A Mechanistic Framework for Foreign Direct Investment in the case of Albania

By

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The aim of this thesis is to investigate if it is possible to predict the outcome of the execution of an FDI initiative in Albania through the use of a mechanistic framework which has been developed as part of this research project.

Presented here is a new framework to understand the success or failure of foreign direct investment by investigating the micro-level mechanisms that are common to all FDI ventures. Since an essential component of this framework is the target country where FDI is being pursued, it is imperative that the framework be discussed using a particular country as a case and for the purpose of this work, Albania has been chosen.

Most fundamental theories of FDI are macroeconomic in nature and attempt to explain why FDI happens and to what extent it may be expected but none of these theories deals with the matter at a micro-level. As a result even when predictions of a certain level of FDI are made, the reality in terms of achievement is usually very different.

The proposed framework identifies the process of FDI in a country, hereafter referred to as HOST, of necessity, to go through an interaction of 3 principal players – the Government (GOVT), the trans-national company acting as a foreign direct investor (TNC) and the Investment Promotion Intermediaries (IPI).

FDI is truly facilitated by the interaction of these 3 players through binary interactions, namely GOVT→IPI, IPI→TNC and TNC→GOVT. Tight coupling in these pairs will promote success in FDI and loose coupling will act as a hindrance. The extent of coupling is measured through primary data collected from members belonging to the sets of GOVT, IPI and TNC.

The issues or factors in relation to which the extent of the above mentioned binary couplings are estimated are determined based on an analysis of the HOST, the country of Albania, in light of the process flows that have to be endured in order to achieve a successful FDI.

This study is not only a framework that can be used to understand the dynamics of FDI at a micro-level, but also to troubleshoot an ill-functioning foreign investment initiative. It also holds a great promise in comparing different countries using a common framework, especially if the TNC and IPI sets are identical.

This framework is referred to as the 3 Player framework in this thesis and is the only original contribution proposed here. All other frameworks presented in this work are largely used as vantage points to map some of their aspects of interest to the 3 Player framework.
ACKNOWLEDGEMENTS

We would like to express our deep appreciation for the help extended to us by Ms Ina Vejsiu, Inspector of Lead Generation Unit, Mr Elton Nastasi, Head of Lead Generation Unit and Ms Venera Cocoli, Director of Foreign Direct Investments Department, of Albinvest, the investment arm of the Albanian Government.

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We are deeply indebted to our supervisor Dr. Eva Wittbom for her constant encouragement and guidance during this work. She has encouraged us at every step to shape our work in ways that have greatly helped in its successful completion.

Entela Kaleshi
Madhup K.S. Solanki
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1.0 INTRODUCTION

1.1 Background

The aim of this thesis is to investigate if it is possible to predict the outcome of the execution of an FDI initiative in Albania through the use of a mechanistic framework which has been developed as part of this research project.

At the heart of this thesis, a new framework called the 3 Player Framework has been proposed. One of the elements of this framework is deeply tied to the country where Foreign Direct Investment (FDI) happens. This element is the collection of Government bodies involved and is referred to as GOVT. The posture that GOVT takes vis-à-vis FDI has a lot to do with the current state of affairs of the country. For this reason, presented below is an introduction to Albania and the state of affairs in terms of FDI addressing areas such as number of companies investing in Albania over the years, the countries of origin of these investors, the sectors of investment, the overall FDI in the region, FDI as a share of GDP and the state of overall capital and financial accounts.

In today’s globalized world, the pace of capital flows is ever more on the rise. Foreign Direct Investment is just one of the many forms of capital flow. Among all the capital flows, FDI occupies a prominent role as it offers some unique advantages but that does not mean there are no downsides to it. Although there are arguments for and against FDI, there is a general presumption that FDI is good for emerging economies and that is why we see Governments taking measures to attract foreign investors. The reasons for interest in FDI research, particularly in South-eastern Europe, are many, and have been reviewed by Demekas et al (2005).

There is also a large body of research discussed later in the literature survey in this thesis that has generated theories which try to ascertain what are the determinants that drive the FDI process but there is an utter lack of work investigating the mechanisms involved which contribute to the success or failure of an otherwise good potential FDI during the phase of execution.

Albania is a small country situated in South-eastern Europe with its capital city Tirana. According to CountryReports (2010) it has a population of 3,639,453, total area of 28,748 sq km and a GDP of US $ 21,820,000,000.

It is bordered by Greece, Macedonia, Kosovo and Montenegro. Besides, it has a coastline on both the Adriatic sea and the Ionian sea.

The Albanian economy is a transition economy. Transition economies are economies which are moving from a centrally planned economy to a free market economy. Typically, these are the economies that have emerged out of communist regimes and are moving into liberal market economies.
Foreign Direct Investment plays a key role in the development of such economies and thus it is very important that this be managed well. This is particularly true as it poses unique challenges to the Government as it tries to grapple with the difficulties of a new and changing environment to a foreign investor that has to deal with a lot of uncertainty and any intermediary that is attempting to align the interests of an investor and the Government.

Albania started its economic reforms to have a more open policy to western countries only after 1990. During this initial period it became clear that the country seriously lacked financial resources and needed a heavy infusion of foreign capital for the economic development of the country.

Presented below is a graph of the GDP of Albania which has been quite consistently on the rise.

![Graph of GDP of Albania](chart by emCharts.com)

Figure 1: GDP of Albania in current US$ (billions)

*(From World Bank Online Databases)*
The progress made by Albania since 1990 is quite remarkable but it still has a long way to go.

The GDP Growth curve of Albania presented below also shows that it has moved fast soon after coming out of its communist past to catch up with the GDP growth rates of other regions of the world.

![GDP Growth Rate](image)

**Figure 2: The GDP Growth rate (Annual %)**

(From World Bank Online Databases)

The initial foreign investments in Albania were used by the Govt. for the development of infrastructure so that more foreign investment could be attracted. Despite the large FDI increase during 2007-2009, Albania is still ranked behind other countries in the region in terms of FDI Flows and FDI Stock per capita.
The net inflow of Foreign Direct Investment is shown in the graph below, which while still low is showing an upward trend:

![Graph showing Foreign Direct Investment net inflows](chart.png)

**Figure 3: Foreign Direct Investment, net inflows (BoP, current US$ (billions))**

(From World Bank Online Databases)

1.2 Number of companies

FDI continues to be one of the most important sources of the capital inflow in Albania and also one of the main sources of financing the deficit. The real value and the real nature of FDI underline the need for accurate and detailed data regarding them, which is a challenge for the Albanian economy. Since 1991, the number of companies with foreign capital investing in Albania has almost constantly been on the rise as can be see by the graph below and thus attests to the importance of the need to study FDI in Albania as an important economic driver.
1.3 Countries of Origin for FDI

According to the statistics, the FDI in Albania is mainly driven by EU nations for 77% of all the companies that are operating in Albania.

Italy is the main investor EU country. 40% of all foreign companies are Italian, and 26% are Greek. The main reason is that both these countries are bordering Albania, on the east and west and also these two countries are the main countries where Albanian products are exported.

The countries of the region have invested about 13% of the number of the companies, and they are dominated by Turkey which has 8% of the total number of foreign companies operating in Albania.
The number of companies in Albania, by country of origin, are shown below in the form of a pie chart.

![Pie chart showing FDI capital by country of origin for the year 2007](image)

**Figure 5: FDI capital by country of origin for the year 2007**

Source: Bank of Albania (2008)

### 1.4 Sectors of Investment

According to the Bank of Albania, these companies operate in different sectors, and by the end of 2007 reported 32,107 employees.

Main sectors are (by number of companies): trade/retail shops and trade arbitrage, 33% of the total number. But this sector has only 6% of the total number of employees.

The second sector is industry, with a total number of 306 – 32.4% of the total number of the companies identified by the end of 2007. Within this sector the main investments are made in textiles and clothing, mainly by Italian companies. This sector has 54% of the number of the employees.

The Banking sector, which has only 2.4% of the companies has 17.3% of the number of employees and telecommunication and transportation has 11.5% of the total number of the persons employed.
Main capital investments in Albania are again dominated by those from EU countries as 80% of the capital inflows is from these countries. The main investor is Greece with 54% of the total investments.

An increase of 30% in Greek capital flows is observed by comparing the data of 2006 with that of 2007. The Greek investments in Albania are spread up in the following sectors:

- 62% in the telecommunication, transportation and depot sector;
- 18% in the banking sector;
- 7% in the industry sector

Italian capital has remained at the same percentage level during 2007 as it was at the end of 2006. The survey of the Bank of Albania shows that Italian companies have 11% of the capital inflows in Albania. Two main sectors are banking sector with 36.4% and industry sector with 31% of the capital. Other sectors are real estate properties, and professional activities with 10% of the investments.

An increase in the capital flows is observed by companies from Turkey. There has been a privatization of important sectors in the Albanian economy, including land lines of telecommunication through the company ALBTelekom, and this has made Turkey the second country after Greece with 12% of the investment.

Another country that has increased its investments in Albania is Austria, investing in two main sectors, namely, banking and insurance. It has thus reached the level of the Italian investments with 10.5% of the total capital invested.

1.5 FDI figures by Activity and Sector

The main sector of investment is the telecommunication, transportation and warehousing sector. This sector is represented by only 4% of the total number of the companies, but it represents 41% of the capital. 84% of this sector is represented by post & telecommunication companies.
<table>
<thead>
<tr>
<th>Description</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Hunting and forestry</td>
<td>0.3</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.7</td>
</tr>
<tr>
<td>Processing Industry</td>
<td>11.0</td>
</tr>
<tr>
<td>Production and Distribution of Electric, Gas, Steam and Hot Water</td>
<td>0.4</td>
</tr>
<tr>
<td>Construction</td>
<td>4.9</td>
</tr>
<tr>
<td>Wholesale and retail trade, automobiles, motorcycles, personal belongings and appliances</td>
<td>5.9</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.1</td>
</tr>
<tr>
<td>Transportation, storage and communication</td>
<td>40.5</td>
</tr>
<tr>
<td>Monetary and Financial intermediaries</td>
<td>33.0</td>
</tr>
<tr>
<td>Real estate, renting, informatics, research, and other business activities</td>
<td>0.9</td>
</tr>
<tr>
<td>Education</td>
<td>0.1</td>
</tr>
<tr>
<td>Health and other social activities</td>
<td>0.0</td>
</tr>
<tr>
<td>Other social and individual activities</td>
<td>1.2</td>
</tr>
</tbody>
</table>

**Figure 6: FDI based on the Economic Activity**

Source: Bank of Albania (2008)

Based on the survey conducted by the Bank of Albania (2009), the dynamics of some of the principal sectors of investment for the years 2007-2009 are as shown below in the Bar chart.
1.6 FDI in the Region

A comparative picture is presented in the World Investment Report of 2009 from UNCTAD which shows the FDI inflow in millions of EUROs in Albania and the region from the years 2007 upto Q1 of 2009:
Table 1: FDI inflows in Million of EUROS

Sourced from Bank of Albania (2009)

The World Investment Report of 2009 also provides figures on FDI as a share of the GDP for different countries in the region including Albania.

