Foreign Direct Investment to low-cost countries

-A theoretical and practical study

Kristianstad University
The Department of Business Studies

FEC 685 Bachelor Dissertation
International Business Program
December 2005

Authors: Karl Burck
Gustav Jönsson
Fatmire Krasniqi

Tutors: Carl-Michael Unger
Viveca Fjelkner
Abstract

Many Swedish manufacturing companies expand their production to low cost countries through different types of foreign direct investments in an attempt to reduce costs. Mexico is one of these low cost countries and is becoming a more and more feasible alternative to Swedish companies. The reasons for this lie in different country specific factors such as closeness to the US, the Maquiladora industry and of course the low labour costs.

The purpose of our dissertation has been to find correspondence between a number of well-known internationalisation theories and some internationalised Swedish companies.

This dissertation presents different Mexico specific factors to consider before an expansion such as education level, the Mexican business culture and infrastructure.

Briefly, our conclusions are that we could not find any correlation between the internationalisation theories and the interviewed companies. We also found the Mexican market attractive for Swedish investors. However, there are a number of issues that have to be regarded in order to be successful in Mexico.

Keywords: foreign direct investment, low cost countries, Swedish manufacturing companies, internationalisation theories, Mexican business environment
Acknowledgements

Kristianstad, November 2005

This dissertation concludes our studies at Kristianstad University. During the work with this paper we got insight in which questions companies face when they want to expand their activities abroad. We also got an exceptional chance to use our knowledge gained at Kristianstad University to gain further understanding of the nature of internationalisation. Thanks to the willingness shown by Finnveden AB, we got the opportunity to get in contact with the business world.

We address a special thanks to our tutors, Carl-Michael Unger and Viveca Fjelkner that helped us through this ordeal that writing a dissertation means. We would like to express our sincere gratitude to Mr Boork, Mr Andersson, Mr Löwendahl and Mr Dahlstrand at Finnveden AB that sponsored our visit to Skövde University.

We also want to thank the interviewees that participated in our inquiry and made this paper possible. A special thank is addressed to Ann-Marie Svensson who invited us to the Mexican-Sweden conference on trade, development and environment held at Skövde University.

________________       _________________   _________________
Karl Burck           Gustav Jönsson        Fatmire Krasniqi
# Table of Contents

Chapter 1 ........................................................................................................................................... 7
  Introduction ........................................................................................................................................ 7
    1.1 Background ................................................................................................................................. 7
    1.2 Problem .................................................................................................................................... 8
    1.3 Purpose ..................................................................................................................................... 9
    1.4 Limitation ................................................................................................................................. 9
    1.5 Research Questions ................................................................................................................. 10
    1.6 Outline .................................................................................................................................... 10
  Chapter 2 ........................................................................................................................................ 13
  Method ............................................................................................................................................. 13
    2.1 Methodology ............................................................................................................................ 13
    2.2 Data Collection ....................................................................................................................... 14
      2.2.1 Secondary Data .................................................................................................................. 14
      2.2.2 Primary Data ...................................................................................................................... 15
    2.3 Research Philosophy .............................................................................................................. 16
    2.4 Research approach .................................................................................................................. 16
  Chapter 3 ........................................................................................................................................ 18
  Theoretical Framework ................................................................................................................... 18
    3.1 Internationalisation .................................................................................................................. 18
      3.1.1 History of internationalisation ............................................................................................ 18
      3.1.2 Foreign Direct Investment .................................................................................................. 20
        3.1.2.1 Mergers and Acquisitions ............................................................................................ 24
        3.1.2.2 Greenfield Investment .................................................................................................. 26
      3.2 Theories .................................................................................................................................. 28
        3.2.1 The Uppsala Model ........................................................................................................... 28
          3.2.1.1 The Stage Model ......................................................................................................... 28
          3.2.1.2 Mergers and Acquisitions ........................................................................................... 31
            3.2.2.1 The early starter .......................................................................................................... 33
            3.2.2.2 The lonely international .............................................................................................. 34
            3.2.2.3 The late starter ............................................................................................................ 34
            3.2.2.4 The international among others ..................................................................................... 35
        3.2.3 Transaction Cost Analysis Model ...................................................................................... 35
          3.2.3.1 Transaction costs .......................................................................................................... 36
          3.2.3.2 TCA Control Instruments ............................................................................................. 36
            3.4 Hypotheses ......................................................................................................................... 37
              3.4.1 Introduction ................................................................................................................... 37
              3.4.2 The Uppsala Internationalisation model ......................................................................... 37
              3.4.3 The Network model .................................................................................................... 38
              3.4.4 Transaction Cost Analysis theory ................................................................................. 39
  Chapter 4 ........................................................................................................................................ 40
  Empirical Method ............................................................................................................................ 40
    4.1 Research Strategy ...................................................................................................................... 40
    4.2 Sample ..................................................................................................................................... 43
    4.3 Limitation .................................................................................................................................. 44
Appendices

Appendix 1a  Original interview questions
Appendix 1b  Interview questions in English
Appendix 2a  Follow-up questions in Swedish
Appendix 2b  Follow-up questions in English

List of figures

Figure 1.1  The structure of the paper…………………..……….  12
Figure 3.1  The Stage Model……………………………….  29
Figure 3.2  Four cases of internationalisation of a firm……  33
Figure 7.1  FDI in Mexico (1994-2003)…… ……………… 65
Figure 7.2  Maquiladora industry’s manufacturing field…..78
Figure 7.3  Modes of transportation, percent of total………  81
Chapter 1

Introduction

The first chapter presents the background of the dissertation. The research problems and the purpose are also considered. Further, the limitations and research question are specified. Finally, the outline is introduced.

1.1 Background

The main idea for this dissertation was developed during the final part of our studies at Kristianstad University. We thought the subject of foreign direct investments to low cost counties would probably give us deeper knowledge in companies’ decision process regarding their internationalisation on the global market. Further, we were also curious in which country specific factors are most relevant. Companies move production to low-cost countries because of the low wages, this may be stating the obvious. Therefore, we intend to try finding all important aspects from a manufacturing company’s point of view, about establishing a subsidiary in a low-cost country.

Even though internationalisation as such would be a very interesting topic, it is far too wide for a dissertation in regard to financial- and time limitations. We began with browsing databases and previous articles and dissertations to find a way to narrow down our research. We have a very satisfying contact with a manufacturing company which is a subcontractor to the automotive industry. This company plans to establish a manufacturing plant in Mexico. Thus, we found it interesting and a challenge to create a dissertation that is a combination of a market analysis and an academic paper. We wanted to apply
theoretical models and theories in a “real-world” situation. At the first meeting with our principal company we met the Chief Executive Officer (CEO), to discuss the suggestions for a topic. Together with the CEO and the Chief Financial Officer (CFO), at the business area Fasteners we concluded that it would be interesting to investigate the advantages and disadvantages for a Swedish manufacturing company to establish a subsidiary in Mexico. We thought this meeting formed a basic idea that was in line with our prior intentions.

