic processes were not a major issue for ABB, explained by their organized documentation enunciate Mr. Hassan.

Furthermore, ABB has a strong internal *code of conduct*, which has a policy of banning all sorts of involvement in activities contributed to corruption. The company follows these regulations strictly and are therefore unable to participate in suspicious agreements.

The problem of unregistered firms has controversially affected ABB and its operations in Bulgaria. ABB has experienced loss of workers to these firms, hence to the higher wages linked to their non-payments of taxes and social dues. Even though, the inspections and investigations have become more frequent since the EU membership.

4.2.1.2.5 Labour

Mr. Hassan experiences that the labour within his current area of operation, in Plovdiv, Rakovski, is qualified according to the requirements of ABB. Though, this conclusion could be influenced by the closeness to the Technical University of Bulgaria.

However, Mr. Hassan has since 2007 noticed issues in keeping young, qualified personnel within ABB. It exists an on-going trend of workers leaving the country for more favourable positions abroad after gaining some years of experience within the company. This has created a situation of *brain drain* in Bulgaria. Improvements within this issue have been experienced, since ABB has seen a new pattern of some young educated people coming back after some years abroad.

According to Mr. Hassan these young academic workers believe in a future growth in Bulgaria, as well as the establishment of numerous international corporations in the country, offering some high management positions. Though, Mr Hassan still considers the difficulty of keeping knowledgeable labour a significant problem in the Bulgarian business environment. That could affect the company negatively, even more in the future.

4.2.1.2.6 Value Chain Activities

Both Mr. Hassan and Mr. Holmberg who are representing ABB, have experienced changes in companies' strategies in Bulgaria, where region-to-region strategies have increased in importance among them and other TNCs. Even though this approach of regionalisation has existed for years, this strategy has experienced a significant increase during recent time.

Earlier ABB and other TNCs used Chinese suppliers and establishments to overcome high production costs. Today, since Bulgaria entered the EU along with other CEECs, numerous of international companies have established production in Europe instead of Asia. China has lost its promising character, due to the high transportation cost, numerous of tariffs, complex business environment and fast increasing wages among others. Especially the wages in the coast areas of China has risen significantly and thereby passing the salaries in Bulgaria.

Mr. Hassan states this by saying:

"China is starting to become less lucrative"

In later years Mr. Hassan has also noticed a trend where Chinese companies and suppliers also aiming to take advantage of the low production cost in Bulgaria and the development of the European regionalism. Consequently, many Chinese firms and suppliers to ABB have been established in Bulgaria or have plans to do so in the near future, to become more flexible to their customer ABB.

ABB started already ten years ago with a reorganisation of their value chain activities, to be able to utilize economies of scale. By doing this, they incorporated separated units in regions to create fewer factories, which were called "Feeder factories" that would satisfy the demand of the whole market.

Therefore, the localization of ABB's activities has been based on the current strategies within the region, which had made the appearance of ABBs production network to be continuously changed. The labour intensive parts of the value chain, which is the production and manual assembly activities are relocated on short-term basis, to be able to take advantage of economies of scale. This is the type of production currently established by ABB in Bulgaria.

In connection to these continuously reorganisations, ABB has realised that the capacity in their current production units has not covered the demand of the market, therefore the company had to built an additional unit in the region focused on manufacturing.

The main reason for why this factory was established in Bulgaria is unquestionably the opportunities to low cost production, due to the low wages. Other investment factors such as taxes and energy cost are also lower in Bulgaria than in many other European countries.

The new factory aim is likewise with the other production units in Bulgaria to produce the classical products, which are standardised. These products are older and more labour intensive, that ABB believes fit to produce in low cost countries. ABB's target is to produce these products to the lowest cost possible, to be able to become more competitive. While final assembling of products and final testing of products, are made in France and Germany.

Research and development of new products are established in high-cost countries on long-term basis in countries like Sweden, Germany and France, where the technical development and research resources are available. Mr. Hassan considers that no value added activities such as R&D are appropriate to locate in Bulgarian yet, since the country still is a young organisation. Mr. Hassan states that it takes time to develop well-functioned and experienced know-how along with R&D resources in a country. He also states that Bulgaria is not able to compete at the moment with countries that have 20 years or more of experience within the industry. Therefore, currently ABB does not have any new investment plans in Bulgaria concerning value added activities.

4.2.2 SKF

4.2.2.1 Background

SKF was a company created around the invention of the double row self-aligning ball bearing in 1907. The Swedish organisation was developing quickly at the start and began to internationalize already the next coming year. However, they started of quite small by placing offices and establish partnerships with agents in mainly other Nordic and north European countries, close to the headquarters in Sweden. Some of the initial countries SKF chose to launch their products in were Finland, Denmark and Germany. The company then continued to stretch their business in foreign areas following years, introducing themselves on markets in the rest of Europe and in both North and South America. The expansions done early in the company's history made the enterprise grow rapidly and in 1919 SKF had a turnover of over 11 million Euro and around 14 000 employees (SKF 2012). By the start of 1920, the company had established themselves on all five continents (SKF 2014b).

The new experience the company had gained by the various international establishments made SKF more courageous and they began to start subsidiaries

instead of exclusively seeking agents abroad. In the end of the 20th century SKF set their goal towards the Eastern Europe and started by setting up a subsidiary in the area called Czechoslovakia at that time. Nonetheless, the first investment SKF did in Bulgaria occurred in 1925 when an affiliate was developed (SKF 2012).

The company decided to expand in the country by starting up production there in the year of 2001, when they pursued this decision by acquiring the bearing production of a former military plant called VMZ in Sopot. The expansion within Bulgaria was rather intense during this time period and already in the next coming year SKF did a brownfield investment by acquiring a site in Karnare. Today, the company has a total of four establishments located in Bulgaria. SKF possesses two production units for different types of bearings and its components in Karnare and Kalofer. Furthermore, the company still holds the site in the town of Sopot, working as an assembly plant. These units all together employ 1 500 people, equally distributed over the three facilities units (Mr. M. Georgiev 2014, interview 23 april).

The enterprise has also established a sales office located in the capital of Sofia, which includes 15 employees. However, it exists no further connection between the sales and production units, since all of the distribution is operated through SKF Group. SKF Group is the global company, controlling all SKF subsidiaries' operations. All goods produced worldwide are gathered at SKF logistics centre in Italy, to later on be distributed according to the demand of the different markets through the sales units (Mr. M. Georgiev 2014, interview 23 april).

SKF was in 2007 considered as one of the most important manufacturing companies in Bulgaria, regarding their high employment numbers and big investments made in the country (Teknikföretag 2007).