1.7 Capital and Financial Account

The financial investments in Albania from 2001 to 2008 are shown below. The blue color shows the amount of FDI compared to all investments, portfolio investment and other investments in Albania.
Figure 9: Financial Account – Net flux in millions of Euros

Source: Bank of Albania
The Annual Balance of Payment table is shown below as published by the Bank of Albania.

^ Loans and Credits from IMF not included

Source: Bank of Albania

Table 2: Balance of Payments up to 2004-2008

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account</td>
<td>(340.2)</td>
<td>(589.1)</td>
<td>(471.0)</td>
<td>(831.0)</td>
<td>(1,318.8)</td>
</tr>
<tr>
<td>Export of Goods</td>
<td>485.6</td>
<td>530.2</td>
<td>630.6</td>
<td>786.3</td>
<td>917.5</td>
</tr>
<tr>
<td>Import of Goods</td>
<td>(1,762.3)</td>
<td>(2,006.9)</td>
<td>(2,289.6)</td>
<td>(2,890.4)</td>
<td>(3,348.9)</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>1,276.7</td>
<td>1,476.7</td>
<td>1,658.9</td>
<td>2,104.0</td>
<td>2,431.5</td>
</tr>
<tr>
<td>Services: Credit</td>
<td>807.5</td>
<td>967.3</td>
<td>1,156.6</td>
<td>1,415.2</td>
<td>1,687.8</td>
</tr>
<tr>
<td>Services: Debit</td>
<td>(848.0)</td>
<td>(1,107.7)</td>
<td>(1,188.1)</td>
<td>(1,402.3)</td>
<td>(1,618.3)</td>
</tr>
<tr>
<td>Incomes: Credit</td>
<td>161.2</td>
<td>168.2</td>
<td>263.2</td>
<td>278.6</td>
<td>316.6</td>
</tr>
<tr>
<td>Incomes: Debit</td>
<td>(23.3)</td>
<td>(37.0)</td>
<td>(54.4)</td>
<td>(61.3)</td>
<td>(210.2)</td>
</tr>
<tr>
<td>Private transfers without fees</td>
<td>778.4</td>
<td>835.5</td>
<td>968.1</td>
<td>982.8</td>
<td>905.4</td>
</tr>
<tr>
<td>State transfers without fees</td>
<td>60.7</td>
<td>61.4</td>
<td>42.5</td>
<td>60.1</td>
<td>31.4</td>
</tr>
<tr>
<td>Capital Account</td>
<td>106.2</td>
<td>99.2</td>
<td>143.4</td>
<td>90.1</td>
<td>78.2</td>
</tr>
<tr>
<td>Financial Account</td>
<td>307.1</td>
<td>351.8</td>
<td>415.0</td>
<td>758.3</td>
<td>1,454.6</td>
</tr>
<tr>
<td>Direct Investments</td>
<td>267.4</td>
<td>209.3</td>
<td>250.3</td>
<td>470.1</td>
<td>590.5</td>
</tr>
<tr>
<td>Portfolio investments</td>
<td>4.6</td>
<td>(2.0)</td>
<td>27.2</td>
<td>18.5</td>
<td>(69.2)</td>
</tr>
<tr>
<td>Other capitals</td>
<td>25.5</td>
<td>135.1</td>
<td>131.8</td>
<td>264.2</td>
<td>938.4</td>
</tr>
<tr>
<td>Errors and net omissions</td>
<td>160.5</td>
<td>262.9</td>
<td>119.2</td>
<td>131.2</td>
<td>(22.0)</td>
</tr>
<tr>
<td>General balance</td>
<td>233.7</td>
<td>124.8</td>
<td>206.6</td>
<td>148.6</td>
<td>191.9</td>
</tr>
<tr>
<td>Reserves and related items</td>
<td>(233.7)</td>
<td>(124.8)</td>
<td>(206.6)</td>
<td>(148.6)</td>
<td>(191.9)</td>
</tr>
<tr>
<td>Reserve means</td>
<td>9.6</td>
<td>9.4</td>
<td>5.8</td>
<td>5.5</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Use of loans and credits</td>
<td>42.4</td>
<td>(77.4)</td>
<td>(47.9)</td>
<td>(49.5)</td>
<td>26.5</td>
</tr>
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</table>
The capital and financial accounts of Albania for the period 1996-2008 are presented below. The steady upward trend is easily noticeable especially starting from 2006.

In % of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Direct Investments</th>
<th>Other Investments</th>
<th>Portfolio Investments</th>
<th>Capital Transfers</th>
<th>Financial and capital Account</th>
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In Million Euros

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<tr>
<th>Year</th>
<th>Foreign Direct Investments</th>
<th>Other Investments</th>
<th>Portfolio Investments</th>
<th>Capital Transfers</th>
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Finally, a monthly plot for the years 2007 and 2008 showing the Capital and Financial account are also presented below as published by the Bank of Albania:
Figure 11: Capital and Financial Account by month for the period 2007-2008

With the above brief introduction to Foreign Direct Investment in Albania and the region, this section is concluded.
2.0 LITERATURE REVIEW


The literature is replete with fundamental theories of Foreign Direct Investment which attempt to explain why FDI happens. The determinants of direct investment have been reviewed by Meyer (1998). These theories can be classified under the following headings according to Moosa (2002):

1. Theories assuming perfect markets
2. Theories assuming imperfect markets
3. Other theories
4. Theories based on other variables.

The different theories of FDI that fall in the above categories have been described by Agarwal (1980) in his seminal survey. A brief account of these theories is reviewed here.

2.1 Theories assuming perfect markets:

There are 3 theories under this category.

a. Differential rates of return hypothesis: According to this hypothesis capital flows from countries with low rates of return to countries with high rates of return move in a process that leads eventually to the equality of what were the earlier real rates of return. This hypothesis assumes risk neutrality and thus the only variable which is used to make the final decision is the rate of return. In this case the equation of Marginal return to marginal cost of capital is followed. The most serious drawback of this hypothesis is that capital always flows both ways. If the hypothesis were true, capital would only flow one way.

b. Diversification of portfolio hypothesis: According to this hypothesis, the origins of which can be traced to the theory of portfolio diversification of Tobin (1958) and Markowitz (1959), the selection of a certain investment project is guided not only by the rate of return but also by the level of risk involved. The idea of reducing risk by diversification is the key feature of this hypothesis. This hypothesis is better than the rates of return hypothesis because
it takes into account the risk variable too. One of the drawbacks of this hypothesis is that risk cannot be measured accurately from historical data and that this involves a trade-off between risk and return. It also does not explain why multinational companies (MNCs) prefer FDI over portfolio investment.

c. Market size hypothesis: According to this hypothesis, the volume of FDI in a host country depends on the market size. The market size can be measured in terms of the sales of an MNC. Quite often the GDP is used to estimate the market size but that is at best a proxy variable, even if it gives results that correlate well. When the market size is large, the host country becomes a target for import substitution related investment and economies of scale are exploited. Market size is often a determinant of FDI but it is not the only determinant and thus this is a weakness of this hypothesis. If market size alone was the determinant then FDI should directly map to the size of country populations but that is not the case. This hypothesis has its roots in the work of Balassa (1966).

2.2 Theories assuming imperfect markets:

There are 6 theories under this category.

a. Industrial Organization hypothesis: This is also known as the Hymer-Kindleberger hypothesis although it is based on the work of Hymer (1976) and states that when an MNC invests in a foreign country, compared to local companies that it competes with, it has some serious disadvantages due to differences in culture, language, legal systems, etc but it is able to invest because it also has some distinct advantages that emanate from industrial organization. These comparative advantages arise from intangible assets like brand equity, patented technologies, advanced managerial skills and other specific factors. These comparative advantages when available for transfer to a foreign country, become a greater determinant of FDI. The principal drawback of this hypothesis is that it does explain why countries invest in other countries but it does not explain why one specific country is preferred over another.

b. Internalization hypothesis: According to this hypothesis FDI is sought in order to convert a market transaction to an internal transaction. In order to alleviate the uncertainty in terms of cost, availability and such factors, companies seek to internalize external resources. This kind of internalization is done largely for imperfect markets. This hypothesis explains why FDI is preferred over Export/Import. Since the empirical data on FDI is consistent with this hypothesis it is considered a relatively strong hypothesis. This hypothesis is based on the original belief of Coase (1937) that internalization is the true reason for existence of a firm.

c. Location hypothesis: According to this hypothesis, FDI exists due to the international immobility of some factors of production, such as natural resources and labour which leads to location related differences in the factors
of production related costs. Low wage countries are an example where the location hypothesis holds since it explains that for labour intensive work, low wage countries are preferred. Apart from wages, a location may have other factor dependent advantages such as cheap electricity, abundant natural resources, etc. Details of international trade and factor mobility have been described by Mundell (1957) and more recent work on this has been done by Davidson (1980).

d. Eclectic theory: This theory was proposed by Dunning (1977) and revised over the years by him. Eclectic means what is selected from various sources and that is precisely what this theory is all about. It was made by integrating three different hypotheses, namely, the industrial organization hypothesis, the internalization hypothesis and the location hypothesis. Dunning’s theory does not say how the 3 relate together but says that if a firm is to engage in FDI then it must have 3 advantages – the industrial organization advantage, the internalization advantage and the location advantage. Since this theory is a synthesis of three others, it is able to answer several questions related to FDI.

e. Product life cycle hypothesis: This hypothesis was proposed by Vernon (1966) and according to him ‘products go through a cycle of initiation, exponential growth, slowdown and decline – a sequence that corresponds to the process of introduction, spread, maturation and senescence’. This hypothesis states that firms venture into FDI at a specific life cycle stage and it identified three stages. The first stage is when the production takes place in the home country, the demand is price inelastic and thus the firm can charge high prices. In the second stage the product matures and is exported and thus provides the next highest level of income as demand in these countries emerges. At this stage competitors emerge and the firm moves into the innovative stage. The third stage is characterized by standardization of the product and the process both. At this stage the price competition from competing firms forces the firm to move to foreign countries seeking cost advantages and the home country begins to import the product from foreign countries as a result of which it becomes a net importer whereas the foreign countries become the net exporters. So according to this hypothesis, FDI occurs when cost becomes an important consideration and this happens at product maturity and standardization stage. The PC is a good example of this. The US first exported PCs and now imports them from Japan, Korea, Malaysia and Taiwan. Since this hypothesis really applies to very innovative industries, it is of limited applicability now.