1.2 Problem

We hear every day in the media that companies move production to low cost countries. Which are the factors that make senior management choose one low cost country before another? What triggers their conclusive decision? For example, the wages in China are practically the lowest on the global labour market, but despite this, companies often move production to Poland, the USA or Latin America. Consequently, it is probably not an overstatement to say that low wages are far from the only issue to consider when internationalising a company. Is it possible to explain internationalisation in terms of a company’s need to gain lower costs and geographical presence or pressure from customers?

The problem is that although there are different theories explaining the internationalisation process of companies, these theories try to provide an overall picture. Is it possible to draw such general conclusions about such a complex matter? Is the low wages in a country of bigger importance than other country specific factors? Do the companies’ customers and suppliers have influence in the choice of foreign markets? These are all questions that somehow symbolises our problem. If the internationalisation process of companies were a simple matter there would probably be one theory only explaining the issue. Consequently, an empirical study testing the correlation of the theories with the reality of companies is unavoidable. Further, why
should a Swedish company move business to Mexico? What incentives attract companies to Mexico? Is it only the low wages or maybe the closeness to the US market that are crucial facts? These are questions closely related to the market analysis of our paper.

1.3 Purpose

The purpose of our dissertation is to find correlation between a number of well-known internationalisation theories and some Swedish companies that are internationalised. We want to examine if the general impression that these theories gives are a fair description of how internationalisation of companies works. Furthermore, we intend to examine if one of the theories is more coherent with the researched companies’ internationalisation process than the others. The purpose of this dissertation also includes providing a market analysis of the Mexican market to our principal company. Our intentions with the market analysis is to, despite the financial and time limitations, make a thorough investigation of the Mexican business environment.

1.4 Limitation

This dissertation is limited in regard of time and financial resources. However, we got some financial support from our principal company. This support made it possible for us to participate in a conference on Mexican-Sweden trade in Skövde. When we study the correlation between internalisation theories and companies, we limited us to research only Swedish manufacturing companies. These limitations were also due to time and financial resources.
1.5 Research Questions

This dissertation was based on following Research Questions:

- Does the stage model, which is based on the Uppsala theories, explain the internationalisation process of Swedish manufacturing companies?
- How are external and internal production networks influencing a company’s internationalisation process?
- In what way does the element of information, in the Transaction Cost Analysis model (TCA), affect companies’ internationalisation behaviour?
- Why should Swedish companies move production to Mexico?

1.6 Outline

The dissertation has the following outline.

Chapter 2: Method
The methodology, data collection, research philosophy and research approach of each part is presented.

Chapter 3: Theoretical framework
This chapter start with a brief presentation of the history of internationalisation. We continue with giving an overview of FDI and its different appearances. After that, three theories are presented: the Uppsala model, the Network model and the Transaction Cost Analysis model (TCA model). Finally, we present six hypotheses that were developed from these theories.

Chapter 4: Empirical method.
In this chapter the research strategy, sample, limitation, interviews and response rate are discussed and presented. Also in this chapter, the two parts
of the dissertation is discussed separately. Finally, validity, reliability and generalisability are described.

Chapter 5: Empiricism
In this chapter a summary of the answers from the interviews concerning the theoretical part are presented. The answers given by each company are also categorised by relevance to the Uppsala model, the Network model and the TCA model.

Chapter 6: Analysis
The hypotheses will be presented and analysed and are either rejected or accepted. By doing this we are able to evaluate the relevance of the theories, and to answer the three first research questions. The companies’ interview answers works as a base when examining our hypotheses. Finally, a summary of the chapter is presented.

Chapter 7: Empiricism and analysis –the Mexican market
In this chapter we start by presenting a brief review of FDI activities in Mexico. Eight country specific factors are analysed in this chapter. This analysis is based on answers given by six interviewees and data collected from literature and the Mexican-Sweden conference on trade, development and environment.

Chapter 8: Conclusions
In this part we present our conclusions. The dissertation’s two parts are summarised. Methodological criticism, future research and practical implications are also presented.
The structure of the paper

Figure 1.1: Our model

Explanation of the model
The two sides of the tree represent the division of this dissertation. The divided parts are discussed together in chapter 1, 2, 4 and 8. Empiricism and analysis are discussed separately in each division. Finally, the title is a further connection and the dissertation’s foundation is primary- and secondary data.
Chapter 2
Method

The research methods used, when investigating why Swedish companies move to Mexico, are presented in the second chapter. Also the data collection is analysed, comprising both secondary data and primary data. Moreover, research philosophy, approach and strategy are described.

2.1 Methodology

Our aim with this dissertation was to make an extensive research about the Mexican business environment. As we explained in chapter 1 the choice of focusing on Mexico was a result of our contacts with a company planning an establishment in Mexico. To meet the requirements of an academic paper we needed to come up with an idea how to integrate these requirements to our paper. Since we had earlier intentions to write about internationalisation as such, we decided to write about this as well. After thorough consideration we decided to divide our paper into two separate parts. This conclusion was of big importance in order to create a clear working-path for us to follow. The parts are related to each other, but they are still too different from each other in order to make integration. The two parts are: a theoretical part where we test theories with reality and a Market Analysis where we make a study of the Mexican business environment. Our theoretical framework contains internationalisation theories and models only, no facts about the Mexican business environment are included here. All significant facts about Mexico are presented in chapter 7 since they are regarded as analysis tools only, not as models and theories.
We used a typical deductive approach in the theoretical part where we tested already existing theories by creating hypotheses and execution of an empirical inquiry. The Market Analysis has more characteristic of an inductive approach where we started with gathering as much information as possible about the Mexican business environment in order to draw conclusions and make recommendations at a later stage feasible. (Saunders et al., 2003) Initially we intended to also use Michael E. Porter’s Five Forces in the market analysis but due to time limitations we had to disband this approach. We came to this understanding towards the end of our work. But then we had already asked the questions connected with Five Forces to the interviewed companies. Thus, these questions are included and presented in the interview questions in Appendix 1a and 1b.

### 2.2 Data Collection

We have chosen to base our research on a combination of interviews and secondary data. This method will provide us with qualitative data that will help us explain our research. The identity of our research population will be managers such as CFO’s, CEO’s, the Swedish Trade Council, the Ministry of Industry, Employment and Communication, middle-managers in Swedish manufacturing companies and the responsible personnel in the “Centrum för Mexikostudier” in University of Skövde. This population has relevant information about our topic and provides us with other points of view and helps us remain critical in our research.

#### 2.2.1 Secondary Data

We started off by conducting a literature review, to gain a better understanding of Mexico, and different aspects concerning foreigners entering the Mexican market and to facilitate the process of developing our research questions. From our principal company, we got financial reports and a couple of issues of the internal company magazine. This magazine contains mainly
internal news and interesting articles concerning the employees. Relevant internet sites were used. Information about existing internationalisation theories were also collected and analysed, to help us determine, if these theories correlate with the reality.