Generally SKF is today considered as a multinational corporation with a turnover in 2013 of over 7 billion Euro (SKF 2014c), which own 140 different global units scattered around the world (SKF 2014 b).

4.2.2.2 Interview

4.2.2.2.1 Trade

SKF's outlook on the effects of the Bulgarian EU membership in the country's business environment is influenced by the company's focus on production. The entry

into the union has overall created positive changes in the country for the current SKF operations located there.

The opening of the entire market is the primary factor of importance behind the changes in the Bulgarian business environment. To begin with the release of the financial market resulted in a significant drop in the interest rate in the country, making it easy to take new profitable business loans.

Furthermore, due to the single market created within the European Union the member states can benefit from a huge extension going from solely an internal market to a common market within the whole Europe. This is a drastic difference, especially considering Bulgaria's initial limited market size. Mr. Georgiev states that the effect of the market integration on SKF's production units was primarily the newly gained access to resources.

He describes this by saying:

"Through the abolishment of trade barriers we have experienced a further access to resources in European countries"

The free movement of factors within the union also facilitated SKF's business, hence to the company's need of importing raw materials.

However, currently the production units in Bulgaria are still importing the raw materials needed for their products from primarily Russia and China, therefore the company are missing out on wholly absorb the benefit from the free movement within the EU. Although, foreign suppliers represent around 60 per cent of SKF Bulgaria's turnover, stating that the high amount of trade needed for the production, benefits from the integration of the EU. The transportation of the finished goods from Bulgaria to the logistics centre in Italy has become highly facilitated by the absence of trade barriers.

4.2.2.2.2 Infrastructure & Legislation

SKF's three production units in Bulgaria are all located approximately 20 kilometres apart in the middle of the country, making the changes in infrastructure less important for the internal connection. Conversely, transportation of imported resources to the plants as well as transportation of finished goods to the logistics centre in Italy for distribution relies on the development of infrastructure. The improvements of this factor in Bulgaria have been weak, despite the EU membership.

The only initiative for enhancement in this sector is the special certificate foreign investing companies can grant from the Bulgarian government. This certificate is received, if the investment is worth over 10 million EUR. This certificate states that the government is obliged to build the absent necessities around the company's establishment such as electricity, roads and gas. These companies are also treated with preferences by the state and other authorities, making the process of for example getting permits, quicker and easier.

4.2.2.2.3 Competitors

SKF is a producer of high quality bearings, where only three other companies in the world are counted as competitors. These are Schaeffler, Timken and NTN, but still SKF occupy a significant portion of the world production of this type of bearings. SKF is still the only enterprise out of these four to produce in Bulgaria. Therefore, Mr. Georgiev does not consider the competition to have become changed since the entry. SKF alone can gain benefits from the resources in Bulgaria, considering both qualified labour and new trade opportunities.

The local producers are very few and are not considered to be competitors, due to the low quality of their manufactured products. In a value adding process, low and high quality bearings are not used in the same type of products. SKF's goods are used frequently in industry machinery and domestic appliances such as washing machines, which requires a higher standard of their components.

4.2.2.2.4 Corruption & Unregistered Firms

When analysing the Bulgarian business environment, an important feature to take in account is the political aspect and the existence of widespread corruption.

Historically, corrupted authorities and governments have been a severe problem for multinational businesses established in Bulgaria. However, since most of the global companies are operating according to their *code of conduct,* preventing corruption and contribution of other illegal activities, the business possibilities in the country are restricted. Even though, the corruption still is a serious problem in Bulgaria, it has lately decreased due to the entry into the EU. The integration has provided stability and predictability in the Bulgarian business environment according to Mr. Georgiev.

The EU has influenced the improvement through two distinct changes. Primarily the implementation of the EU regulations restricted the government's authority, excluding the political elite to some of their former power. Furthermore, the presence of a higher instance constantly inspecting suspect parts of the governance of the country has prevented some of the further extension of the corruption as well. The EU has also withdrawn some of Bulgaria's founding, as punishment for the solely modest initiatives taken by the government to achieve improvement.

Despite the continued existence of corruption, the support from the EU can provide foreign investors with predictability in the previously changeable business environment. SKF's units in Bulgaria have not been exposed to a higher degree of the problem of corruption or illegal firms, hence to the little involvement with local businesses. Only 40 per cent of SKF Bulgaria's turnover can be traced back to local suppliers. Nevertheless, if SKF suspect a client or provider to operate against the laws, the company gets blacklisted immediately.

4.2.2.2.5 Labour

The free movement within the EU however, has been proven to create negative effects as well on the Bulgarian business environment. When the borders were opened for unrestricted flows of labour, the Bulgarian strategy of creating competitive advantages through low wages, hit a backlash.

Today, SKF can see a trend of young people moving abroad to benefit from higher qualified education and better-paid employments in other EU member states. SKF has experienced a trend where it gets harder to find qualified personnel in the country. Even though it is still possible to recruit good employees, the development currently seen is critical if nothing is done to change it. However, the beneficial environment for starting up new businesses in the country attracts previously Bulgarian inhabitants and a majority of them later moves back to establish their own companies according to Mr. Georgiev.

4.2.2.2.6 Value Chain Activities

SKF was one of the manufacturing companies to start production in Bulgaria to a larger extent and today they only produce selected types of ball bearings, in the country. The company has seen a trend in recent years, in increased production related

investments. Which, can be related to the new opportunities in the country since the EU entry.

SKF established their first production unit in Bulgaria before the entry into the EU, with the on-going financial crisis as the main reason behind the investment. The crisis affected the Bulgarian economy negatively, though it can be seen as has been beneficial for SKF Bulgaria. To restrain costs, the company decided to restructure activities in Western Europe and move back to the former production in France. Instead the company looked to Bulgaria, to achieve a more cost-effective manufacturing.

The crisis along with the upcoming EU membership, states the features of importance for the development of production in Bulgaria for SKF. Since the integration into the EU, the production has increased constantly in the country. Boosting both capacity and extension of models. Only between 2009 and 2010 the production of SKF in Bulgaria, doubled. Furthermore, SKF is continuing to invest in their Bulgarian units. This year of 2014, the company plans to extend the factory in Karnare further, by increasing the capacity of around 25 per cent due to the rising demand.

Additionally, the global company of SKF announced in 2013 that the production unit in Kalofer would grow five times its own size during the coming years, which is currently under construction. The equipment and machinery for this new production are coming from non-profitable units in Germany and Italy, where the manufacturing is being reduced. This extension in Kalofer will probably require an increase in staff by around 100 people according to Mr. Georgiev.