f. Oligopolistic reactions hypothesis: This hypothesis was proposed by Knickerbocker (1973). According to this hypothesis FDI is triggered by a ‘follow the leader’ syndrome. In an oligopolistic environment, FDI by one firm triggers a similar action by other leading firms in the industry in an attempt to defend their market shares. The main drawback of this hypothesis is that it does not explain why the market leader indulges in FDI.
2.3 Other theories:

There are 4 theories under this category.

a. Internal financing hypothesis: This hypothesis is based on the work of Barlow and Wender (1955). According to this an MNC commits a modest amount of its resources to the initial direct investment, while subsequent expansions are financed by reinvesting profits obtained from operations in the host country. One of the motivations behind this is the tax advantages that a firm can get in a host country by not repatriating earnings. This hypothesis is also more applicable to countries where capital movement is restricted and thus it is better to reinvest it.

b. Currency areas hypothesis and the effect of exchange rate: This hypothesis was proposed by Aliber (1970). This hypothesis attempts to explain FDI in terms of the relative strengths of various currencies. It proposes that firms belonging to countries with a strong currency tend to invest in countries with a weak currency. It is based on the relationships between capital markets, and foreign exchange risk.

c. Hypothesis of diversification with barriers to international capital flows: Agmon and Lessard (1977) postulated that in order to carry out international diversification through firms, there are two pre-requisite conditions that must be satisfied. The first, barriers or costs to portfolio flows that are greater than those associated with any direct investment must exist. The second, investors must recognize that MNCs provide opportunities for diversification that are not otherwise available so easily. This hypothesis is particularly valid when there is a presence of barriers to capital flows.

d. Kojima hypothesis: This hypothesis was proposed by Kojima (1973) who views foreign direct investment as providing a means of transferring capital, technology and advanced managerial skills from the source country to the host country. This approach is thus also called a ‘factor endowment approach’ to FDI. Kojima proposed two types of FDI, namely trade-oriented FDI and anti-trade oriented FDI. According to him, the former was the Japanese style FDI and the latter was the US style FDI. In the Japanese style FDI, trade is promoted and beneficial industrial restructuring happens in both countries. In the US style FDI, the results are exactly the opposite. It has an adverse effect on trade and promotes unfavourable restructuring in both countries.

2.4 Theories based on other variables:

There are 6 theories under this category and are based on the following variables.

a. Political risk: A lack of political stability discourages FDI. In such a situation the legal and fiscal environments can be changed drastically at short notice. Examples of such changes can be a clampdown on repatriation of capital from the host country. There are various sources that provide information on the level of Political risk, such as FreedomHouse (2009) which provide maps of how democratic a nation is and the methodology used to determine that. Such
a map is provided in the Appendix indicating that Albania falls in the category of “Partly Free” countries.

b. Country risk: The Country risk is tied to Political risk but in addition includes several other parameters of interest. There are various sources that provide indices that act as measures of Country Risk. Euromoney is one of the online sources and a table from 2008 is provided in the Appendix. Country Risk classifications are also available from the OECD and a part sample is attached in the Appendix for illustration. OECD Country Risk ratings are on a scale from 1 to 7 with 7 being the most risky. Thus, with Albania at 6, it does have a high level of Country Risk.

c. Tax policies: Tax policies in both, the host and source countries affect the incentive to pursue FDI and the means by which it is financed. Jun (1989) has studied this aspect of the effect of tax policies and identified three ways in which it affects MNCs. First, the tax policy in the host country affects the income. Second, the tax policy in the source country affects the income vis-à-vis the income that would be earned in a host country. Third, it affects the relative cost of capital in the source and host countries.

d. Trade barriers: Aharoni (1966) first suggested the role of trade barriers in foreign direct investment. Trade barriers between countries can severely affect investments.

e. Government regulations: Government regulations are another mechanism that are often used to alter the investment landscape.

f. Strategic and long-term factors: Consideration of long term factors play a role in shaping foreign direct investment.

With the recent financial crisis and those in the past, we have another determinant of FDI as reflected in the work of Krugman (1998) which discusses a ‘fire sale’ as a determinant of FDI.

While the above theories are all focused on the Determinants of FDI, a more multifaceted introduction to FDI can be found in the work of Bartels and de Crombrugghe (2005).

A review of all these theories indicates that irrespective of what the determinants of FDI are, there needs to be a way to address the drivers of FDI. These drivers are what permit the execution of the processes that achieve successful FDI. An excellent source of information for those interested in FDI is the World Bank’s DoingBusiness.org website. This website provides a wealth of information of all the different dimensions that an investor needs to go through in order to do business in any country. It provides a lot of detail in terms of time and cost but the principal drawback of this approach is that it takes a “one size fits all” approach. Besides, it does not consider the dynamics when a particular investor using a particular intermediary is operating in a particular country. This kind of specificity is the target of this thesis. The proposed 3 Player Framework of this thesis attempts to be highly specific, and that is why a single country has been selected for study, yet the overall approach is very generic and can be applied to any combination of investor, intermediary and host country.
3.0 METHODOLOGY

3.1 Case Design

The research design for this case study followed the guidelines outlined by Yin (1994).

The study consisted of the 5 essential components:

1 Study questions – In spite of a SWOT analysis showing that a country has a potential for FDI and a range of fundamental theories predicting that the likelihood of FDI is high, sometimes the simple fact that the execution of the processes involved in making this a reality do not succeed at worst or do not work as well as they should. These processes could be anything like getting a license, buying land or accessing credit. If the mechanisms that are involved in the successful execution of these processes can be understood then they can be applied to a real case to identify how well the FDI process is likely to proceed. So the principal question addressed by this study is to develop an understanding of the mechanism of successful execution of the FDI processes and to use it in the application to a real case, such as Albania. Each of these processes constitutes a dimension of interest. Although the number of dimensions may vary from case to case the underlying mechanisms can be generalized.

2 Propositions – The principal proposition of this case study is a framework for understanding the mechanism by which FDI processes operate and how they can be made to work better. The proposed framework also will be able to inform the investigators how well or how badly a certain FDI is proceeding. It should be noted however, that an FDI venture could be successful because all the processes that drive it have worked perfectly as expected and yet the investor could lose money because of bad decisions or a bad economy. The business outcome of the venture is not a subject of this study.

3 Unit of analysis – The unit of analysis defines the fundamental problem that the case is trying to address. In this case study, the context is Albania and the unit of analysis is a combination of 3 players, namely, the GOVT, IPI and TNC, as defined in the proposed framework. These 3 players do not act alone but as double interacts and thus the latter will also be addressed within the unit of analysis.

4 Logic linking the data to the proposition – The proposed framework suggests that the success of the FDI process execution lies in the fact that the GOVT, IPI and TNC players work as an effective “Team”. The extent of coupling between the 3 will decide how successful any outcome will be. With this logic at the heart of the framework proposed, real data will be collected from the GOVT, IPI and TNC and an attempt will be made to apply it in the context of Albania.

5 Criteria for interpreting the findings – Several FDI processes will be identified for consideration and depending on the extent of coupling between the 3 players an interpretation will be made whether it is strong or weak. In fact, we will attempt to
make a quantitative interpretation of the coupling based on interviews and/or questionnaires for the 3 players. If the coupling is strong, it is expected that the FDI process under study will succeed, else not. Due to time and resource limitations, the study will be limited to a small scale. The idea is to build a definite way of applying this framework to a real case and interpreting results to see how useful it can be.

The two principal methodological elements of this study are the following:

- Audit (for data collection): Using the Audit method the entire cycle of FDI will be understood. This understanding will be developed from different perspectives. A generalized life cycle of FDI execution will be explored by interviewing experts in the field who represent the GOVT and the IPI sets. Based on this life cycle, the elements of interaction that make or break this FDI execution will be identified. A set of questions that address each of these elements will be generated for incorporation into a questionnaire or interview. The possible answers to each question will be mapped onto a 5 point Likert scale so that qualitative answers also can be interpreted quantitatively and analysed to derive intelligence. Some guidelines on conducting an audit are given by Jones et al (2009).

- Gap Analysis (for data comprehension): Gap Analysis is a technique very widely used by the Sales and Marketing Departments of large companies. A very succinct description of this technique has been presented by Daniels and Radebaugh (1998). The basic idea behind using Gap Analysis for the purpose of Sales Improvement is to draw a bar, the height of which represents the Potential Market Size. On this bar a point A is marked that represents the Total Sales of All Competitors. Somewhere below the point A is then placed the point B which represents the company’s Own Sales. The difference between A and B is the gap that must be covered by the company in order to take the share of all competitors. This gap is then divided into segments each of which represents the amount of Sales being lost due to a particular reason. If the reason is that the company is not distributing its products where its competitors are, then that segment is called the Distribution Gap. If the reason is that the company is not having a product in a certain Product Line relative to its competitors then that segment is called the Product Line Gap. Similarly, if the company is losing sales to its competitors for unknown reasons then they can all be clubbed into a Competitive Gap. By understanding the different types of Gaps and their relative magnitudes, Sales and Marketing Strategists can come up with innovative ways to “Bridge the Gap”. The gap between the Potential Sales and the Total Sales of Competitors is called the Usage Gap because it represents the sales that is not being generated due to non usage of the products. An illustration of the above description is given below to help visualize the idea.
The idea explained above in terms of Sales, will in this case study be applied to ‘how well any two players can accomplish a task that has to be carried out through their cooperation’, namely, the outcome of the two ends of the double interact acting on a certain dimension of interest. In the context of this case study, of the two players one will be analogous to the Current Company and the other will be analogous to All Other Competitors. On the topic of each element that is important for the execution of the FDI process differences in the assessment of the two players will be identified as gaps. The magnitude of gaps will indicate how well or poorly that element is being executed and the nature of that gap will be subjectively analyzed to find the reasons for its existence. With this information on hand for all elements of the FDI process execution, we will have a real good understanding of what ails the FDI process and how to fix it.

The idea of a gap between the current status and the potential status is something that can be generated by elaborate determinations as mentioned above or also by the perceptions of interacting parties on issues that permit human judgement based on data and experience.
3.2 Case Protocol:

A step by step approach for this study constitutes the study protocol and it would be something like below:

- Interview Albinvest personnel and understand the legal, financial, business and economy related procedures that require the participation of GOVT, TNC or IPI.