2.2.2 Primary Data

The total number of interviews that we planned to carry out was 10. The interview technique used was telephone interviews. Initially we contacted 29 companies to create contact persons to whom we could send a questionnaire. We got the information about these companies, from the Swedish trade council website. But because of insufficient interest among the contacted companies to participate in a survey, we decided to make in-depth interviews instead. Finally five companies were interviewed concerning the theoretical part of this paper.

The primary data collected to the market analysis were from five interviewees with considerable knowledge about the Mexican market. These interviewees were selected by us and all of them wanted to participate. Three of these were native Mexicans and two were native Swedish. The three Mexicans were interviewed at the Mexican-Sweden conference on trade, development and environment held at Skövde University.

Finally, we talked to Tommy Andersson, the Business Area Manager of Fastners of Finnveden and Dick Löwendahl, CFO at the Business Area Fastners, to gain more information about their intended expansion to Mexico. Mr Andersson was also asked about his prior experiences concerning internationalisation to Mexico. We talked to Mr Andersson and Mr Löwendahl in order to better understand Finnveden’s situation and what information they already had about the Mexican market.
2.3 Research Philosophy

There are three ways of explaining the development of knowledge: positivism, realism and interpretivism. A positivistic philosophy is when the researcher is an objective viewer and does not affect or is affected by the research. A realistic view is based on the belief that a reality exists that is independent of human thoughts and beliefs. Interpretivism means that business operates under a complex environment so it is difficult to generalise. (Saunders et al., 2003, p 84)

When one decide on which philosophy to follow, one can mix different philosophies to gain a further understanding, but to simplify our research we chose one viewpoint, the interpretivistic. It may be difficult for us to generalise the outcome so that it can be useful for other companies, so the main objective, as a researcher is to understand the motives of the participants we study. Positivism and realism are not in line with our research questions because we have no intention to create a law-like generalisation neither to understand the effect of people’s perception through social competence. (Saunders et al., 2003, 83pp)

2.4 Research approach

The methodology when working with this dissertation was to some extent required to take different shapes depending on the structure of the study. The deductive approach is to logically derive clauses from common laws or axiom. In other words, it is when you start with an existing theory and develop hypotheses that you test with collected data. This test will then confirm or falsify the initial theory. An inductive approach works the other way, moving from specific observations and data to broader generalisations and theories. Inductive reasoning is more open-ended and exploratory and there is less concern to generalise. Deductive reasoning is narrower and is
concerned with testing or confirming hypotheses. Further, it is important with strict definition of the measured variables when using a deductive approach.

We started with gathering data about the business conditions in Mexico through primary and secondary sources. Parallel with the collection of data about Mexico we started to interview companies for information to our theoretical part. As our work developed we created tentative hypotheses to explore and gain further understanding about our subject.

Characteristics for a quantitative research approach is that you are able to present the findings of the data collection in terms of proportion, trends over time, highest and lowest value and median value. This approach is more suited if the researchers are going to conduct a questionnaire where the answers can be arranged numerically. If the research method is mainly focused on interviews, then you are more likely using a qualitative approach. This approach is based on meanings that are expressed through words. The analysis of qualitative data is conducted through the use of conceptualisation (Saunders et al., 2003, pp 378). We used a qualitative research approach.
Chapter 3

Theoretical Framework

This chapter starts with a brief presentation of the history of internationalisation. We continue with giving an overview of FDI and its different appearances. After that, three theories are presented: the Uppsala model, the Network model and the Transaction Cost Analysis model (TCA model). Finally, we present six hypotheses that were developed from these theories.

3.1 Internationalisation

3.1.1 History of internationalisation

The father of modern economy, Adam Smith, once coined the expression “the invisible hand” in his most famous work, *The Wealth of Nations*. It was published in the year 1776 and brought up specialisation as a way to increase efficiency and took up the struggle against the old system, which Adam Smith called mercantilism. He was a neoclassical economist that developed the theory of absolute advantages and was the first to argue that unlimited free trade is advantageous to a country. Adam Smith said that the invisible hand of the market mechanisms, rather than government policies, should decide what a country imports and exports. The absolute advantage theory stated that a country has absolute advantage in production of a product when it is more efficient than any other country producing it. Smith’s argumentation was that, this would lead to specialisation and trade and hopefully to better resource allocation. From theory of absolute advantages, two other theories evolved
and those are David Ricardo’s Comparative Advantages and the Hecksher-Ohlin theory, developed by Eli Hecksher and Bertil Ohlin. (Hill, 2005)

David Ricardo’s (1817) Comparative Advantage theory, takes Adam Smith’s theory one step further, and adds the possibility that a country can have absolute advantage in the production of all goods. Smith believed that such a country could never benefit from international trade, but Ricardo proved him wrong. In the comparative advantage theory, he states that a country should only produce the goods that it produces most efficiently and import the goods that it produces less efficiently from other countries. This might lead to that companies are buying goods from an exporter even if it produces the goods more efficiently itself (Ricardo, 1817 cited by Hill, 2005).

Eli Hecksher (1919) and Bertil Ohlin (1933) differentiate themselves from David Ricardo, by saying that it is not the production efficiency, but rather the factor endowments that determine international trade. Their supposition, also known as, the Hecksher-Ohlin theory introduces the factor endowments i.e. land, labour and capital and says that the more abundant a factor, the lower it costs and the more scarce a factor, the higher it costs. Hecksher and Ohlin came to the conclusion that countries will export the goods that made use of factors that were locally abundant and vice versa. They also point out that relative and not absolute endowments are important. (Hill, 2005)

Wassily Leontief (1953) raised criticism against this theory by conducting a range of empirical tests with the assumption that a financially strong country like the US would export capital-intensive goods and import labour-intensive goods. The results, however, showed that the US export was less capital-intensive than the import, and this variance from the Hecksher-Ohlin theory is called the Leontief paradox. (Hecksher, 1919; Ohlin, 1933; Leontief, 1953 cited by Hill, 2005)
Raymond Vernon introduced the product life-cycle theory in the mid-1960s and claimed that international trade was determined by the production site of new products. He says that eventually a country’s export becomes its import, due to a product life-cycle. This theory was more accurate between 1945 and 1975 due to the fact that there was almost no globalisation and that for the most part the US developed and produced and exported all new goods in the world. (Hill, 2005)

A more recent theory is the new trade theory that surfaced in the 1970s. The economists behind this premise argue that countries could increase their variety of goods and lower their costs of goods, by specialising production on a narrower range of goods. If every country does this simultaneously and at the same time is involved in trade with other products, this would lead to higher profit. This theory says that international trade works without any advantages in factor endowments and technology. (Hill, 2005)

From Adam Smith’s absolute advantage theory to the new trade theory, the internationalisation theories have been revised and refined and maybe in some cases even altered, but the researchers all believed the same thing, the internationalisation will bring prosperity to us all through specialisation, lower production costs and lower factor costs.