These actions of SKF are in line with a noticeable trend in the country. These changes within supply chains have increased significantly since the EU entry, where TNCs regionalise their production by relocating it to Bulgaria. Moreover, a movement where Chinese suppliers are moving to Bulgaria has as well been seen. Currently, this is the case of one of SKF's suppliers, which is planning to move their business to the country. If this becomes reality, it would open numerous of new opportunities for SKF Bulgaria. By having their supplier in the country instead of in China, the flexibility would increase significantly due to the lower transportation time and cost.

According to Mr. Georgiev, the production of bearings can be considered the perfect goods to produce in Bulgaria. Explained by the country's industrial history in

the 1970's, therefore it exists a knowledgeable and qualified workforce for this type of manufacturing. The combination of low wages and previous competence applicable on bearing production creates a good environment for SKF. Furthermore, the low cost of energy, the beneficial geographical location and the low general tax rate of 10 per cent contributes to the advantages of SKF's presence in Bulgaria.

Conversely, supporting activities need to become more develop in the country according to Mr. Georgiev. Currently, the improvements in Human Resources and education are insignificant. A possible remedy is to improve this through EU funding for these types of projects. Mr. Georgiev consider enhanced HR in Bulgaria along with good education, would be the solution to the large issue of young people moving abroad.

4.2.3 Volvo Trucks

4.2.3.1 Background

Volvo Trucks was founded in 1927 (Volvo Trucks, 2014c) and built their first vehicle in 1928 (Volvo Trucks 2014d). During the rest of the 20th century, Volvo trucks' success was modest. Although, through innovation and durable design the company managed to develop into the dominating truck manufacturer in the Nordic area by the middle of the 1930s. It was also during this time the enterprise started to export their products to a few foreign markets (Volvo Trucks 2014a).

Through the development of heavy motor vehicles Volvo was a key inventor, introducing turbo engines to the market. This resulted in more powerful transportation solutions, which lead to various new possibilities (Volvo Trucks 2014b).

Volvo Trucks was first established in Bulgaria in 1999 by locating a representation office with focus on sales, to later on expand by placing a workshop in the country as well. During the time between the years of 2006 and 2007 investments in Bulgaria increased dramatically and Volvo followed the trend by expanding further, setting up more sales offices in the country. Nevertheless, when the crisis took place in 2008 it struck hard in Bulgaria, reducing the demand and the market reached a major low. Therefore, Volvo Trucks along with numerous of other companies withdrew their investments in the country at that time (Mr. P. Ericsson 2014, interview 24 april).

Volvo Trucks has never pursued any type of production in Bulgaria, it only has established sales offices and workshops for its vehicles. This is the case today as well, where currently the company has four units in the country. The combination of a sales office and a workshop is called *Truck Center* and this is the type of units that Volvo has scattered around the Bulgarian market.

Volvo Trucks possess two Truck Centers in the capital of Sofia, while the remaining two are divided between the cities of Burgas and Plovdiv, located along the coast of the Black Sea. To supply the Bulgarian market, all sold vehicles are wholly imported primarily from plants in France, Belgium and Sweden. The service components for reparations are imported from storages in Romania and France. Overall, Volvo Trucks units employ around 100 people in Bulgaria and the operations have a yearly turnover of 30 million Euro (Mr. P. Ericsson 2014, interview 24 April).

Generally today, Volvo Trucks is the second largest heavy-duty truck manufacturer in the world. The company aims for global presences and have units for sales and service in 140 countries all over the globe. The manufacturing process is highly concentrated, with 95 per cent of their production located in Sweden, Belgium, Brazil and the US. Within these countries, Volvo Trucks owns eight subsidiaries working as assembly plants and nine factories. Overall, Volvo Trucks employs around 17 000 people in their global organisation (Volvo Trucks 2014e), which in 2013 had a turnover of around 19.6 billion EUR (Volvo 2013).

4.2.3.2 Interview

4.2.3.2.1 Trade

Bulgaria´s entry into the EU has affected the Swedish manufacturing company Volvo Trucks and its establishments in the country, this in a generally favourable manner on the basis of their import strategy in the country. The import is essential, since the company do not produce on the Bulgarian market and therefore all trucks for the market needs to be imported.

Subsequently to the EU membership, the trade barriers fell down consequently to the requirements of the free market. Therefore the load of administrations papers that was previously required during a truck affair, has become simplified. Customs admission has been abolished as well, which has made the import process more time efficient and less costly.

The membership has moreover abridge the affair process for Volvo Trucks customers, by removing the requirement of transport authorization that was earlier a cost and time demanding process.

4.2.3.2.2 Infrastructure & Legislation

The EU membership has also contributed to better infrastructure in Bulgaria, which has been positive for Volvo Trucks on the basis of their several transportation and logistics activities. The largest EU project made to contribute to the infrastructure is the newly built highway between the capital of Sofia and the coast city of Burgas. Since Volvo Trucks has sales and service centres in both of these cities, this improvement affected the company to a larger extent.

Nonetheless, Mr. Ericsson at Volvo Trucks thinks that the infrastructure desires further improvements, especially indicating on further investments in roads.
The slow development of the infrastructure is said to be explained by the EU´s problems to find co-sponsors to the infrastructure projects, which has affected Volvo Trucks and other TNCs negatively.

The entering into the EU has also forced Bulgaria to change their legislation concerning product quality and product safety to harmonize it with the general European legislation. This has resulted in the development of strict instructions how a truck should be constructed, with components and mandatory safe equipment's. Whereas before these requirements were local, founded by the Bulgarian government. This has although not resulted in any major changes for Volvo Trucks, which has produced according to these requirements before 2007 to other markets.

4.2.3.2.3 Competitors

The integration within the EU has understandably also expanded Bulgaria´s whole market and therefore also the truck market in the country. Currently there are seven different truck companies in Europe, including Volvo Trucks.
These are all established in Bulgaria with sales units, yet none of them have established any production in the country. The international truck companies have not experience any increase of local competitors, since they solely consider each other to be main competitors on the Bulgarian market. Therefore Volvo Trucks do not perceive changes in the competitive environment since 2007.

However, the entry into the EU has enabled purchases of their trucks by Bulgarian costumers, located anywhere in the union, which to some extent has affected the competition. This has not yet been seen as a major issue for Volvo Trucks.

The increased access to Bulgaria since the EU entry has however changed Volvo Trucks' customer operations. The company has experienced a trend of several bigger transportation companies originating from Italy, France and Germany among others in the beginning of, or planning to "flag out " their companies. This means that these firms will be registered in Bulgaria, to be able to gain access to the low tax rates and the possibility to hire Bulgarian chauffeurs to a low cost.

4.2.3.2.4 Corruption & Unregistered Firms

The corruption and non-registered firms' existence in Bulgaria is still problem, even though these issues has decreased since the country entered the EU.