- Create a set of all institutions that fall under GOVT.

- Create a set of all institutions that fall under IPI.

- Create a list of all TNCs to be part of the study.

- Identify a bunch of issues that can be measured quantitatively and interview GOVT, TNC and IPI to collect their responses. Alternatively, based on the issues that investors have dealt with, determine the efficacy of collaboration between the double interacts.

- Develop questionnaires for data collection

- Execute the surveys/interviews (by email, in person, over the phone)

- Analyse responses and determine Gaps in each binary coupling or alternatively place each double interact performance as understood from the data collection into corresponding 4 Quadrant diagrams.

- Do the above for at least 2 industries (depending upon the level of responses obtained there may not be much choice in this part of the protocol).

- Based on the Gaps or placement in the 4 Quadrant diagrams, determine which industry is more successful and compare the results with the macro-level determinants to see if they agree.

- Draw qualitative conclusions on the interactions to show how the proposed framework can be used as a tool to understand the actual FDI process as it unfolds for different investors.

- Make recommendations based on perceived state of affairs and findings of this study.
4.0 PROPOSED FRAMEWORK - Theory

The core proposition of this thesis is a framework that is mechanistic in nature and is designed to aid our understanding of how exactly foreign direct investment is actually executed. All the theories presented in the literature survey attempt to address the potential of FDI but none of them take into account the real execution of the deal to invest in a foreign land. Since the application of this framework is intricately tied to the host country, and contacts were developed in the Govt., the case of Albania was chosen. Since the framework is applicable in principle, to any county, the description is presented in a general way and later parts of this thesis will show how it has been applied to FDI in Albania.

Yin (1994) points out that one of the approaches of developing a descriptive theory is the use of a metaphor, and since the development of this framework is in essence a theory building exercise, the metaphor of choice used here is: “3 players of a team moving the ball along towards a goal in a field”.

Figure 13: Proposed Framework of 3 players and their positions as double interacts.
In fact, even Weick (1976) has used the metaphors of Referee, Coach and Player in the context of his work with educational institutes.

The 3 players are the core elements in the execution of FDI and these are the Government of the project host country (hereafter referred to as GOVT), the Trans-national Company making the foreign direct investment (hereafter referred to as TNC) and the Investment Promotion Intermediary (hereafter referred to as IPI).

The “ball” in the above metaphor refers to any dimension of the FDI process on which the 3 players need to cooperate in order to succeed. Some examples of this dimension are “Getting a license to establish a company”, “Leasing land for setting up the plant”, etc.

The “goal” in the above metaphor refers to the aim of successfully bringing the FDI to fruition. The term successful here does not however, refer to the investing company necessarily making a profit, but getting into serious business so that it can carry out its operations in a business environment.

Every team operates in a certain context. Just like a soccer team plays on a soccer field, the “field” for an FDI refers to a country. In this case, the context is Albania. It is also this context which decides which GOVT is being referred to. It is for this reason that when developing the framework it is essential to apply it to a particular country because otherwise it is not possible to collect data for the complete unit of analysis.

The success of the venture depends upon how well the team performs in relation to each of the dimensions that the team has to address in order for the TNC to get in business. Every country has a different set of procedures and legal obligations that a TNC needs to comply with before it can get down to business and navigating this maze of bureaucracy in itself can be a huge task. That is also one of the reasons why IPIs are such an important element in this team. Needless to say, without a TNC there can be no FDI and without a GOVT no TNC would even be interested in investing.

Regarding the importance of being able to handle business regulations one only has to take a quick look at the website of The World Bank Group (2010) which provides some of the business related dimensions that an investor needs to handle for most countries and the time it takes for each. This website is very instructive from a comparative standpoint as it follows a definite methodology for data collection but its basic approach is flawed in the sense that it takes a “one size fits all” approach. In reality, the experience of every investor will be different depending upon how well the team of 3 players mentioned above (hereafter referred to as the “Triad”) has performed with respect to each dimension that it has had to deal with.

The proposition of this framework is that in the Triad the 3 players are structurally and functionally coupled. Structural coupling implies that each of the 3 players interact with the other two in a pairwise manner. This interacting pair is what Weick (1979) has called the “double-interact”. In a double-interact, each side of the interacting elements can behave independently or in response to the other and thus the coupling between the two is considered to be loose. In this framework we introduce the idea of “functional coupling” which is simply a measure of how strongly the two elements of a double interact work
together in order to achieve the success in the dimension in whose context they are working. Thus, functional coupling can be considered a measure of “team work” or “collaboration” between the elements of the double interact. Needless to say the strength of the functional coupling depends on the “shared values” that exist between the two elements of the double interact. Unless there is a reason for both elements to cooperate, they will not.

The “structural coupling” is loose and that is why it is possible to apply this framework to any country by changing the GOVT placeholder to point to another country, by changing the TNC placeholder to point to another company and to change the IPI placeholder to another intermediary as the situation changes. The “functional coupling” can be loose or tight. The “functional coupling” is what decides whether the contribution of a double interact in this FDI context will be positive, negative or zero.

As there are 3 players in the Triad, there can be a maximum of 3 double interacts in this system. The overall success of the Triad in achieving the dimension they are interacting on will depend on how strong the functional coupling has been in each of the double interacts with reference to that particular dimension. It is hard to specify in quantitative terms what constitutes a strong functional coupling but an attempt will be made to analyze how this can be dealt with in a qualitative fashion later in the Analysis section. The overall success of the FDI venture will depend on the overall success along each of the dimensions that it has to go through. Also, some dimensions are more critical than others by their very nature and that can introduce a whole new wrinkle in the process. To take an extreme example, if the functional coupling between GOVT and TNC is very strong in all dimensions except the most critical one (say, getting a license to operate in the country), the venture is doomed to failure. While the framework cannot fix such problems, it can clearly help to identify them and that is a big first step.

Another aspect of this framework, which has not been considered in detail in this case is that of “fine structure”. Each element of the Triad has a fine structure which can be ignored in a primary application of this framework but comes into play if the framework is applied to a great depth. The GOVT consists of a whole range of ministries, departments and agencies all of which are structured in a certain way. This structuring is the “fine structure” of the GOVT. Similarly, the IPI and the TNC also have their own specific “fine structure”. In case of an IPI, if a TNC seeks the services of multiple intermediaries, then for the purpose of primary application of this framework all the intermediaries can be clubbed into a single node but the “fine structure” of the IPI will reveal each of them and their interrelationships. The TNC is no exception and has its own “fine structure” because within a company also there may be departments which affect the overall performance of the TNC. The fine structure will vary from one case to the other and can in itself be in any of the standard forms such as a hierarchy, matrix or rhizome, in keeping with standard paradigms of forms of organization.
GOVT Fine Structure

Ministry of Foreign Affairs
Ministry of Economic Cooperation and Trade
Ministry of Finance
Ministry of Public Economy and Privatization
Ministry of Agriculture and Food
Ministry of Public Works
Ministry of Transports
Tourism and Development Committee
National Free Trade Zone Entity
Albanian Economic Development Agency
Union of Chambers of Commerce
National Center of Fairs and Trade Exhibitions
Albanian Guarantee Agency
Business Advisory Council
etc.

Figure 14: Representation of a possible fine structure of GOVT
IPI Fine Structure

Figure 15: Representation of a possible fine structure of an IPI
Depending upon how well the double interacts in the 3 player model interact and collaborate in order to manage the particular dimension, the double interact can be placed in a certain quadrant in a 4 quadrant diagram. And depending upon which quadrant it lies in, a judgement can be made about its likelihood of success. The order in which the 2 elements of the double interact are specified is immaterial. Thus, a specification of $A \rightarrow B$ is equivalent to $B \leftarrow A$.

The three sets of Quadrant diagrams that need to be used for such an exercise are presented below. Each of these 4 Quadrant diagrams differ only in the elements of the double interact but have a similar structure in terms of the likelihood of success in each quadrant. While this simplified assumption can lead one to believe that the outcome will be the same for all double interacts, that is clearly not the case.

If a 5 point Likert scale is used to assess the extent of coupling (based on the extent of their collaboration and effectiveness of working together) and the scale is marked as
1-Very weak, 2-Weak, 3-Satisfactory, 4-Strong, 5-Very strong

then double interacts with a value of 5 will fall in Quadrant I, those with a value of 4 will fall in Quadrant II, those with a value of 3 will fall on the Origin (where the 4 quadrants meet), those with a value of 2 will fall in Quadrant IV and those with a value of 1 will fall in Quadrant III.

Figure 17: Quadrant diagram for GOVT↔TNC double interact
Figure 18: Quadrant diagram for TNC↔IPI double interact
In the light of the above proposed framework, actual data can be collected and attempts can be made to understand the fate of FDI initiatives made by different TNCs and the corresponding role of IPIs and the GOVT.

An attempt has been made in this work to follow the advice of Schwartz et al (2007) - “A ‘good’ framework article should offer a clear guideline (indicating possible problems that can be examined within the stated framework), consist of a parsimonious set of elements, and have a clearly defined boundary”.

**Necessary and Sufficient Conditions:**

Since this thesis is a theory building exercise, it is essential to have some component of theory testing specified. In accordance with Dul and Hak (2008), there are usually two types of propositions with a single case study.
The formal structure of sufficient conditions is “If there is A, then there will be B” and the formal structure of a necessary condition is “B exists only if A exists”. In the light of this formalism and the formulation of the proposed framework the necessary and sufficient conditions are given below:

**Sufficient conditions for successful FDI execution**

- There must be a tight functional coupling in the double interact GOVT $\leftrightarrow$ TNC.
- There must be a tight functional coupling in the double interact TNC $\leftrightarrow$ IPI.

AND There must be a tight functional coupling in the double interact IPI $\leftrightarrow$ GOVT.

**Necessary condition for successful FDI execution**

- The functional coupling between TNC and GOVT must be bridged either by the double interact GOVT $\leftrightarrow$ TNC or by both double interacts TNC $\leftrightarrow$ IPI and IPI $\leftrightarrow$ GOVT at the same time. In other words, the functional coupling between the TNC and GOVT must be very strong irrespective of how it is achieved.
4.1 Discussion

It is interesting to examine the proposed framework in the light of some of the Classical and Modern frameworks, theories and models that can be related to it in some ways. These are:

- **Structure-Conduct-Performance (SCP) model**

  The most revised versions of the SCP model with built in feedbacks are due to Scherer (1980, 1990) and Shepherd (1990). According to this model, performance of a venture is an outcome of the structure and conduct of the market but there is the added idea of feedback loops according to which the performance can impact the conduct and structures of the market too.