3.1.2 Foreign Direct Investment

Foreign direct investment (FDI) is the movement of capital across national borders in a manner that grants the investor control over the acquired asset (Wikipedia 2005). The management in the home country has a direct control over the established FDI; usually they have the right to determine the board of directors and the management. Most of the times the foreign investment is registered as a separate company for legal and tax reasons, and the parent company own 100 % of its shares. (Tung, 1999)
There are horizontal FDI and vertical FDI. Horizontal investments are when the company that wants to invest enters foreign countries to produce the same product or products that it produces at home. Vertical investment is when the investing company establishes operations in a foreign country to produce goods intended for use as inputs. The technology industries such as pharmaceuticals, industrial chemicals, electronics and transportation equipment, are the biggest source of FDI. This phenomenon started developing in the 1960’s (Tung, 1999, pp 374) and has expanded since then.

Unlike trade theories that stretch back at least to Adam Smith, the FDI theory is a new area for economists and management researchers. There are economic scholars that have attempted to explain this phenomenon by figuring out and using different theories. Theories on foreign direct investment are theories which seek to explain the existence of FDI, such as operations of an industrial activity in an unfamiliar environment, with different laws, culture and market preferences. Other interesting views are additional costs as a result of both physical reasons such as travel and communications, and psychic distance. Psychical distances are risks of misunderstandings and delays. When information is costless and there are no trade barriers or competition then international trade is the only possible way of overcoming factor movements (Hallén & Wiedersheim-Paul, 1984; Kindleberger, 1969, cited in Larsson, 1985).

Vernon (1966) argues that FDI is a corporation’s response to a decreased technological advantage and a threatened position on the home market as a result of the aging of its product’s technological base. He also claims that when the technology matures and price becomes more important in the competition then production will be established in countries with similar market preferences to avoid transportation costs and to use other factor costs (Vernon, 1966 cited by Larsson 1985). Another study was performed by Knickerbocker (1973), and his study is originally based on the timing of FDI. He claims that companies should match the competitors’ behaviour all the
Studies primarily concerning the consequences of FDI are studied by Hufbauer and Adler (1968) who defined three extreme possibilities to see the consequences of an investment. The first implies that the investment is based on a firm-specific advantage and means that the host country receives the investment at the expense of the home country. The second extreme indicates that the alternative to the FDI is not investment in the home country, but rather a replacement of the investor instead, as the FDI is based on location specific advantages. The third clarifies the case where a combination of a firm-specific advantage is necessary for any investment to occur at all (Hufbauer and Adler 1968 cited by Larsson 1985).

When a business accepts FDI it becomes a multinational enterprise (MNE). MNEs are firms in oligopolistic industry that produces and sells mostly different products in two or more countries. They usually move abroad because they have a special advantage they want to exploit and because there are location benefits of moving abroad. There are three main pillars to interpret MNE. The first, it possesses a unique asset to receive advantages, which either by producing at a lower cost or by selling at a higher price, therefore enabling it to receive economic profit. The second is that the company cannot sell its unique assets because the market is not perfect. The third is, if there are no location advantages the company would simply export from its home country instead of moving abroad. (Dunning, 1970 cited by Brown & Hogendorn, 1994) When the MNE locates abroad it can obtain much better information about changes in the taste of the consumer and can also respond more quickly to these changes. Because the closeness to the market the company can avoid transportation costs involved in exporting from a long distance and can enjoy the same labour costs as the competitors in that foreign market. Also trade barriers, becomes an additional and often a very important reason for companies to locate in a foreign country.

FDI is a very important tool for countries interested in attracting foreign investors. To attract these investors governments establish state agencies to
help and simplify all the necessary work for these companies. Some countries offer financial incentives such as tax concessions, cash grants and specific subsidies. Other countries have chosen to focus on improving their domestic infrastructure and local skills but also to improve the general business climate by decreasing administrative barriers and bureaucracy. There are also other factors and policies that influence the location decision in the market. The main issues discussed about the location are the rule of law, corruption, legal and regulatory stability and market size. The technological change and comparative advantage will most likely attract internalisation. Where the market is in a dynamic state, there is a political stability and low country risk (Swedenborg, 1979; cited by Buckley & Casson, 1992 pp 60).

Estimations after World War II, MNE activities in the developed countries were the source of more than 95% of FDI flows and also the recipient of more than 80% of such flows. Developing countries with location advantages find several MNEs competing to locate there and can negotiate more favourable terms for inward foreign FDI. Most of the FDI that goes to developing countries is focused on ten countries in Asia and Latin America, primarily China, Malaysia, Hong Kong, Singapore, Brazil and Mexico. These countries have either large internal markets or have developed a sophisticated infrastructure. These fast-growing industrialising economies are increasingly the home of FDI that flows to other developing countries (Balaam & Veseth, 2001, p 350).

While some see countries lowering standards to attract FDI in a “race to the bottom,” others praise FDI for raising standards and welfare in recipient countries (World Bank 2005). Information and communication technologies, together with improved logistics, allow for production to be close to markets while taking advantage of the specific characteristic of individual production locations. There is specific criticism towards MNEs’ impact on the developing countries. Critics claim that MNEs exploit workers by paying them low wages and not providing them with necessary benefits and letting
them work in a dangerous working environment. Some MNEs have been accused of transferring environmentally dangerous production processes to developing countries to escape their home regulations. But there are also positive reactions from developing countries that welcome FDI and the MNEs. Nations like Singapore, Taiwan, Mexico and Brazil are proponents for FDI (Balaam & Veseth, 2001, pp 356).

There are two types of FDI, Mergers and Acquisitions and Greenfield Investment. The choice between those two depends on the costs and the benefits that one would like to receive.

3.1.2.1 Mergers and Acquisitions

Mergers and Acquisitions arise when local firms transfer existing assets to the foreign firm. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company; then the local company becomes an affiliate of the foreign company. (Wikipedia 2005) The proportion of acquisitions of total FDI has been steadily rising since World War II (Larsson, 1984, p 26). Acquisitions are the more common form of FDI in developed countries, partly because such countries have a lot of companies available for purchase (Dicken, 1998 cited by Balaam & Veseth, 2001).

Acquisitions require complex negotiations with multiple governmental authorities as well as with management and work councils. After the acquiring the investor has to take responsibility for the transformation of the company. It may have to take in consideration changes such as upgrading the resources and other organisational and regulations. Investors prepared to commit company restructure and technological upgrading believe that acquisitions are attractive to access valuable human capital, informal networks and governmental agencies in local firms especially their
technological skills. Local brand names and distribution networks are also valuable assets that may be of use especially in some consumer goods industries (Rugman & Brewer, 2001, p 734).