The corruption affects Volvo Trucks and their daily business destructively, by making it impossible for the company to participate in public procurements affairs since these transactions rarely are transparent.

Mr. Ericsson says:

"We are not involved in public procurements because these affaires can not be seen as transparent"

In Volvo Trucks basic values it is stated that the company do not participate in any businesses that can be related to corruption. Due to this internal regulation, Volvo Trucks' market in Bulgaria is limited. Instead the company has to focus on selling their products to international transport companies.

The establishment of corruption has also made it difficult for Volvo and other foreign TNCs, especially Swedish, to do further investments in the country. This has been mainly due to the required contact with the authorities that constantly suggest two alternatives. Where one is legal and the process of permissions goes slower, while the other implies a faster permission process, however bribes must be given. Swedish TNCs often have strict policies against this type of activities and therefore Volvo Trucks has experienced establishment processes as complicated, and could affect their amount of investments in the future.

Volvo Trucks has likewise experienced a larger amount of non-registered firms established in Bulgaria, compare to other European countries where they are

established. However, they have not noticed any issues in their supply or customer context. To be reserved that their values are enforced and not precede any businesses with unregistered firms. Volvo Trucks has strict routines where they continuously look up their suppliers' balance sheets and their customers' taxes.

A major issue for Volvo Trucks has though been discovered in later years, were skilled labour moves to this type of unregistered firms. Due to their non-tax and lack of social payments, these enterprises can offer higher wages.

4.2.3.2.5 Labour

An experienced negative effect by Volvo Trucks correlated to Bulgaria's entry into the EU is the issues of the low average income. When the country got exposed to other EU countries, Volvo Trucks has observed an increasing difficulty in finding qualified labour. This is based in the labours common aim to seek higher positions and improved education abroad.

Mr. Ericsson describes the situation as a process of *brain drain,* where educated individuals move to other EU countries to fulfil their intentions of higher wages.

Mr. Ericsson says:

" Educated labour will prefer low wage jobs abroad, though they are still better paid than qualified positions in Bulgaria".

Mr. Ericsson describes the situation to be very perturbing, especially in the future if nothing is being changed rapidly by the government. Moreover, the negative population growth can increase the extent of the problem further.

Volvo Trucks deems that the country needs to increase their competence level to attract more high-skilled labour companies to the country, preventing labour from moving abroad.

4.2.3.2.6 Value Chain Activities

Volvo Trucks has been established in Bulgaria for many years, during this time the company have seen numerous of changes and developments concerning their global production networks and supply chain activities. However in Bulgaria as mentioned above, the company currently solely has service centres and sales units.

Bulgaria, has since the beginning been seen by Volvo Trucks as a country with a beneficial geographically location, being the EU country nearest Turkey.

Therefore the entry of the country into the EU has contributed to a shift of the European border, decreasing the distance to other continents. As a consequence of this, the transports through and within the country have increased, which of course has subsidized Volvo Trucks with sales increases.

The location of the country has also been declared to be a potential candidate when the company wish to regionalize their supply chain. Thus, their establishments that currently are placed in China or other Asian countries could become relocated to Bulgaria in the future. The low corporate taxes and the low wages contribute to the competitiveness.

However, currently the majority of Volvo Trucks' production will continue in Belgium, Sweden, Brazil and the US. These countries have been chosen mainly due to their beneficial geographical location that enforces logistics and decrease the transportation costs. Beyond these factors, Brazil states a special case since the Brazilian government requires a local content degree in all goods produced in the country. Therefore, by producing on the Brazilian market Volvo Trucks can overcome import barriers and tariffs when distributing their products on this particular market.

The current lack of organisation and competence in Bulgaria inhibits Volvo Trucks from locating their holistic solution in the country today. Volvo Trucks not considers it to exist possibilities to establish activities such as R&D and other value adding operations in Bulgaria. Volvo Trucks states that the reason for this is mainly the corruption and the political instability, that still is present in country. In comparison with Slovakia, Czech Republic and Romania, Bulgaria has been inefficient to attract foreign direct investors particularly within production and transport manufacturing.

Volvo Trucks wish to have the opportunity to offer their holistic solutions as a complement to supplying the market with trucks and needed service. Where educations for truck drivers and funding opportunities would be offered along with the sold trucks. Volvo Trucks aim by providing this holistic solution is to convert to a full supplier of transport solutions, in both products and services.

This is something they are currently developing in Bulgaria through increased amount of investments. An virtuous example of these investments have been the considerations of re-establishing Volvo Trucks wholly owned financial service company in the country, to be able to help customers finance their truck purchases.

This service was abolished during the crises, however now Volvo Trucks once again sees a growing demand along with the constantly increasing sales in the country.

4.2.4 Trelleborg

4.2.4.1 Background

Trelleborg was from the beginning founded as Trelleborg's rubber factory in 1905. The enterprise experienced a rapid success and soon they developed to Scandinavia's leading rubber product manufacturer. However, due to the two coming world wars the output from the factory was for a period of time exclusively targeted towards war material. Due to this, the internationalisation of Trelleborg started first in the year of 1950. The company chose a cautious establishment strategy by seeking out foreign agents abroad in the start, to later on establish wholly owned subsidiaries in various countries.

During the years, Trelleborg has experienced rapid growth as well as the need of concentrating the business to survive economic crisis. By the end of the 20th century the enterprise had set up the strategic goal of focusing their operations on the industry sector. In 2008, the company achieved their aim and was announced the largest rubber manufacturer for industrial purposes (Trelleborg 2014b).

When Trelleborg first established in Bulgaria, in around the year of 1992, the company solely placed sales and marketing activities in the country through a representative company called Busak & Shamban. However, later on Trelleborg acquired this company and pursued sales operations under their own organisation.

It took quite some time before Trelleborg decided to produce in Bulgaria, however this expansion took place in 2007 under a Swiss company called Silcotec. For the first couple of years Silcotec produced Trelleborg's products, yet in 2011 Trelleborg also acquired this company fully and today the company operates all activities itself in Bulgaria.

Trelleborg has currently three units in Bulgaria, one production unit in Pernik, outside Sofia, and two sales and marketing offices in Sofia. Overall these three units employs 80 people, whereas 20 employees are working with sales and marketing, moreover the rest of 60 people are connected to the production (Mr. R. Papazyan 2014, interview 23 april).

Only around 10-20 per cent of the output of the Bulgarian plant stays in the

country. The rest of the products are exported to several countries in Europe, for example Switzerland, Germany and other neighbouring countries of Bulgaria.

Furthermore, the production units in Bulgaria are focused on manufacturing solely products for the part of Trelleborg AB called Trelleborg Sealing Solutions, so the Bulgarian output is narrow (Mr. R. Papazyan 2014, interview 23 april).
Currently the entire organisation of Trelleborg has a turnover of over 2.3 billion EUR and 15 500 employees scattered over 40 countries (Trelleborg 2014a).