(In the proposed framework we see that the loose coupling between the 3 players forces a structure the conduct of the parts (double interacts) of which determines the outcome. And this structured version of 3 players also works backwards in the sense that if the outcomes are not satisfactory, the loose coupling will tend to break and thus dissolve the team. Thus, the proposed framework is consistent with the SCP model as it is used in the)
context of Organizational Behaviour. In the present case, the ‘organization’ consists of the 3 Players which are in fact 3 separate organizations but have come together for the moment to work as one.

- **Theory of Loose Coupling**

  The proposed framework reflects several ideas found in the works of Orton and Weick (1990), one of them being that the shared values is a means to compensate for loose coupling. This is not surprising though, because the 3 Player framework is constructed using the idea of Double Interacts which have their origin in the Loose Coupling Theory. The easy way to understand the Loose Coupling model is to follow the dark arrows between the large circles and then go to the circle pointed to by the first four. As you go down the circles read the attributes attached to each.

  One way to summarize this model of Loose coupling in words is “The theory of loose coupling suggests that there are 3 causes of loose coupling which lead to 8 types of loose coupling which have 3 types of direct effects which need to be compensated for loose coupling in 3 ways and all of the above stated, together, lead to 5 organizational outcomes of this loose coupling. To see what the 3 causes of loose coupling, 8 types of loose coupling, 3 types of direct effects of loose coupling, 3 ways of compensating for loose coupling and 5 organizational outcomes of loose coupling are see the diagram of the model below.”
When the 3 Player framework of this thesis is compared to the Loose Coupling model of Orton and Weick (1990) it is evident that so many of the elements that are part of the Loose Coupling model are found in the proposed framework. Some of these observations from the proposed framework are presented below.

**Causes of loose coupling**

Fragmented external environment – The 3 players GOVT, IPI and TNC.

Fragmented internal environment – The fine structure of GOVT, IPI and TNC.
Types of loose coupling

Organization – Each of GOVT, TNC and IPI are organizations.

Hierarchy – Fine structure of GOVT, TNC and IPI may have hierarchies.

Intentions and actions – The intentions and actions of GOVT, TNC and IPI are not necessarily aligned.

Direct effects of loose coupling

Modularity – GOVT, TNC and IPI placeholders are modular.

Behavioural discretion – In each of the double interacts, namely, GOVT↩️IPI, GOVT↩️TNC, or TNC ←→ IPI each both elements in the double interact have behavioural discretion.

Compensations for loose coupling

Focused attention – For each dimension under consideration all the double interacts are focused on it.

Shared values - This is what really makes each double interact work efficiently.

Organizational outcomes of loose coupling

Persistence – Since the 3 players are the essential elements in the FDI process there is not much room for change. So even if the system is loosely coupled it is persistent as long as the TNC has the intent to follow through on the investment.

Buffering – IPIs can often provide a buffering function for a TNC on certain issues while dealing with the GOVT, especially if the IPI is local to the host country.

Adaptability – Monolithic systems are essentially not very adaptable. The presence of 3 double interacts provides more adaptability by the built in redundancy. If a dimension cannot be managed directly by TNC↩️GOVT then it may be possible to achieve it indirectly through TNC↩️IPI and IPI↩️GOVT.

Satisfaction – Since each double interact is at one time dealing with one dimension, task visibility is high and conflict chances are reduced leading to greater satisfaction.

Effectiveness – There has been a wide use of IPIs by TNCs to interact with GOVTs to facilitate FDI so there must be a modicum of effectiveness or else this practice would have stopped. One only has to look at the long list of IPIs successful in business.
The 7-S Framework devised by McKinsey consultants Waterman et al (1980) stated that structure alone is not organization. Organization constitutes the 7-S values shown below and central to these 7-S values is the “Shared Values”.

(From the McKinsey Quarterly Interactive on 7-S Framework)

Figure 22: 7-S Framework

In the 3 Player framework central to each double interact, whether it is GOVT↔IPI, GOVT↔TNC, or TNC ↔IPI, is the shared value which requires them to cooperate. With this alignment of the “Shared Values” of the 7-S framework on the centre of the double interact, almost seems to coax the elements of the double interact to make use of the other 6S values that are offered by the 7-S framework. If one looks carefully at the 6 peripheral elements of the 7-S framework, it is clear that each one can be used by the 2 elements of a double interact to achieve their goals more efficiently – in other words, to have a tight functional coupling.

With the above discussion of the 3 Player framework and certain ways of its alignment with other frameworks of Organizational Theory, the elegance of the former is brought to light!
5.0 EMPIRICAL FINDINGS

5.1 Selection of TNC, IPI and GOVT

The Albinvest website proved to be an excellent source of information for this project.

A database of all inquiries made with Albinvest, the Foreign Direct Investment arm of the Albanian Government was obtained which covered data from 2008 to 2010.

From this database 40 companies or investors were selected who had gotten in touch with Albinvest to pursue the process of FDI. These potential investors were from China, Czech Republic, Denmark, England, Germany, Greece, Hungary, India, Israel, Italy, Macedonia, Netherlands, Pakistan, Poland, Saudi Arabia, Slovenia, Sweden, Turkey, UK, Ukraine, and USA. This set constituted the list of TNCs mentioned in the protocol earlier.
Below is a list of the companies that were contacted. The contact information has been removed from this list for reasons of confidentiality.

<table>
<thead>
<tr>
<th>Company</th>
<th>Representative</th>
<th>Interest</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 North Tonhe Holding Co. Ltd. (HK Company)</td>
<td>Xu Le</td>
<td>Mining</td>
<td>China</td>
</tr>
<tr>
<td>2 Czech ICT Alliance</td>
<td>Michal Zalesak</td>
<td>Software Companies</td>
<td>Czech Republic</td>
</tr>
<tr>
<td>3 Industrialisation fund for developing countries</td>
<td>Natalia Svejgaard</td>
<td>Investment incentives</td>
<td>Denmark</td>
</tr>
<tr>
<td>4 Mediobanca London</td>
<td>Davide Ghezzi</td>
<td>Renewable Energy</td>
<td>England</td>
</tr>
<tr>
<td>5 Representative of all Munich Fairs</td>
<td>Ognen Kao</td>
<td>Fairs Organization</td>
<td>Germany / Macedonia</td>
</tr>
<tr>
<td>6 Teleperformance Hellas</td>
<td>Tourcomanis</td>
<td>Call Center</td>
<td>Greece</td>
</tr>
<tr>
<td>7 EKO Global Petroleum Sh.a</td>
<td>Roland Shehu</td>
<td>Petroleum</td>
<td>Greece</td>
</tr>
<tr>
<td>8 HTD Hungary</td>
<td>Avijeta Hajnalka Hafuzi</td>
<td>Investment growth in Export Import</td>
<td>Hungary</td>
</tr>
<tr>
<td>9 Tata Steel Ltd., Kolkata</td>
<td>Prabhash Gokarn</td>
<td>Chrome</td>
<td>India</td>
</tr>
<tr>
<td>10 Horn</td>
<td>Shimshon Horn</td>
<td>Tourism</td>
<td>Israel</td>
</tr>
<tr>
<td>11 Not specified</td>
<td>Francesco Intingaro</td>
<td>Logistics Company (Import)</td>
<td>Italy</td>
</tr>
<tr>
<td>12 SIMER Srl</td>
<td>Davide Vitello</td>
<td>Disk brake pad production collocation</td>
<td>Italy</td>
</tr>
<tr>
<td>13 Not specified</td>
<td>Elena Dallaporta</td>
<td>Car Accessories</td>
<td>Italy</td>
</tr>
<tr>
<td>14 Ompecco</td>
<td>Fabrizio Prelato, Sales Manager</td>
<td>Waste Treatment</td>
<td>Italy</td>
</tr>
<tr>
<td>15 Not specified</td>
<td>Aida Shiroka, International network and fund raising</td>
<td>Financial and Legal Consultancy for starting a business in Albania</td>
<td>Italy</td>
</tr>
<tr>
<td>16 Not specified</td>
<td>Erzen Kercuku (Qualifica Manager)</td>
<td>Office furniture, Small and Medium Enterprise for granite</td>
<td>Italy</td>
</tr>
<tr>
<td>17 Almaviva</td>
<td>Cesare Pio, Business Unit Internazionale</td>
<td>CRM Outsourcing/IT</td>
<td>Italy</td>
</tr>
<tr>
<td>18 Not specified</td>
<td>Davor Stojanoski</td>
<td>Industrial Zone</td>
<td>Macedonia</td>
</tr>
<tr>
<td>19 Kompania Zinkunie B.V.</td>
<td>Valon Hoti, Manager,Balkan Region</td>
<td>Ferro Metallurgy in Albania</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Company</td>
<td>Representative</td>
<td>Interest</td>
<td>Country</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>----------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Vural Limited</td>
<td>Yildirim Akyuz</td>
<td>Garment Manufacturing</td>
<td>Not specified</td>
</tr>
<tr>
<td>Not specified</td>
<td>Schauer Diana</td>
<td>Information about Albanian Market</td>
<td>Not specified</td>
</tr>
<tr>
<td>Enak Kht</td>
<td>Donatella Garofoli</td>
<td>Hydroelectric Energy</td>
<td>Not specified</td>
</tr>
<tr>
<td>Aston Martin Lagonda Ltd.</td>
<td>Mrs Gaynor Preston</td>
<td>Albanian Suppliers</td>
<td>Not specified</td>
</tr>
<tr>
<td>Thrace-Ipoma S.A.</td>
<td>V. Zashev</td>
<td>Trade Fairs; Packaging, rigid packaging, crates, big bags</td>
<td>Not specified</td>
</tr>
<tr>
<td>Not specified</td>
<td>Rahul Singh</td>
<td>Mining</td>
<td>Not specified</td>
</tr>
<tr>
<td>Adeel Khalid</td>
<td>Adeel Khalid</td>
<td>Internet Café or Small Office</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Not specified</td>
<td>Helena Mier-Jedrzejowicz</td>
<td>Setting up a Diving Base</td>
<td>Poland</td>
</tr>
<tr>
<td>Almalik Holding Company</td>
<td>Almalik Almalik</td>
<td>Energy, Tourism and Agriculture</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Slovenia real estate fund</td>
<td>Simon Surev</td>
<td>Lands</td>
<td>Slovenia</td>
</tr>
<tr>
<td>Chamber of Commerce and Industry of Slovenia</td>
<td>Zvonka Maier</td>
<td>Insulating Glass</td>
<td>Slovenia</td>
</tr>
<tr>
<td>Medical Plast</td>
<td>Kamer Bytyqi - Drejtör</td>
<td>Import-Export</td>
<td>Sweden</td>
</tr>
<tr>
<td>Çukurova İthalat ve İhracat Türk A.Ş.</td>
<td>Hilal Barutçu</td>
<td>Diesel Generator Manufacturing</td>
<td>Turkey</td>
</tr>
<tr>
<td>Not specified</td>
<td>Tolga Yücel, Business Development Manager</td>
<td>Ceramics</td>
<td>Turkey</td>
</tr>
<tr>
<td>Imbosan Paint</td>
<td>Imbosan Boya</td>
<td>Exterior and Interior Surface Wall Paints</td>
<td>Turkey</td>
</tr>
<tr>
<td>Oerlikon Kaynak Elektrodlari ve Sanayi A.S.</td>
<td>Emre Çakmak, Export Sales Rep</td>
<td>Manufacturing Welding Products</td>
<td>Turkey</td>
</tr>
<tr>
<td>Al Kir Watches and Jewelery Import Ltd Co.</td>
<td>Daymond Rene</td>
<td>Retail Watch seller</td>
<td>Turkey</td>
</tr>
<tr>
<td>Pampelonne</td>
<td>M.I.D. Wright, Vice President, Europe, Courtney Private Equity</td>
<td>Assistance in Tourism</td>
<td>UK</td>
</tr>
<tr>
<td>Muvan Limited</td>
<td>Lee Campbell</td>
<td>Real Estate &amp; Construction</td>
<td>Ukraine</td>
</tr>
<tr>
<td>US Geological Survey</td>
<td>Mark Brininstool</td>
<td>Mineral Production</td>
<td>USA</td>
</tr>
<tr>
<td>Not specified</td>
<td>Derek Perkins</td>
<td>Gourmet Food</td>
<td>USA</td>
</tr>
</tbody>
</table>