The world today is constantly and rapidly changing, mergers and acquisitions are a way to get quick results because they are fast to execute. In many cases, acquisition is a way for a company to get ahead of its competitors, especially in markets where globalisation is rapid. Acquiring a foreign firm means that the assets of that firm, such as brand loyalty, customer relationships, trademarks or patents and distribution systems are available. It may be easier and sometimes less risky for a company to obtain those strategic assets than to build them from the ground. Cultural differences are especially important to look at when acquiring a company because of the difficulties of integrating an already existing foreign management (Buckley & Ghauri, 1999, p 363). By transferring capital, technology or management skills, firms are making acquisitions, in belief that it will increase efficiency and rapidly build its presence in the targeted foreign market (Hill, 2005, pp 497).

Within-industries acquisitions are to a great extent caused by competition. Firms acquire other firms in the same industry in order to manage competitive uncertainty. Internationalisation via acquisition of other firms abroad may be expected to reflect the effort to reduce the uncertainty from competition and resource exchange with other firms. Acquisition occurs mostly within the network whereas the acquired firm belongs. A firm that has a high export rate but produces in its home country has neither the same need, nor opportunity to acquire foreign firms. But acquisition as a strategy is also dependent on the resource availability. Research and development may also influence the acquisition behaviour in several ways (Gort 1962; Wolf 1977; Kay 1982 cited by Forsgren 1984).
Many acquisitions fail for many reasons. Many times the acquiring firm may overpay for the acquired firm; the price of the firm will tend to rise if there is more than one firm bidding. In addition managers may often be optimistic about the value that may be created via an acquirement and therefore might be willing to pay a higher price than the market price. The top managers sometimes overestimate their ability to create value, maybe because they exaggerate their own sense of capability. Warner, Templeman and Horn (1995) claim they have found that acquisitions are not producing those results, which was expected and this may ruin shareholders value. A study of postacquisition performance of acquired companies presented by Ravenscraft & Scherer (1987) found that profits and market shares declined. They also found that the acquired companies had huge difficulties cooperating and later on they were sold by the acquiring firm (cited by Hill 2005).

3.1.2.2 Greenfield Investment

Greenfield investment occurs, when a company is establishing a completely new operation in another country. Greenfield investment is the main mode of investing in developing countries. MNEs that choose to establish a Greenfield investment tend to be successful companies which posses a variety of competitive advantages and they bring many important values into host countries. In this way the company transfers technology, products, finance capital and management techniques to countries that lack these. This transfer of resources into the host country would lead to creating jobs and raising the skill level of the workforce as it learns to use the modern technology that the company transferred. This is an addition to the production capacity of the country invested in, because without the Greenfield investment that factory and its employee’s jobs would not have existed. There is also a capital inflow to the country’s economy when a company makes a Greenfield investment.

A Greenfield investment can reduce a country’s import by substituting imported products but this may also lead to an increase in export (Balaam & Veseth, 2001, pp 346), given that the company sells in the domestic country.
Some MNEs that choose the Greenfield investment for their subsidiaries in developing countries, serve there primarily as an export platform, as they produce the goods almost exclusively for sale in other countries (Balaam & Veseth, 2001, p 354).

An advantage of a Greenfield investment is that it creates the possibility for a company to establish a subsidiary of its own choice in a foreign country. This allows it to implement its corporate strategy without having to include the tradition of another firm (Rugman & Brewer, 2001, pp 733). In the long run this creates value, because it is much easier to build an organisation culture from scratch than it is to change the existing culture of an acquired unit (Hill, 2005, pp 499). A Greenfield investment does not have to deal with the costs of integration and conflict over sharing proprietary assets or imitate the management style of the investing firm. As any other form of establishment, there are risks with a Greenfield investment; it takes a lot of time to establish and then there is the uncertainty with future revenue and profit prospects. However, if the firm has already been successful in other foreign markets and understands what it takes to do business in other countries, these risks may not be that great (Hill, 2005, pp 500).

Doubts at the micro level about these investments have been raised, that the benefits of the transferred countries especially the poorer developing countries do not take part of them. Research and development capacity stays at the home country in the parent company and very little is carried out to the developing countries. At the same time the locals receive little training and experience developing new products and processes so when the MNE leaves a little benefit remains in the country. The complaint at this level is also about the scarce development of connections with the local firms. These examples are especially for those companies that produce for export in low labour-cost locations, because these are likely to be there in a short period of time. (Balaam & Veseth, 2001, pp 354)
3.2 Theories

3.2.1 The Uppsala Model

The Uppsala internationalisation model was developed in the 1970s, by a couple of Swedish researchers (Johanson & Weidersheim-Paul, 1975; Johanson & Vahlne, 1977). Their focus was the internationalisation of Swedish manufacturing companies, and they developed a model of the firm’s choice of market and form of entry when going abroad. (Hollensen, 1998)

During their observation of the firms, they noticed some patterns in the internationalisation process. They distinguished two determinants. Firstly, they detected that the Swedish companies, most often, entered foreign markets within a close range to the home country and only slowly moved to far away markets. Secondly, they also noticed a trend in the behaviour of the Swedish firms, which showed that they more often started their internationalisation process through exports and established wholly owned subsidiaries years later. (Hollensen, 1998)

3.2.1.1 The Stage Model

Johanson and Wiedersheim-Paul (1975) developed the stage model to explain the Uppsala model, by distinguishing between four different modes of entering a foreign market.

1. No regular export activities (sporadic export).
2. Export via independent representatives (export modes).
3. Establishment of a foreign sales subsidiary.
4. Foreign production/manufacturing units.
The Stage Model

![Stage Model Diagram](image)

Figure 3.1: The Stage Model cited by Hollensen, 1998, 2001, adapted from Forsgren and Johanson, 1975, p. 16.

Explanation of the stage model

The stage model is divided into one horizontal line representing *mode of operation*, one vertical line representing *markets* and one diagonal line representing *internationalisation*. Mode of operation is further divided into: *no regular export*, *independent representatives*, *foreign sales subsidiary* and *foreign production and sales subsidiary*, which characterise market commitment. Countries are in the stage model defined as markets and are divided into Market A, Market B etc. representing the geographic diversification. Hollensen (2001) proclaimed that the stage model implies that additional market commitment as a rule will be made in small incremental steps, both in terms of market commitment and geographic distance.