4.2.4.2 Interview

4.2.4.2.1 Trade

Bulgaria´s entry into the EU has affected Trelleborg AB in an overall positive way. Primarily, since the removal of trade barriers and the eliminations off trade restrictions in form of export/import quotes has benefitting the logistics and transport activities of the company.

Moreover, the membership into the EU has correspondingly given the country the stability in the economy, needed by Trelleborg to consider doing further investments in the country. This stability was essentially showed by the more limited fluctuations in the local currency, due to the currency being fixed to the Euro.

4.2.4.2.2 Infrastructure & Legislation

The EU membership has also contributed to financial support for investments within the infrastructure in Bulgaria. Especially investments have been done in projects for new roads and highways, which have, simplify the logistics and transportation that according to Mr. Papazyan was a catastrophe before 2007.

There are still though a lot of roads that are non-driveable, especially on the coast of the country. Even though these transport improvements is something that has not affected Trelleborg in a significant way, because of their central location outside Sofia today it could be an important factor when considering future investments in the country.

So, even though Trelleborg have not got any direct EU financial allowance, as SMEs have got. The company have been benefited of the membership by getting synergies effects in form of better infrastructure and support from the government. This experienced support by the government has been given through quicker allowance for construction works and flawless administration during investments

processes, when doing further investments in the country. The Bulgarian government gives this support, because they see companies like Trelleborg and other foreign TNCs like flagships, which could conceivably send a positive message to other TNCs to make investments in the country.

The IT infrastructure is something that has also been improved as well, during the 21st century. The developments within mobile telephony and Internet connection have been significant and this has definitely also affected Trelleborg in positive manner by making overseas business and communication easier. According to Mr. Papazyan at Trelleborg, Bulgaria scored in 2nd place to have the fastest wireless Internet in Europe in 2013.

However, he does not think the EU membership have been the main driving factor to the IT development, because these projects have not been financed by funds from the EU. These developments have primarily been made by private companies for a growing market potential, which the integration in EU has probably contributed to.
In 2007, the European laws concerning environment, health and labour were implemented in Bulgaria, however the implementation of these laws have been very local specific. Mr. Papazyan at Trelleborg declares that the amounts of laws concerning these subjects have increased, but the strictness of these laws has been far less than in Sweden, if he compares with his earlier experiences there.

4.2.4.2.3 Competitors

The integration within the EU has naturally created an enlargement of the market, yet when it comes to changes in the competition structure, Trelleborg has not seen a significant increased numbers of new competitors neither on the domestic, nor global market. Trelleborg considers the TNCs to not being directly exposed to the local market, due to their export-oriented strategy of production in the country. Trelleborg believes that the company only competes with other global competitors in Bulgaria, the majority of these companies were also established on the market before 2007.

Mr. Papazyan states this by saying:

"We only meet international competitors on the local market"

Trelleborg is although still conscious that new domestic competitors has been established since the EU membership, but these are generally very small firms that produce niched products which is not capable of competing with Trelleborg and its

economies of scale. Consequently, the expanded market has not been seen as a threat for more competitors for Trelleborg.

4.2.4.2.4 Corruption & Unregistered Firms

Trelleborg considers that their size and characteristic of being a global company on the Bulgarian market, has made the exposition to the local environment low. This is also the reason why Trelleborg thinks they have neither been affected to a higher degree by corruption and informal firms neither before nor after 2007. Trelleborg imagines that these problems are probably more visible to the SMEs within Bulgaria, which are more notable for the local environment in a higher degree.

4.2.4.2.5 Labour

A definitely negative effect of the Bulgaria´s entry within EU that Trelleborg has experienced, is the consequences of young people going abroad to study to get higher education at well-known universities in other countries in Europe. After certain years, some of these young educated might come back after various years of working experience abroad.

Although this time between, from when the youths are leaving until they are coming back, have created periods of *brain drain*, where it has been hard for the company to find appropriate labour to higher manager positions. So, the EU membership has not increased the quality of education within the country, somewhat had lead to an increase of young Bulgarians youths which seeks education abroad.

4.2.4.2.6 Value Chain Activities

Ever since the entry in 2007, Trelleborg as many others TNCs in Bulgaria has experienced changes in their value chain and production networks. The trend of regionalization is substantial within international companies like Trelleborg, where the investments in Bulgaria were a step to further regionalize.

Before the financial crises, foreign TNCs in the country as well as Trelleborg was focusing on minimizing their costs and therefore many moved a large part of their production operations to cost effective countries like China, India or Indonesia.
At this same time, many of these companies made mainly investments in Bulgaria, which were aiming for targeting the local demand and exploring the Bulgarian market.

However, foreign companies have realized that it exists numerous of restrictions on capital and trade flows in these Asian countries and these barriers are increasing further. Therefore the former cost-effective production located there, constantly get more expensive.

According to Mr. Papazyan, to be able to escape these costs Trelleborg have since after the financial crises regionalized their production, to create a self-sufficient supply chain within each and every continent. Therefore, their investments in Bulgaria at this time became more export oriented than before and production units were set up in the country.

The strategic reason why Trelleborg have placed production in Bulgaria is to archive the goal to serve the European market, to the lowest cost possible. Bulgaria has since its entry in EU no trade barriers, a faultless geographical location within the Black sea area (Bulgaria, Romania, Belarus, Ukraine, Moldova, Azerbaijan and Turkey) and knowledgeable labour within manufacturing due to their industry history. This has made Bulgaria to one of the most cost effective country to produce in, for the whole region. The wages in Bulgaria have also been relatively stable since after the financial crisis, this has also been to favour for Bulgaria according to Mr. Papazyan at Trelleborg.