The list of IPIs was rather short and included 2 companies located in Albania. These were Sprint! Marketing and Management Consulting, and Albanian Chamber of Commerce.
The list of GOVT agencies was limited to Albinvest but this was a very key resource in our research as they are generally the first point of contact for anyone interested in FDI in Albania.

5.2 Data collection

Most of the TNCs were contacted by email and a questionnaire geared specifically to TNC was sent for completion. Participants were requested to complete the questionnaire but encouraged to feel free to provide any additional information that they thought relevant. Some TNCs were interviewed in person. A copy of the questionnaire is attached in the appendix. TNC questionnaires were color coded in green print.

The IPIs were all interviewed in person but also asked to fill out a questionnaire geared specifically to IPIs. A copy of the questionnaire is attached in the appendix. IPI questionnaires were color coded in blue print.

The GOVT was interviewed in person but also asked to fill out a questionnaire geared specifically to GOVT. A copy of the questionnaire is attached in the appendix. GOVT questionnaires were color coded in red print.

The color coding of questionnaires was done to avoid the possibility of using the incorrect questionnaire during the process.

5.3 Data Storage

All responses to the interviews and questionnaires were stored in an organized directory structure to keep the TNC, IPI and GOVT responses separately. In each case, the interview responses and the associated email contents were kept together because many respondents did not fill the questionnaires but instead tried to answer the questions in the email.

5.4 Data compilation

The following is a list of companies or interested investors (TNC) that responded to our questionnaires, and investment promotion intermediaries (IPI) and government agencies/departments (GOVT) that were interviewed to understand their experience in the FDI process as practiced in the context of Albania.
<table>
<thead>
<tr>
<th>Name of TNC</th>
<th>Line of Business (Value in currency)</th>
<th>Country of origin</th>
<th>IPI used</th>
<th>Event (Observed outcome) (Predicted outcome)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EKO Global Petroleum, Albania Sh.a</td>
<td>Petroleum (24m Euro)</td>
<td>Greece</td>
<td>None. State to state contacts were made.</td>
<td>In Business (Success)</td>
</tr>
<tr>
<td>Tata Steel Limited</td>
<td>Chrome reserves (not specified)</td>
<td>India</td>
<td>Chrome Mine Joint Venture in Albania. IPI very helpful.</td>
<td>TNC backed out due to Global recession (Failure)</td>
</tr>
<tr>
<td>Adeel Khalid (individual investor)</td>
<td>Not specified. (30,000 US$)</td>
<td>Pakistan</td>
<td>Albinvest. Did not get quick response.</td>
<td>TNC invested in Malaysia instead. (Failure)</td>
</tr>
<tr>
<td>SIMER Srl</td>
<td>Advanced Brake Technology</td>
<td>Italy</td>
<td>Not specified. Said local Italian Embassy was very active.</td>
<td>TNC decision postponed but still interested. (Uncertain)</td>
</tr>
<tr>
<td>Mansour Al-Malik Holding Company</td>
<td>Not specified</td>
<td>Saudi Arabia</td>
<td>Got in touch but did not pursue further with Albinvest.</td>
<td>TNC dropped the idea but intends to get back to it soon (Uncertain)</td>
</tr>
<tr>
<td>Name of IPI</td>
<td>Line of Business (Value in currency)</td>
<td>Country of origin</td>
<td>TNC or GOVT interaction</td>
<td>Event (Observed outcome)</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------------------------------------</td>
<td>-------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>SPRINT! Marketing and Management Consultants</td>
<td>Thermal power companies (1.2b Euro)</td>
<td>Not specified but the plants were located in Southern Albania.</td>
<td>Interacted successfully with large TNC and GOVT. with very strong interactions in Market Assessment, Market Analysis, and Supervision. Very weak interaction in Licensing and satisfactory interaction in Consulting.</td>
<td>Very strong functional coupling in this dimension.</td>
</tr>
<tr>
<td>SPRINT! Marketing and Management Consultants</td>
<td>Hydroelectric power company</td>
<td>Denmark</td>
<td>Same as above</td>
<td>Same as above</td>
</tr>
<tr>
<td>SPRINT! Marketing and Management Consultants</td>
<td>Energy company</td>
<td>Germany</td>
<td>Same as above</td>
<td>Same as above</td>
</tr>
</tbody>
</table>

*See Analysis section for above deviation.
<table>
<thead>
<tr>
<th>Name of IPI</th>
<th>Line of Business</th>
<th>Country of origin</th>
<th>TNC or GOVT interaction</th>
<th>Event (Observed outcome)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albanian Chamber of Commerce</td>
<td>Not specified</td>
<td>Not specified</td>
<td>Interaction in Establishing contacts, Consultation and Giving information.</td>
<td>Success or Failure in any of their venture could not be established as no useful information was provided.</td>
</tr>
<tr>
<td>Name of GOVT</td>
<td>IPI interaction</td>
<td>Country of origin</td>
<td>TNC interaction</td>
<td>Event (Observed outcome)</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>-------------------</td>
<td>---------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Albinvest</td>
<td>No. Albinvest serves some IPI functions.</td>
<td>Albania</td>
<td>Adeel Khalid (individual investor)</td>
<td>Poor working relationship between TNC and IPI</td>
</tr>
<tr>
<td>Albinvest</td>
<td>No. Albinvest serves some IPI functions.</td>
<td>Albania</td>
<td>Mansour Al-Malik Holding Company</td>
<td>TNC did not pursue IPI actively</td>
</tr>
</tbody>
</table>
6.0 ANALYSIS

Based on the proposed framework and the responses obtained from representatives of GOVT, IPI and TNC it is very clearly apparent that the issue of being functionally coupled is of great importance. Based on the limited set of data that has been collected, it seems possible to analyse only 5 cases of TNC, 1 of IPI and 1 of GOVT in the light of the proposed framework. Below are presented each of the cases for which data was available and against each it is indicated whether it was a TNC, IPI or GOVT.

6.1 EKO Global Petroleum, Albania Sh.a: TNC

EKO Global Petroleum, Albania Sh.a is one of the TNC that has succeeded in FDI in a big way in view of the value of their investment. It is interesting to note that since they did not make use of an IPI according to the proposed framework it would be expected to fail. However, the representative clearly explained that the deal worked because they used the Greek Govt. to establish contact with the Albanian Govt. So here we have a case where owing to the nature of relationship between EKO Global Petroleum, Albania Sh.a and the Greek Govt., EKO Global Petroleum, Albania Sh.a in a sense was using the Greek Govt. as an IPI. So from a functional interpretation, the requirements of functional coupling were satisfied in a big way because Government to Government contacts are generally much more tightly coupled. While the Greek Govt. playing the role of an IPI must have helped EKO Global Petroleum to establish business in Albania, even without a local IPI it was able to operate well because of the awareness of the culture and general environment in Albania. Greek is widely understood in Albania and the two countries share a border which makes conducting business a lot easier if they are at peace.

6.2 Tata Steel, India: TNC

The response from Tata Steel was that the IPI was of great help and without it the venture just would not be possible. Inspite of this their attempt to FDI failed because they withdrew due to the global market conditions at the time. Since, pulling out of a venture due to external conditions has nothing to do with the proposed framework, this case shows the importance of functional coupling and vindicates the idea of using it as a centerpiece of the proposed framework.

6.3 Adeel Khalid (individual investor), Pakistan: TNC

In the case of the private investor Adeel Khalid, he intended to invest 30,000 to 35,000 US$ in Albania but the IPI did not respond fast enough. Due to this poor TNC←→IPI coupling the proposed framework would predict a failure and indeed that was the result. This case is particularly interesting because the investor ended up investing in another location – Malaysia. This case shows the loose structural coupling between the 3 players as discussed in the framework because the TNC being structurally loosely tied to the GOVT and IPI (in this
case namely Albanian Govt. and Albinvest) was able to move and align with another GOVT and IPI. Adeel Khalid did not specify if he used an IPI in Malaysia but the GOVT was Malaysia. He claimed to have lost his investment in Malaysia but that could be due to bad business judgement, bad luck or any number of factors. It could be simply because he did not use an IPI in Malaysia and thus was not able to leverage their expertise in conducting business there.

6.4 SIMER Srl, Italy: TNC

SIMER initially wanted to establish their presence in Albania but postponed their decision. This postponement led to a weak functional coupling of SIMER with any IPI or GOVT and the predicted outcome would be failure. However, SIMER mentioned that the Italian Embassy in Albania is very active and they hope to pursue this in the future once again. This is a case where a company is moving from a failure state to the uncertain regime in the quadrant diagrams presented in the framework and this is because the TNC SIMER perceives the Italian Embassy as their IPI of choice and since both are of Italian origin they hold great hope in being able to work together on this. Also, since the Italian Embassy is a body of the Italian Govt. it is much easier for it to act as an IPI and establish a tight functional coupling with the Albanian GOVT. In this case there is plenty of hope and the representative seemed upbeat about it. Currently they have 2 old machines and are expecting 2 new machines in Italy. Their idea is that when the new machines arrive, the new ones will be used in Italy and the old ones will be moved to Albania. This seems like a good strategy to use equipment that does not function too well but is still useful by taking advantage of a lower cost environment and not bearing too great a risk – especially because Italy and Albania are so close. The proposed framework sees this case as currently in failure but if it uses the Italian embassy in Tirana as an IPI it can easily move from Quadrant 3 to Quadrant 1 as shown earlier in the proposed framework’s Quadrant diagrams.