There are, however, three exceptions to this model:

- Firms with extensive resources experience small consequences of their commitments and can take larger internationalisation steps.
- During stable and homogeneous market conditions, knowledge can be gained through other ways than experience.
Firms that have considerable experience from markets with similar conditions can generalise this experience to any specific market. (Hollensen, 1998, 2001)

The concept of market commitment is assumed to contain two factors, the amount of resources committed and the degree of commitment. The amount of resources is defined as the size of investment in the market e.g. marketing, organisation, and personnel. The degree of commitment is referred to as the difficulty of finding an alternative use of the resources and transferring them to the alternative use. For example, it is easier to move resources around from Denmark to Norway, but it takes more commitment and is a larger investment to move resources from China to Brazil. (Hollensen, 1998, 2001)

The geographical distance of this model displays that companies enter new markets with successively greater psychic distance. Psychic distance can be defined by factors such as differences in language, culture and political systems, which disturbs the stream of information between the firm and the market. Most often, firms seek themselves to markets where they can be understood and the perceived market uncertainty is low. (Hollensen, 1998, 2001)

There has been criticism to this model throughout the years. Reid (1983) and Turnbull (1987) said that it was too deterministic. Others have followed, like Johanson and Mattson in 1986, when they stated the model did not take interdependencies between country markets into account. Also the leap-frog steps have changed the view of the Uppsala model, since more companies seemed prone to skip the first stages in terms of psychic distance and move right to a far away market. Nordström (1990) confirmed this development though some tests showed that the UK, Germany and the US were the first choice for Swedish firms, when positioning their sales subsidiaries. He also
argued that the psychic distance had decreased, due to the fact that the world has become more homogeneous. (Hollensen, 1998, 2001)

Companies today can buy knowledge about foreign markets from international and local consulting firms. Even for the regular person the access to the knowledge has become easier. This knowledge is spread all over the world through e.g. schools and management training, making it easier for firms to hire personnel with the right competence, instead of spending time and money to develop it in-house. The Uppsala model still has support throughout the world, since many researchers say that it is important to investigate commitment and experience as explanatory factors for the internationalisation process. It has the strongest support regarding export behaviour and the relevance of cultural distance. (Hollensen, 1998, 2001)

3.2.2 The Network Model

A basic assumption in the network model is that the single firm is dependant on resources that are controlled by other firms. To enter a network from the outside requires that the other actors in the network are motivated to engage in interaction. This is resource demanding and may necessitate several firms to make adaptations in their ways of performing business. Thus, the foreign market or the network entry may very well be the result of interaction initiatives taken by other firms, which already are inside the network in the specific country. However, for an insider the chance of being a target of such an initiative is much greater than for an outsider. (Hollensen, 1998)

Business relations and industrial networks are phenomenons that are difficult to observe by an outside observer that may be a potential entrant on the market. The actors within the network are tied to each other through social, administrative, legal or economic factors. (Hollensen, 1998)
The business networks may very well stretch far beyond country borders. During the internationalisation of the firm, the network mode argues that the internationalising firm initially is engaged in a domestic network. A firm’s domestic relationship network can be used as bridges to other networks in other countries. If a supplier wants to keep the business at home, the customer in some cases demands that the supplier follows abroad. The character of the ties in a network is to some extent a matter of the firms involved. This is primarily the case among technical, economic and legal ties. However, to an important extent the ties are formed between the persons engaged in the business relationships. This is the case with social and cognitive ties. (Hollensen, 1998)

When a small or medium sized enterprise (SME) derives a significant proportion of its turnover and profits from acting as a subcontractor to a principal contractor, the SME becomes dependent on the latter. In turn, the prime contractor may acquire power over its subcontractor. This power can appear in terms of the principal’s influence on decision making within the SME in areas such as pricing and investments. (Hollensen, 1998)

Johansson & Mattsson (1988) combined the Uppsala model and the Network model which resulted in the creation of a “production net” concept. This concept was fashioned through an integration of the Uppsala model’s basic idea (which threatens a firm’s internationalisation process independently from its situation and the situation on the market) and ideas from the Network model. A production net can be more or less internationalised, and a high degree of internationalisation of a production net implies that there are many strong relations between the different national sections of the global production net. Whereas, a low degree of internationalisation means that the national networks have few relationships with each other.
By combining micro and macro perspectives regarding network, Johansson and Mattsson (1988) distinguish between four situations characterised by a low or a high degree of internationalisation of the firm, and a low or a high degree of internationalisation of the market. (Johansson & Mattsson 1988).

The Network model

<table>
<thead>
<tr>
<th>Degree of Internationalisation of the Network</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>The Early Starter</td>
<td>The Late Starter</td>
</tr>
<tr>
<td>High</td>
<td>The Lonely International</td>
<td>The International Among Others</td>
</tr>
</tbody>
</table>

Figure 3.2: Four cases of internationalisation of a firm. (Johansson and Mattsson, 1988 p.298)

3.2.2.1 The early starter

In this situation the firm has no important local relationships. This cause of significant pressure since the firm is the first to develop the network and the costs of overcoming the problems and developing the needed knowledge may be high. The risks involved with being an early starter is often avoided by firms through gradual and slow involvement in the market. The firm’s integration process is usually via an agent, leading to a sales subsidiary and then a manufacturing subsidiary. This slow progression of integrating the market gives the firm market knowledge and the opportunity to create a basis for stronger commitments. (Johansson & Mattsson, 1988)
3.2.2.2 The lonely international

In this situation, the firm already has experience of relationships with and in foreign markets, thus the firm already has acquired knowledge and means to handle environments which differ from the domestic country in respect to culture, institutions and so on. Hence, the knowledge situation is more favourable when the firm establishes business in a new national network. In the situation of lonely international, further internationalisation initiatives do not come from other members of the production network, as the firm’s suppliers, customers and competitors are less internationalised. On the contrary, the lonely international may influence other parties in the production network and promote internationalisation. Additionally, the lonely international may be a member of other production networks and may act as a bridge or ambassador to those networks for its suppliers and customers. (Johansson & Mattsson 1988)

3.2.2.3 The late starter

A less internationalised firm with international customers and competitors can be pulled out from the domestic market by its customers. In this case the step abroad may sometimes be rather large. In the discussion about late starters Johansson & Mattsson (1988) differentiate between the small and medium-sized enterprises (SME) and the large scale enterprises (LSE). Compared to the early starter, it is often tough for the late starter to break in, and establish a manufacturing subsidiary in a production network that probably has evolved tight relationships and are rigid in structure. The late starter may face distributors that already are linked to competitors. Furthermore, the competitors may in a fairly legal manner make the late newcomer unprofitably through predatory pricing. When Johansson & Mattsson (1988) compared early and late starters they emphasised the importance of timing in an internationalised world. (Johansson & Mattsson 1988)
3.2.2.4 The international among others

In this situation the firm has the possibility of using positions in one production net to extend to or penetrate into other production networks. Thus, operations made in a specific market/production net may (if necessary) take advantage of other production networks on other markets, but still within the same company. This might lead to production coordination by product specialisation, hence also lead to increased intra-firm trade across borders. Sale subsidiaries are probably at an increasing rate established on foreign markets since the internationalisation knowledge within the firm is higher and there is a strong need to coordinate sales and marketing activities in different markets. (Johansson & Mattsson 1988)

“All management and marketing activities occur within legal, political, economic, social and cultural environment to which strategies and policies must relate.” (Abrahac c. 2005)

“The seller and buyer companies operate within a wide context and a large social system. The characteristics of this large system influence the relationship and interaction between the two organisations.” (Zineldin et al 1997; cited by Abrahac c. 2005)

3.2.3 Transaction Cost Analysis Model

Ronald Coase stated that “a firm will tend to expand until the cost of organising an extra transaction within the firm will become equal to the costs of carrying out the same transaction by means of an exchange on the open market” (Coase, 1937, p.395). He is known, to be the one who started the research on the TCA model, the transaction cost analysis model. He was followed by Williamson (1975), Buckley and Casson (1976), Hennart (1977, 1982) and McManus (1972), who all independently developed theories about the TCA model.
3.2.3.1 Transaction costs

The framework of the TCA model argues that a firm will integrate vertically to reduce transaction costs, in other words it will internalise. Transaction costs can be divided into different forms of costs related to the transactional relationship between buyer and seller. (Hollensen, 2001). The costs are formed into this equation:

"Transaction cost = Ex ante costs + Ex post costs = (search costs + contracting costs) + (monitoring costs + enforcement costs)"
(Hollensen, 2001, p 53).