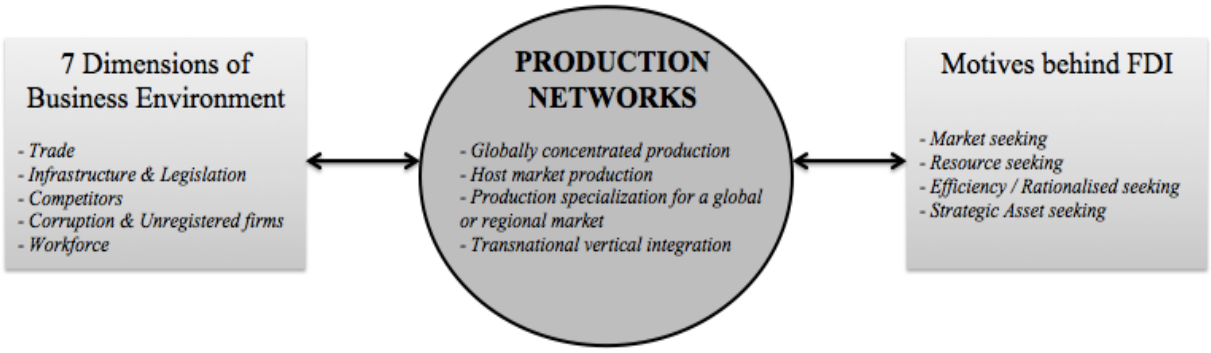
The main reason according to Mr. Papazyan why the movement towards a regionalization occurred after the financial crises was that this financial crisis forced China to turn back to their domestic market, due to the decreased demand from Europe and America to be able to persist their high degree of production.
Consequently, to be able to increase the demand of the products in China, the Chinese wages had to increase, somewhat have lead to that the Bulgarian wages that have remain stable has become competitive to the increasing Chinese wages.

Trelleborg has conversely to the regionalization of their production units, kept some operations global such as the company headquarter, that is place in Sweden and the finance, R&D and IT activities. This is due to Trelleborg´s considerations of Bulgaria as the ultimate production location justified by the low production costs, that is expected to increase further in the future together with marketing activities. Nonetheless, Trelleborg do not consider Bulgaria having great potential to become the location for advanced sales activities in the region at the moment because of the mentality and language barriers that is founded in the country.

Trelleborg has beside the changes within their production network, also experienced significant changes in the effectiveness of coordinating their operations within their value chain. Especially in coordination of their transporting, finance and administration activities Trelleborg has noticed a significant change since the entry. Trelleborg in Bulgaria is responsible for other market such as Romania, Belarus, Ukraine, Moldova, Azerbaijan and Turkey. Of these countries, Romania is the only EU member, making the coordination of the activities between Romania and Bulgaria unblemished nowadays. While on the other hand, Trelleborg still needs to struggle with the effectiveness of coordinating these value activities in the rest of countries.

5. ANALYSIS

In this Analysis chapter the empirical data will be analysed through the theoretical and conceptual framework, with focus on the authors' elaborated model founded below (model 1). In the sections of the analysis, all of the model's parameters will be presented separately. Assessing the empirical results based on the respective theory.



Model 1: The Theoretical & Conceptual Application Model elaborated by the authors.

5.1 7 Dimensions of Business Environment

The EU harmonize the business environment between all member states, but the specific characteristics of a country always plays a significant role to some extent, according to Suder (2011). Therefore not all factors within the business environment have experienced changes since the entry into the EU. The most significant change in the business environment during the integration into the EU, is the increase in competitiveness linked to the free movement of goods and services. Due to the creation of the single internal market, the country's market opens up for all companies within the EU after the implementation of the membership according to Suder (2011).

However, the empirical studies of the four Swedish manufacturing companies has shown that the competitive environment has not been changed to a distinctly degree, which table 2 in the empirical chapter demonstrates. This could be explained

by the size and the international experiences, these four companies already hold by being TNCs before the integration into the union.

Naturally, associated with the increased competitiveness during integration, a raised trade can be seen (Suder 2011). All the four manufacturing companies, as shown in table 2 in the empirical study, has experienced this increase in trade since the EU membership, especially through the abolished of trade barriers. This has further reduced costs and made the transportation more time and cost efficient. SKF states though that the company has not been able to utilise the free movement of goods to its full potential, hence their import of raw materials from non-European countries such as China and Russia. Nevertheless, Mr. Georgiev consider the main part of the imported raw materials has become easier to access with the abolishment of trade barriers.

Moreover, Suder (2011) consider the labour to be immobile and non-homogeneous despite the free movement of labour within the EU. After all, the empirical study has shown that a large part of the Bulgarian workforce has gone against the language and culture barriers, to assimilate higher wages and academic education abroad. Which has lead to an on-going process towards periods of *brain drain* since Bulgaria's entry in EU.

The EU demands the applying countries to be able to handle the EU's rules and regulations as well as being a functional free market economy (Sveriges Riksdag, 2013). This has partly affected the Swedish manufacturing firms business environment within Bulgaria, due to the former international experiences of the studied Swedish manufacturing TNCs, the changes in legislation in Bulgaria associated with the entry in EU has not contributed to larger changes for the firms operations in the country.

Suder (2011) additionally states that the EU has high requirements for a functional free market to be able to create the mutual business environment within the EU. Infrastructure is considered to one of the concepts which needs to be fairly equally developed in every member country. Since Bulgaria's entry into the EU, all of the four studied Swedish firms have experienced a significant development in the infrastructure, which has further eased all logistics and transport activities in time and cost. However, the development of the infrastructure in Bulgaria still needs further

improvement to achieve the same quality as the majority of other European countries in the union.

As stated in the introduction of the empirical chapter, corruption and unregistered firms have been an increased issue and have affected the business environment negatively (Landguiden, 2014e). The existence of these issues has been consented by all the four companies, although it has affected them to different degrees and in different means. Volvo has suffered the most from the expanded corruption, explained by their non-existent participation in public procurement due to the risk of being involved in corrupt affairs. SKF, Trelleborg and ABB have all stated that is has not affected them to a higher degree, due to the companies' strong *code of conduct* and respectable size. However, they all consider corruption to possibly be a bigger issue for the SMEs in the country. All of the four manufacturing companies conclude that the corruption issues have decreased since Bulgaria entered the EU. However the problem still exists to a substantial level.

The unregistered firms have likewise affected the four companies differently. Volvo Trucks and ABB have had difficulties to compete for skilled workers mainly explained by the offering of higher wages within these types of firms, hence the lack of non-paid taxes and employee benefits. Furthermore, Trelleborg believes that the issue of unregistered firms affects SMEs in a higher degree and SKF states that they have a strict blacklist principle towards customers and suppliers they suspicious could be seen as unregistered.

5.2 Production Networks

A humble increase of FDI to Bulgaria began in 2004, after numerous of serious economical changes in country (Landguiden 2013c). Yet during this time, according to Mr. Papazyan, companies were focused solely on lowering their production costs. Therefore, they relocated the majority of the production activities to the Asian region, mainly China and India. The investments going into Bulgaria at this period was exclusively market seeking FDI, with the aim of supplying the demand on the Bulgarian market.

Nonetheless, around the time of the EU entry in 2006 to 2007, the country experienced a massive boom in foreign direct investment (Landguiden 2013c).

Mr. Papazyan describes the companies' motives behind investments in Bulgaria, during this time, as different. To escape increasing wages and trade barriers in the Asian countries, TNCs now started to look closer to the their markets when establishing production units. This trend of regionalization was also described by Milne (2008) and was subsequently seen by all of the companies' representatives. This was the first step according to the interviewed multinational enterprises, a first step to accomplish a self-sufficient supply chain within all markets.