6.5 Mansour Al-Malik Holding Company (MMHC), Saudi Arabia: TNC

MMHC did not specify its line of business but mentioned that they had got in touch with Albinvest but later decided not to pursue it further. Later, they mentioned that they do intend to go back to Albania. From the intention of MMHC, they are currently in a failure state according to the proposed framework because they do not have any functional coupling with either the IPI or the GOVT. However, it has been marked “uncertain” above because it does intend to get back in touch with Albinvest or some other IPI. When that happens, it will move from Quadrant 3 to Quadrant 2 or Quadrant 4, both of which will have a weak functional coupling. This is not to conclude that MMHC will not succeed but further predictions can only be made with more information being available.

6.6 SPRINT! Marketing Management and Consulting, Albania: IPI

SPRINT! has succeeded in helping some very large projects in the field of thermal power, hydroelectric power and energy. It has worked with companies from Denmark and Germany which can be very sophisticated. It has reported very tight functional coupling
in the dimensions of Market Assessment, Market Analysis and Supervision. It has reported a satisfactory functional coupling in Consulting but a very week functional coupling in Licensing. According to the proposed framework, SPRINT! should have failed in the dimension of Licensing but apparently it did not. The explanation for this can be that it is possible that if there are several dimensions across which the interaction is taking place (which in this case was surely so considering the size of the projects) then failure in a few dimensions would not lead to total failure of the project. This particular aspect is of interest but is not addressed by the proposed framework and could be an area of further research. Another explanation could be that some Govt. departments like Licensing are so notoriously slow that no one really has a reasonable satisfactory functional coupling with them and the reasons why some TNCs succeed and others don’t are not clear. This is precisely the kind of case that lends itself to corruption. So in the light of the proposed framework, if there is a failure predicted and yet the final outcome is a success then for that dimension something other than functional coupling has moved focus from Quadrant 3 to Quadrant 1. One explanation is “simple bribery” but there is no evidence available to us in this case.

6.7 Albanian Chamber of Commerce: IPI

The information provided did not mention anything related to the effectiveness of their interaction so it is not possible to apply the proposed framework.

6.8 Albinvest, Albania : GOVT

Albinvest surely must have had a lot of successes to its credit but from the data collected during this study the results have largely resulted in failure. The other findings are that Albinvest is playing a kind of hybrid role which is a mix of IPI and GOVT. It is clearly a GOVT as it is part of the Albanian Government but its role is that of an intermediary. It is due to this nature, it is not properly integrated with the rest of the Government which leads to investors coming in to Albinvest but then getting lost in the rest of the Government’s maze. Also, it is not allowed to function as a free wheeling private IPI. As it does not generate revenues from its services it is largely seen as a cost center and probably ignored. The cost of ignoring Albinvest can be huge to Albania unless all the large FDI projects are circumventing Albinvest and being directly handled by some other Govt. agency such as the Ministry of Economy, Trade and Energy (METE). If Albinvest is to function as a Govt. arm it should be the sole conduit of FDI business and also charged with monitoring every single project in terms of what parts of the Govt are actively working on it. If that sounds like a loud call for investment in technology, it is.

In light of the above, Albinvest is not able to have any effective functional coupling with potential investors except for the initial period and this, based on the proposed framework, clearly leads to Quadrant 3, the place of failure. Even if this sounds like a damning statement for Albinvest it must be added that this work has very little information on the projects worked on by Albinvest actively. The outcome could be clearly different with a different set of data but the purpose of this thesis is to apply the proposed framework to whatever data sets are available.
For the purpose of this research project, Albinvest has been extremely helpful and has found a place of honour with us.

6.9 Validity and Reliability

According to Ragin (1994) “

Testing

an idea is different from using an idea to help make sense of some pattern in a set of data or body of evidence that already has been collected. When an idea is tested, it is first used to construct an image that is based on the ideas themselves, not the evidence. The researcher constructs a theoretical image. Researchers use these theoretically based images to derive testable propositions (also called hypotheses) about evidence that has not yet been examined. Once examined, the evidence either supports or refutes the proposition”. In line with the above, the presented 3 Player Framework has been applied to some real life situations with real life constraints and has yielded results that are validated by their real life outcomes.

From a Validity standpoint the proposed framework has shown success with the data used thus far. From a Reliability standpoint the argument cannot be made so strongly because our data set was rather limited. Notwithstanding these limits, the results are encouraging and keep the way open to the use of the 3 Player Framework on larger data sets and different country backgrounds. In the end, the true test of reliability is time. If this framework succeeds in being used for further research and practice, its reliability will be truly tested.
7.0 CONCLUSION

Since the aim of this thesis was to investigate if it is possible to predict the outcome of the execution of an FDI initiative in Albania through the use of a mechanistic framework, and our results and analysis show that the outcomes observed and those predicted are in very large part in agreement, the goal of this research project has been successfully met.

Also, the mechanistic framework that has been developed and applied is one of general applicability to other countries and thus presents more opportunities for application.

The conclusion from this study is that the proposed 3 Player framework can be a useful instrument in analysing the workings of a company in pursuit of FDI and as a troubleshooting tool when things are not going right. The framework is rather simplistic but that is what lends it to easy use.

Based on the analysis of the few real FDI cases to which it has been applied in the previous analysis, several points come to the fore. There is a great scope for FDI in Albania and there are a lot of investors interested in the country but there remains to be done a lot of work by the Government and the IPI industry in general. Investors are easily discouraged due to lack of attention and with so many alternatives, it is not a surprise that this does happen.

Several recommendations can be made for each of the 3 players but to avoid repeating what is already known so well, only references will be provided. All recommendations are made in light of the proposed 3 Player framework.

7.1 Recommendations for GOVT:

- There seems to be an absolute lack of a clear roadmap that a foreign investor can use to navigate the maze of departments, agencies, ministries to fulfil the procedures and registrations required. Such a document either does not exist or is not duly publicised and made available to the interested investor. This single document would be the greatest contribution with immediate returns if developed and made available. The personnel at Albinvest are the most well equipped to pursue this effort.

- In developing the above mentioned roadmap Albinvest should take the opportunity at every step to foster and establish clear solid relations across the length and breadth of the Govt. of the Republic of Albania with detailed contact information of personnel and their roles in a manner that is readily accessible and available.

- Albinvest is considering becoming a one-stop agency where it can also include aftercare services and remain informed of all services it is conducting for foreign companies. This is not only a good step but it is a necessary step. Currently, Albinvest is like the main door which every foreign company knows how to enter but
once they are in they either get lost or get out. When companies get lost, Albinvest does not get to know because of its poor integration with other Government agencies.

- The Global Investment Promotion Benchmarking 2009: Summary Report puts Albinvest in the category of “Average IPI” on a scale that includes Good, Average, Weak and Very weak. Clearly there is room for improvement. In the current climate of competition in the region, there is much to loose for Albania, if Albinvest is not aggressive enough.

- Albinvest needs to be more systems oriented and can start with simple things like having a centralized database so that information is not fragmented across the organization. This clearly requires investment in technology and its upkeep.

- As the private sector gets better in IPI activites, Albinvest will face an increasing competition. It will be able to compete only if it can foster its relationship with the rest of the Government departments, agencies and ministries.

- Albinvest should have an Investor’s Bill of Rights to guarantee among the other principles that may be enshrined therein, that every investor will receive a response within 24 hours and Albinvest will strive to see that the reason for every leaving investor is clearly known and addressed appropriately.

- There is a great potential of inviting Small and Medium size enterprises from the US to Albania if only the procedures were less daunting. Albinvest should have active “Forward Investment Promotion Bases” in other countries like the US where a lot of the paper work can be done offshore. No investor wants to go halfway through a long drawn out process and then have to withdraw.

### 7.2 Recommendations for IPI:

- IPIs should rethink their strategies to maintain their relevance in the current FDI context including shifting focus in the short to medium term from outreach to offering more professional facilitation services to any new opportunities knocking on their doors, and offering aftercare services to existing business.

- IPIs should benchmark themselves against the Global Investment Promotion Benchmarking 2009: Summary Report issued by the World Bank Group Advisory Services. Every officer working in an IPI must have read this document thoroughly.

- IPIs must strive to work at the cutting edge of their field as outlined by Ortega and Griffin (2009) and foster a competition between public and private IPIs.

- The private IPI market should be developed to foster more competition and develop expertise.
7.3 Recommendations for TNC:

- Main Investment Sectors to invest in Albania are: Transportation including airlines, road transportation and shipping; Banking sector and financial services, Construction and Infrastructure development, Petroleum Industry; Cement and Bitumen Industry; Consulting, Arbitraging and intermediary services; Beverage, Insurance and Pensions sector; Tourism, Telecommunication and Information Services, Training and Education. These sectors may be some of the fields where FDI investors can invest in Albania.

- Law 7638, dated 19 Nov, 1992 on Commercial Companies defines and regulates the establishment and the activities of companies in Albania. There is no distinction between foreign companies and domestic ones in the law. Also the tax system does not discriminate against foreign companies. This is favorable for foreign investors as there is no domestic companies’ protection versus foreign companies.

- For many activities in Albania licensing is required. At the beginning of each activity the investor should ask if there is any license needed and how complicated is the procedure to obtain it. Procedures for domestic and foreign companies are the same.

- There is foreseen in the law special judicial protection related to the investment for investors. Parties that have disagreements may present claims to an arbitrage institution, and also before Albanian courts. However corruption is still a problem, but the government has taken specific measures to fight it. A national strategy and an action plan are approved to fight corruption. This will help to improve the image of Albania, and also offer a good environment for investments.

- Privatization is a process that continues in Albania. The government is committed to offer all public sectors that may be privatized and also it is committed to transparency during the bidding process.

- The last initiative of Albanian government is related to the protection in case of property problems. An investor that wants to come to Albania, is protected if there are problems with land and properties as all the expenses during the court procedures will be covered by the Albanian government.