Search costs deal with the costs of collecting information and assess potential export intermediaries. This information can be prohibitive to many exporters, yet it is crucial for export success. Especially information about the far away markets, e.g. from Sweden to China, are difficult to gain and is therefore costly. Contracting costs, however, refer to the costs associated with negotiating and writing an agreement between seller and buyer. Monitoring costs are associated with observing the agreement to ensure, that both seller and buyer follow their obligations. Moreover, enforcement costs are associated with the sanctioning of a trading partner who does not perform in accordance with the agreements. It is said that the basic assumption of the TCA model, is that firms will try to minimise the combination of these costs when undertaking transactions (Hollensen, 2001).

3.2.3.2 TCA Control Instruments

Anderson and Gatignon (1986) presented four important factors to determine the optimal degree of control from the transaction cost point of view. The factors are transaction-specific assets, external uncertainty, internal uncertainty and asymmetrical information (Hollensen, 1998). We looked at asymmetrical information, since it was the only one with relevance to our research question and we developed two hypotheses based on it.
Asymmetrical information often causes opportunistic behaviour, since one of the parties has more knowledge than the other. Williamson (1985) defines it as human beings are self-interest seeking with guile. The easiest way to stop this behaviour is to impose safeguards, which will re-create the level of trust and control needed to engage in transactions. The most well-known safeguard in Western economies is the legal contract. (Hollensen, 1998, 2001)

Ghoshal and Moran (1996) criticise Williamson, saying that he is using too narrow assumptions of the human nature, such as opportunism. They also mention the fact that the TCA model seems to ignore internal transaction costs, assuming zero friction between head office and sales subsidiary. Christensen and Lindmark (1993) argue that the TCA model is not applicable to SMEs, since their lack of resources and knowledge often force them to externalise. Instead, the SMEs have to rely on other types of contractual relations to gain skills and build trust. (Hollensen, 1998, 2001).

3.4 Hypotheses

3.4.1 Introduction

We have developed six hypotheses from the theories in the theoretical framework. The hypotheses are organised by theory in order to provide clarification, which hypotheses are linked to which theory.

3.4.2 The Uppsala Internationalisation model

H:1 Swedish manufacturing companies are inclined to begin their internationalisation process by establishing in the nearby countries.

The Swedish researchers responsible for the stage model, stated that Swedish manufacturing companies began to operate abroad in a nearby market and
then slowly penetrated the far away markets. We want to test if this postulation is valid.

H:2 *Swedish manufacturing companies establish themselves in foreign countries through a sales office or an agent, before establishing a manufacturing subsidiary.*

Companies’ often start with a sales office or an agent before a wholly-owned subsidiary. They do so to acquire more knowledge about the newly entered market and to get the possibility for a larger investment later on. We wanted to test if companies usually start with a sales office.

3.4.3 The Network model

H:3 *Internationalisation of a company is a result of pressure from its customers and/or its suppliers.*

Hollensen (1998) argues that a foreign market entry may be a result of interaction initiatives taken by other companies, which already are inside the network in a specific country. He also argues that the customer in some cases demands that the supplier follows abroad.

H:4 *It is generally hard for a foreign company to break in to production networks in new markets.*

Johansson & Mattsson (1988) argues that it may in some cases be difficult to establish a manufacturing subsidiary in a production networks that probably have evolved tightly relationships and are rigid in structure.
3.4.4 Transaction Cost Analysis theory

H:5 The cost of gaining information has influenced company’s choice of expansion targets.

Swedish manufacturing companies have to take into account the cost of gaining information every time they consider moving abroad. We want to test if this influences the choice of which country to invest to.

H:6 Swedish companies use managers from Sweden in their foreign subsidiaries to safeguard themselves from opportunistic behaviour.

According to Williamson (1985) the human being is self-interest seeking individuals. Therefore there is always a risk for opportunistic behaviour in a foreign subsidiary. Companies have safeguards in order to minimise opportunistic behaviour. Employing managers from the home country in the foreign subsidiary is one of these safeguards. We thought it could be interesting to test if this is the actually is the case.
Chapter 4

Empirical Method

Here the empirical method of our study is presented. First the research strategy is described, showing how we went about answering our questions. Further, the sample and limitations are discussed. Then we talk about the interviews that were conducted and our response rate. Finally, the problems with validity, reliability and generalisability are presented.

4.1 Research Strategy

As our research is of a dual character, we have applied different research strategies to our research. The strategies are described in Research Methods for Business Students by Saunders. As mentioned previously we have conducted a deductive approach and we used only a qualitative data collection method.

In the theoretical part of our dissertation we chose to adopt a strategy that to some extent can be characterised as a case study. Here we intended to research if the reality of companies correlates with the conclusions found in a number of well known internationalisation theories. Limitations are of course a necessity when writing a candidate dissertation. We limited our research to Swedish manufacturing companies. Although a survey strategy usually is associated with the deductive approach (Saunders et al., 2003, 92), we believe that questionnaires may easily be misinterpreted. When making a qualitative study including only interviews, there are greater chances for the researchers to recognise if the interviewees misunderstand any questions, giving the
researchers the opportunity to make further clarification. Thus, it is easier to make sure that the examined population actually is the one answering one’s questions, when using interviews. This is a source of uncertainty when making a survey and in the end this will influence the validity of the dissertation. Ahead of the interviews we made an initial contact with the companies to assure that we got an interviewee that had the information required to answer our questions. Furthermore, when making the initial contact we made sure to inform the interviewee the time requirements of the interview. This was done in order to give the interviewee the opportunity to reserve time for a later appointment. By doing this we minimised the risk of interviewing a person under stress, who may give short and insufficient answers. The time requirements per interview were approximately 45 minutes.