Furthermore all the Swedish companies confirmed that, since the Bulgarian entry into the EU, the country became an ideal production location for supplying the European market. Due to the removal of barriers of factors and the beneficial geographical location, new possibilities of distribution were created. This is shown in the thesis empirical example, since three of the four studied Swedish manufacturing companies, excluding Volvo Trucks, currently have production units located in Bulgaria.

In the value chain by Porter (1985), the production is represented in the operation activities categorized to the primary activities. Analysing the activities and which types of activities the case companies have placed in Bulgaria, a pattern can be distinguished. Currently, all the four studied manufacturing TNCs have solely placed units practicing primary activities in Bulgaria, such as production, marketing and sales as well as services. None of the support activities within the companies are today represented in the country, these are instead located in the Western European countries according to the four company representatives. Further they state that, this phenomenon is explained by the lack of qualified resources for that type of activities in Bulgaria. This lies within the statement of Dicken (2011) saying that the knowledge level are correlated with the income per capita, since the average income of Bulgaria is significantly lower than in the west of Europe due to the low wages in the country.

This can in the future create a vicious circle in the development of the Bulgarian economy, due to the loss of surplus created by value added activities located in the country. In line with the conceptual theory of production networks, Bulgaria solely gains the economic transactions created by the TNCs' production networks and missing out on the value added synergies in for example labour skills and technologies.

Bulgaria's most characteristic location advantages can solely be described as beneficial cost-effective production, which is confirmed by all interview participants. According to Dicken (2011) the production cost is a crucial element for the location of production facilities. Further all five of the company representatives strengthen that the most prominent characteristic for business in Bulgaria is the low wages. Since the ratio of wages has stayed fixed for a long period of time, while the cost of labour in other countries has increased. Bulgarian establishments can therefore benefit from low production costs, for labour intensive activities. In fact overall, business in Bulgaria is accompanied with low costs, on specific factors of production. All the interview participants state that the low general tax rate, of 10 per cent for companies and on income, as well as the low energy cost make establishments in Bulgaria more attractive.

The representatives of Volvo Trucks, Trelleborg and SKF argue as well that in combination with the low costs, Bulgaria's geographical location is a great benefit. Mainly, because of the closeness to the European market, however also due to the easy access to the Asian continent. The entry of Bulgaria into EU has also implied an important shift in the borders of the union, decreasing substantial distance to foreign regions.

5.2.1 The TNCs' Location Choice of Production Facilities

All of the representatives of the studied companies have noticed a significant increase in TNCs' choice of locating production units in Bulgaria. ABB and SKF were already producing in Bulgaria before the EU entry, Volvo Trucks on the other hand has never located any production facilities in the country. Consequently, Trelleborg was a company that did not produced in Bulgaria under their own name before the entry, since Trelleborg first operated their production through another company in 2007. First in 2011, Trelleborg decided to acquire this company and establish their own production activities in Bulgaria.

However, the four studied companies differ in their global patterns of where they place production facilities. The production of Volvo Trucks is highly concentrated, where 95 per cent of the output is linked to only four countries. Therefore globally concentrated production, can be applied to Volvo Trucks chosen production location strategy, even though Bulgaria is not one of the manufacturing countries (Dicken 2011).

SKF and Trelleborg seem to share the same approach on how to positioned their manufacturing. Mr. Georgiev states that the Bulgarian units of SKF are solely focused on the production of the selected product group, to later on transport all the finished goods to SKF's logistic centre in Italy. In conformity, Mr. Papazyan declares that Trelleborg in Bulgaria only produce goods linked to their division for sealing solutions. Furthermore, just around 10 to 20 per cent of the output stays on the Bulgarian market, while the rest is exported to other European countries. The Bulgarian production of both SKF and Trelleborg imply the characteristics of a product specialization for a global or regional market (Dicken 2011).

The fourth company, ABB can be linked to the alternative of organizing their production according to the model of transnational vertical integration (Dicken 2011). Mr. Hassan argues that, through their production units in Bulgaria the company manufactures only basic components and standardised products. After the finished, the goods are transported further to other countries, where final assembly and final testing are located.

Due to the noticed increase in regionalisation strategies by the studied companies, the representatives further state that they have seen a shift in the location of production operations. TNCs have moved manufacturing from primarily China, to Bulgaria as well as the rest of Eastern Europe, especially since the EU entry of these countries during the start of the 21st century The cost of labour in China is increasing drastically, making Chinese production lose its competitiveness hence to the long transportations and complex business climate (Milne 2008). Bulgaria instead provides closeness to the market, as well as integration benefitting transportation and interacting.

This creates diversion of FDI and trade in China in that sense, while the creation is linked to the expanding business in Bulgaria (Dicken 2011). Based on the companies' own experience, the relocation of TNCs' production has resulted in that Chinese suppliers have also establish in Bulgaria to be able to follow their clients. Moreover, due to the low costs of production in Bulgaria, even Chinese TNCs have considered establishing there according to the interview participants

5.3 Motives behind FDI

The decisions of potential FDI lies within the companies' internal factors of the OLI framework. Therefore the motives behind the Bulgarian establishments within the companies may differ, based on their specific ownership and internationalisation advantages. These investments are categorized by type of FDI, based on the companies' underlying motives (Dunning 2000).

Three of the studied Swedish manufacturing companies; SKF, Trelleborg and ABB have located production units in Bulgaria. All of the corresponding interviewed representatives claim that the cost-effective manufacturing have been the main goal of their establishments. Therefore these companies' FDI in Bulgaria can be linked to the supply oriented kind. Also known as resource seeking foreign establishments, which is in contrary to Dunning's (2000) statement of the decrease in this type of resource seeking FDI. In this case the Swedish TNCs wish to gain benefits from the cheap production costs, primarily the access to low-cost labour in the country.

However, hence to the current absence of production units by Volvo Trucks in Bulgaria, this company appear different in this sense in compare with the others. The participant of Volvo Trucks states that the company is present in the country, mainly to serve the market. This can be referred to as market seeking through the OLI framework, which is based on demand oriented FDI. Looking at the costumers of Volvo Trucks, this observation adds up since the company deliver transportation solutions to other enterprises. Therefore Volvo Trucks needs to follow other companies, which are their customers as their operations are being relocated.

Further on, one can argue that some of the studied companies motivate their FDI in Bulgaria through strategic asset seeking as well (Dunning 2000). According to Mr. Ericsson all of Volvo Trucks main competitors in Europe have currently established sales units in Bulgaria. Therefore, Volvo Trucks also needs to be present on the Bulgarian market to prevent losing market shares to competitors. This is also the case of ABB, whose major competitors produces in Bulgaria as well which is stated by Mr. Hassan.