- It is recommended that before investing in Albania a foreign company makes an assessment of the market and predictions about how the investment will fare. Specific consulting companies are offering services in this field, and they may use them to make contacts with government agencies in addition to independent efforts. The procedures are easier if they contact these agencies compared to the time and money spent otherwise.
• In light of the proposed framework, TNCs are urged to functionally couple strongly with their IPI and GOVT and to constantly strive to maintain that level of cooperation.

While some of the recommendations are based on what was learned during the course of this research, many of them are directly inspired by the proposed framework in how the 3 players can be pulled together to work towards a common goal.

Thus, this thesis has not only shown that it is possible to use the proposed mechanistic framework to predict the outcome of the execution of an FDI initiative in Albania but also that it can be used to guide the organizations involved in it.
8.0 DISCUSSION OF POSSIBLE IMPLICATIONS

If the proposed framework turns out to be reasonably easy to apply it can be developed with greater detail and improved accuracy and used as a tool for different purposes by each of the 3 players.

The recommended directions for future research are a glimpse of the possible implications of this work.
9.0 RECOMMENDED DIRECTIONS FOR FURTHER RESEARCH

The framework that is proposed in this thesis can be further developed and used in the following ways.

- To compare FDI efficiencies in different countries – within a region, across regions.

- As a toolbox to troubleshoot the FDI process in ailing countries.

- As this framework is generic in nature and can be applied to any country, it can be used as a great tool for comparative studies of FDI in different countries.

- If multiple investors in the same country use this framework independently, it would be very interesting to compare their results for both cases – within an industry, across industries.

- If the Govt of Albania uses this framework it may find itself constantly tweaking its “Systems” to improve things. A study of the Govt’s experience could be very interesting for further development of this framework.

- As the IPI market develops in Albania they can follow recommended best practices and in accordance with their role in the proposed framework strive to be “always fully coupled” with the GOVT and TNC and thus making themselves extremely competitive.
10.0 REFERENCES


**Websites:**


Doing Business in Albania, Available at: [http://www.doingbusiness.org/ExploreEconomies/?economyid=3](http://www.doingbusiness.org/ExploreEconomies/?economyid=3), [accessed 5/20/10].


NationsOnline, Map of Albania, Available at: http://www.nationsonline.org/maps/albania-map-855.jpg, [accessed 5.20.10].

APPENDICES
Appendix 1: Map of Albania

(From NationsOnline website)
## Appendix 2: Country facts for Albania

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<tr>
<th>DESCRIPTION</th>
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<td>Jul-09</td>
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<td></td>
<td>EUR/ALL: 129.77</td>
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<td>GDP Real Growth Rate</td>
<td>6%</td>
<td>2008</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>$10.62 Billion</td>
<td>2007</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$5,800</td>
<td>2007</td>
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<td>GDP (Composition by Sector)</td>
<td>Agriculture: 21.2%</td>
<td>2007</td>
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<tr>
<td></td>
<td>Industry: 20.5%</td>
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<tr>
<td></td>
<td>Service: 58.3%</td>
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<tr>
<td>Labour Force</td>
<td>336,000</td>
<td>2007</td>
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<tr>
<td>Labour Force by Occupation</td>
<td>Agriculture: 58%</td>
<td>2007</td>
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<td></td>
<td>Industry: 15%</td>
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<td></td>
<td>Services: 27%</td>
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<td>Unemployment Rate</td>
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<td>Population below Poverty Line</td>
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<td></td>
<td>Expenditures: $3.155 Billion</td>
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<td>Current Account Balance</td>
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<td>Goods: $1,117 Billion</td>
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<td>Services: $2,030 Billion</td>
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<td>Export Commodities</td>
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<td>Export Partners</td>
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<td></td>
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<td></td>
<td>Services: $2,057 Billion</td>
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<td>Imports Partners</td>
<td>Italy 45%, Greece 24%, Germany 8%, Hungary 2%, Slovenia 2%</td>
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(From Chamber of Commerce and Industry website)
Appendix 3: Euromoney Country Ratings

Country risk March 2008 overall results index table

(Partial table displayed – Albania highlighted)

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Appendix 4: Country Risk based on OECD Rankings

(Partial Sample of Rankings for illustration)

Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits
Valid As of: 02 April 2010

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<td>AND, Andorra</td>
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<tr>
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<td>ARM, Armenia</td>
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(From OECD website)
Appendix 6: Doing Business in Albania (Measuring business regulations)

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<th>Doing Business 2009 rank</th>
<th>Change in rank</th>
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</tr>
<tr>
<td>Starting a Business</td>
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<td>Dealing with Construction Permits</td>
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<td>Employing Workers</td>
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<td>Registering Property</td>
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<td>Getting Credit</td>
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<td>Protecting Investors</td>
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<td>Closing a Business</td>
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Note: Doing Business 2009 rankings have been recalculated to reflect changes to the methodology and the addition of two new countries.

(From Doing Business in Albania)

(in the DoingBusiness website)
Appendix 7: Interview Trans-National Company (TNC)

(The company that is investing in Albania)

Name of TNC: Date:

Contact Person:

Contact Email/Phone:

Interaction with IPI

1. Which IPIs help did you contract for? ______________________________
2. Did the IPI really help you in the FDI? (Yes/No)
3. How large was the investment ($)?
4. How long did it take from the time first approached to start of business?
5. What are the specific issues the IPI addressed for you and how do you rate your cooperation with the IPI on each of them (1 to 5 scale)?
   • (Ex. IPI helped you get an FDI license – 5)
   •
   •
   •
   •
   •
   •
   •
6. When faced with difficulty, was it the failure of the IPI or the TNC which caused it?
7. What were the problems you encountered in dealing with the IPI?
   •
   •
   •
8. What were the titles of the IPI people you interacted with?
   •
   •
9. What were the titles of the TNC people who interacted with the IPI?
   •
   •
10. Do you think the TNC would succeed without help from the IPI? Why?
    •
    •
    •
Interaction with GOVT

1. Which GOVT departments did you interact with and for what?
   •
   •
   •
   •
   •

2. What are the specific issues for which you dealt with the GOVT and how do you rate your cooperation with the GOVT on each of them (1 to 5 scale)?
   • (Ex. Helped them get an FDI license – 3)
   •
   •
   •
   •

3. When faced with difficulty, was it the failure of the TNC or the GOVT which caused it?
4. What were the problems you encountered in dealing with the GOVT?
   •
   •
   •
   •

5. What were the titles of the GOVT personnel you interacted with?
   •
   •

6. What were the titles of the TNC personnel who interacted with the GOVT?
   •
   •

7. What are the reasons for which you chose to invest in Albania?
   •
   •

8. If the procedures were too difficult would you give up on FDI in Albania?(Yes/No)

Scale of 1 to 5 is used:

1  -  Very weak
2  -  Weak
3  -  Satisfactory
4  -  Strong
5  -  Very strong

------------------------------------------------------------------------------------------------------------
Appendix 8: Interview Investment Promotion Intermediary (IPI)

Name of IPI:  
Date:  
Contact Person:  
Contact Email/Phone:  

Interaction with TNC  
1. Which TNC did you help in FDI? _____________________________  
2. Did the TNC succeed in FDI? (Yes/No)  
3. How large was the investment ($)?  
4. How long did it take from the time first approached to start of business?  
5. What are the specific issues you addressed for the TNC and how do you rate your cooperation with the TNC on each of them (1 to 5 scale)?  
   • (Ex. Helped them get an FDI license – 5)  
   •  
   •  
   •  
   •  
   •  
   •  
5 When faced with difficulty, was it the failure of the IPI or the TNC which caused it?  
6 What were the problems you encountered in dealing with the TNC?  
   •  
   •  
   •  
7 What were the titles of the TNC people you interacted with?  
   •  
   •  
8 What were the titles of the IPI people who interacted with the TNC?  
   •  
   •  
9 Do you think the TNC would succeed without your help? Why?  
   •  
   •  
   •  
   •
Interaction with GOVT

1. Which GOVT departments did you interact with and for what?

2. What are the specific issues for which you dealt with the GOVT and how do you rate your cooperation with the GOVT on each of them (1 to 5 scale)?
   - (Ex. Helped them get an FDI license – 3)

3. When faced with difficulty, was it the failure of the IPI or the GOVT which caused it?

4. What were the problems you encountered in dealing with the GOVT?

5. What were the titles of the GOVT personnel you interacted with?

6. What were the titles of the IPI people who interacted with the GOVT?

7. Do you think the GOVT could succeed in getting this FDI without your help? Why?

Scale of 1 to 5 is used:

1  -  Very weak
2  -  Weak
3  -  Satisfactory
4  -  Strong
5  -  Very strong
Appendix 9: Interview Government Departments/Agencies/Ministries (GOVT)

Name of GOVT Dept.: Date:
Contact Person:
Contact Email/Phone:

Interaction with TNC
1. Did you deal with TNC = ____________________________
2. Can you give me copies of any records related to this. (Request on file records)
3. What are the different GOVT departments a TNC has to deal with?
4. What are the specific issues for which you dealt with the TNC and how do you rate your cooperation with the TNC on each of them (1 to 5 scale)?
   • (Ex. Helped them get an FDI license – 3)
   •
   •
   •
   •
5. When faced with difficulty, was it the failure of the TNC or the GOVT which caused it?
6. What were the problems you encountered in dealing with the TNC?
   •
   •
   •
7. What needs to be done to make a GOVT – TNC interaction work smoothly?
   •
   •
   •
8. Do TNCs initiate bribery?
9. Can you give me a list of companies for which FDI initiative was started but failed.
   •
   •
   •
10. What are the reasons for a TNC to give up its initiative and quit investing in Albania?
    •
    •
Interaction with IPI

1. Did you deal with IPI = ____________________________________________

2. Can you give me copies of any records related to this. (Request on file records)

3. What are the different GOVT departments an IPI has to deal with?

4. What are the specific issues for which you dealt with the IPI and how do you rate your cooperation with the IPI on each of them (1 to 5 scale)?
   • (Ex. Helped them get an FDI license – 3)
   •
   •

5. When faced with difficulty, was it the failure of the IPI or the GOVT which caused it?

6. What were the problems you encountered in dealing with the IPI?
   •
   •
   •

7. What needs to be done to make a GOVT – IPI interaction work smoothly?
   •
   •
   •

8. Is it easier to deal with TNC directly or with IPIs who are representing a TNC? Why?
   •
   •
   •

9. Do IPIs initiate bribery?

10. Could FDI in Albania be successful without the help of an IPI?

Scale of 1 to 5 is used:

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<tbody>
<tr>
<td>1</td>
<td></td>
<td>Very weak</td>
</tr>
<tr>
<td>2</td>
<td></td>
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<tr>
<td>3</td>
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<td>4</td>
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<tr>
<td>5</td>
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