6. CONCLUSION

In this last chapter, a research Conclusion will be presented with an introduction of the substantial purpose of the study. Moreover, a final deduction connected to our research question will also be submitted through the perspective of the seven dimensions. Finally, this chapter also includes our suggestions for future research.

6.1 Research Conclusion

The purpose of this research was to get a deeper perception of the EU entry's effects on foreign TNCs' production networks, through the perspective of four selected Swedish manufacturing TNCs operating in the country. In deeper sense, this thesis wishes to research the possible changes in these companies' production networks, due to the integration within the EU.

After analysing the empirical studies in the perspective of the seven dimensions of choice, some significant changes in the Bulgarian business environment have been discovered since the EU entry in 2007.

Primarily, the trade has increased dramatically within the region, hence to the EU's removal of trade barriers and incentives for FDI. Moreover, the forced legislation and economic support of projects in the member states of the EU organisation, has had influence on the development of Bulgaria.

Secondly, the infrastructure has gone through important improvements due to EU funding and support. Stricter legislation in the country has evolved in a more stable business environment for investors, even though the implementations of these new regulations have been to some degree rather local.

The competitive environment has increased in size, naturally to the expanded market. However, the empirical studies has implicate that this has not influenced any major challenges for the companies since these are major transnational companies that only see other TNCs as their competitors. Likewise, the increase of domestic competitors has not either been seen as major threats, due to their inability to take advantage of economies of scale.

In addition, the result of the research shows that the existing issue of corruption in Bulgaria and unregistered firms has been improved. Through the

union's regulations and supervision, the presence of unregistered firms and the government's abuse of power have decreased since the entry in EU. The problem however still exists in the country and still has impacts on some of the Swedish TNCs operations in the country.

The free movement of labour within the union has through this study been proven to have negative effects, since a process of *brain drain* has been shaped in Bulgaria. Further this has shown to be the downside of the integration, making it hard for companies in the country to find skilled and educated employees.

An analysis of these seven dimensions, with the background of the theoretical and conceptual framework has indicated on significant changes within the Swedish manufacturing companies' production networks, which can be linked to the integration into the EU.

The empirical data proves an increase in low-cost production operations relocated to Bulgaria, due to the newly created possibilities since the EU membership. The low wages, low taxes and low energy costs all imply a beneficial environment for multinational companies' production activities, especially for those TNCs which aim for resource seeking or strategic assets seeking strategy. Furthermore, these operations previously have been placed in foreign low-cost countries in Asia, mainly China, which indicates on a shift in the patterns of global networks of TNCs.

In model 1 elaborated by the authors, the seven chosen dimensions of business environment and motives behind FDI influences on the appearance of TNCs' production networks are shown. Referring to the result of the analysis of the study, the Bulgarian entry into the EU has proven to change the structure and constitution of the global economy through TNCs and their location of production networks. The outcome verifies that the production networks of the TNCs never stop changing and that the development of the structure in the global economy is always in a process of evolution due to changes in the business environment.

6.2 Recommendations

During the process of constructing this thesis, we have revealed additional research of interest, intriguing to investigate further in the future theses.

The empirical study indicates on a current Bulgarian business environment, fitted solely for low-cost production. However, the limited population along with the

proven process against *brain drain* have raised a concern of lack of resources for this type of growth strategy. Therefore, an interesting research question could be if Bulgaria can manage to achieve further economic growth through its current low-cost strategy.

Furthermore, the preferable strategy for the most successful growth strategy in the Bulgaria is a suggestion as well.

Moreover, the subject of this thesis can be explored through the perspective of the counterpart. Through the analysis of the theoretical and empirical framework, a process of trade and FDI diversion can be detected in China linked to the enlargement of the EU. China is currently a country with a tremendously high economic growth and with the goal of sustaining that, hence to the proven shift of low-cost production of TNCs to countries in Eastern Europe, China may experience difficulties in sustaining this high growth, which can be interesting to investigate further. Methods of how the country can sustain it, despite the shift can also be explored.

In the research of this thesis the outset has been Bulgaria, however by the time of their entry in EU a number of other neighbour countries also joined the union. In future studies the development of these countries due to integration into the EU, can be fascinating to investigate. A comparison between these countries can furthermore also be executed, to explore differences and discover problematic and successful features of the countries.

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Peter Ericsson, CEO Volvo Trucks Bulgaria
Phone interview 24 April 2014, 09.00 CET

Ruslan Papazyan, General Manager Trelleborg
Phone interview 23 April 2014, 10.00 CET

7.3 Appendix

Appendix 1.

INTERVIEW GUIDE

1. Presentation of yourself.
   - Position in the organisation?
   - History in the organisation?
   - Your involvement in the Bulgarian units of XX Company?

2. What types of units are represented in Bulgaria and how many are they? (Production units, Sales office, etc.)
   - How many employees do your company have in Bulgaria?
   - Where are your particular units located?

3. Describe briefly the internationalization process of XX Company and the establishment in Bulgaria.

4. Is XX company in Bulgaria Importing / Exporting parts to / from Bulgaria for further production and so on to other countries of Europe?
   - Has this trade pattern changed in any way during your represented time in the country and particular with the EU membership of Bulgaria in mind in 2007?

5. Have any fragments in your respectively units in Bulgaria experienced changes since 2007? Given the privilege such as free movement of capital, labour and goods / services as a EU member?
   - In that case: What have changed and it what way has it changed?

   Have there been any changes in…
   a. Increased local production?
   b. Altered supplier structure?
   c. Trade flows within your company?
   d. Organized crime and / or corruption?
   e. Wage rates?
   f. The competitive structure?
   g. Product and safety legislation?
   h. The quality of resources within knowledge, infrastructure etc. due to the requirements of EU membership?
   i. The existent of informal firms as competitors?

6. Is the increased European Union allowance to the country something that has benefit XX and their business within the country?

7. Due to the now even more expanded regional integration within the EU, has this proposed that XX regional production (for ex in. Bulgaria) have become

more cost effective and therefore more competitive, than other potential production markets?

8. What is the main goal of XX´s establishment in Bulgaria and has this aim been reshaped since 2007?

9. How does XX future look like in Bulgaria?
   - Do you have plans to increase/decrease your investments within the country?
   - If, yes. How and why?
   - If, No. Why not?
   - If you would not already been established in the country, do you think XX Company would chose to invest in in Bulgaria today?

10. What would you say in the perspective of XX company, are Bulgaria´s most competitive advantage in the comparison with your other markets?