In the market analysis we present the reasons why (or why not) to place a subsidiary in Mexico, not why a company should internationalise. We did not choose Mexico randomly. We chose Mexico because we have contacts with a company planning to set up a manufacturing subsidiary there. With this dissertation we want to give not only general facts about what companies must consider when moving business activities to Mexico, but also try to match our findings with the situation in which our principal company exists. In this part we conduct a case study strategy to investigate the Mexican business environment. This strategy will be of a particular interest if one wish to gain an understanding of the context of the research and the processes being enacted (Morris & Wood, 1991; cited by Saunders et al., 2003). In this part of the paper we chose to collect qualitative data through interviews. We also searched for secondary data in order to gain further understanding of the subject. We believed that when conducting a research like this we had to be careful regarding the reliability of the interviewed persons, especially when they were employees in a company that already performed business activities in Mexico. The information gathered from these persons may have been altered or slanted because the information may be sensitive in respect of competitors. It is also possible that the answers given are affected by the
company’s success or lack of success in the Mexican market. To avoid this risk we thought that we needed to increase the number of our sources; we needed interviewees that were more neutral in this matter. For that reason we also interviewed other persons with extensive knowledge of the Mexican business environment. These “other persons” include agencies such as the Swedish Trade Council (STC), a Mexican economist, a professor at a Mexican business school and a Swedish woman who worked as an English teacher in Mexico for eleven years. The market analysis is a combination of an exploratory and descriptive study. Exploratory studies are a valuable means of seeking new insight (Robson, 2002; cited by Saunders et al., 2003). Saunders mentions three principal ways of conducting exploratory research. We used two of them because we believed this would probably give us a more general view of the issue. The two ways we used were searching through literature as well as talking to experts of the subject. The market analysis is also a descriptive study in respect of being an extension to our exploratory study. We use this descriptive part to draw conclusions about the Mexican business environment.

Concerning the time limitations involved in writing a candidate dissertation, our study is a typical cross-sectional study. Our interviews are conducted over a short period of time which means that our conclusions present the reality at a given point in time. However, the two different parts of the dissertation may be more or less in agreement with the previous sentence. In the theoretical part where we study the internationalisation process of firms and correlate them with accepted theories, the study may be more of a longitudinal character since the history never changes; at any point in time the history is the same, especially if the company has a long history. In the market analysis the factors affecting our conclusions change more often. This implies a greater resemblance to a cross-sectional study.
4.2 Sample

When we considered which population was of interest for our dissertation we regarded our research objectives. We concluded that since we had two different parts in the paper where one concerns the internationalisation process of firms and the other concerns a study of the Mexican business environment, the population interesting for us was internationalised companies. Additionally, we thought that if the companies also were present on the Mexican market this would provide us with the opportunity to ask them questions concerning the market analysis as well as questions about their internationalisation process. Consequently, our population to research would be internationalised companies conducting business activities in Mexico. However, in order to make a census research we would need far more time and financial assets. These as well as the problem with access to all internationalised companies, we included our limitations when deciding our sample. Hence, we decided that the population suitable to investigate in our research regarding objectives and limitations were all internationalised Swedish companies operating a manufacturing subsidiary in Mexico. This decision narrowed down the population where from we were to choose a sample of companies to research.

We had limited or no knowledge about the companies’ internationalisation process in advance which made it impossible to choose a representative sampling method. Furthermore, we had no intention to draw any conclusions based on statistics (Saunders et al., 2003, p 152). Instead we intended to make in-depth-interviews with a limited amount of companies in order to make thorough investigations of the companies’ internationalisation processes. Thus, we used a non-probability sampling method. Since we initially made a far-reaching limitation of the scope of interesting population we thought that self-selecting sampling should be sufficient to facilitate a fair picture of the companies’ internationalisation process. When sampling from such a finite population as we did, the biggest problem is to find persons that are willing to take part of an interview.
Above we present the discussion about sampling companies from our population. But the discussion regarding sampling single interviewees within companies are also important to present. In this case we used a purposive sampling (Saunders et al., 2003, 175). We had to figure out in advance who would be able to answer our questions about the company’s internationalisation process. After looking into this we believed that people involved with investor relations should meet our requirements. This proved to be the case.

Firstly, we had to get information about which Swedish companies were conducting business in Mexico. This information was available to us on the Swedish Trade Council’s website. When we browsed this information we recognised a couple of companies which we knew were internationalised. But these companies were too few; we needed more sources to base our research on. Thus, secondly we contacted the other companies in order to find which were suitable for our inquiry and to settle a date for interviews. Out of 29 contacted companies 5 turned out to be suitable and interested in participating in our inquiry.

In the Market Analysis we chose a typical purposive sampling method. Apart from asking the five companies about their experiences in Mexico, we also selected other interviewees that we found suitable to answer our questions about the Mexican business environment. All these interviewees we contacted especially for the Mexican part of the dissertation, told us that they would be very happy to take part in an interview.

4.3 Limitation

The limitations of research were, inter alia, that we only investigated Swedish manufacturing companies with production in Mexico. We had a principal company, which is in the manufacturing industry. At the first meeting with
the CEO of our principal, he suggested several countries to study, but settled on Mexico. We had an amount of questions to choose from, but we narrowed it down by only asking the most relevant questions not to deter our respondents and yet to get as clear and articulate answers as possible. Furthermore, we were allowed to call again with follow-up questions.

We had also to consider our financial constraint when conducting the empirical study, so we contacted the Swedish companies at their headquarters in Sweden and not their affiliates in Mexico. We made it very clear to the interviewees the time necessary to conduct the interview so they would not get stressed and consequently, not provide us with accurate answers. If we had more time than 15 weeks we would have been able to make more extensive research.

4.4 The Interviews

We decided to conduct interviews, since a survey would not give us enough in-depth information. Through the interviews, we hoped to answer our hypotheses. Our interviewees, which are all positioned with production in Mexico, are scattered all over Sweden, so due to the physical distance, we performed telephone interviews.

As mentioned in the data collection section, we intended to perform ten interviews. We contacted the STC, to find suitable interviewees for our research and they referred us to their webpage. We found 29 companies active in Mexico on the webpage, to which we phoned their headquarters in Sweden and presented ourselves and our project. The result from this first contact was that not all of them had production in Mexico and that some of them did not have time for us. Due to the division of this dissertation, we needed to carry out the interviews differently in the two parts. The interviews for the theoretical part were structured, meaning that we had a form with 40
questions that we did not deviate from. These questions were linked to the different internationalisation theories and models. Regarding the market analysis, the questions asked, were semi-structured, meaning that the questions used varied from interview to interview. We had to ask the proper questions for every interviewee. We used semi-structured questions in the market analysis part, since the interviewees were persons with different backgrounds and personalities. In the theoretical part we used structured questions, because of the fact that the interviewees were members of corporations. They answered the questions on behalf of the companies only. We structured the questions to facilitate the analysis.

We performed 5 in-depth interviews for the theoretical part, starting off with Anders Alkenius, a retiree from ABB, Johan Andersson, Business Analyst at SCA, Lars-Gunnar Odhe, Managing Director of SF Marina System AB, Sophie Monsén, Manager at Gambro and Susanne Andersson, Head of Investor Relations at Ericsson AB.

For the market analysis we interviewed Anita Jonsson, ITT Director at the Swedish Trade Council, who provided valuable information about the market in Mexico and the best way of entering it. She resides and works since many years in Mexico. Another equally important interviewee was Ann-Marie Svensson, a teacher at the University of Skövde, who invited us to the Mexico-Sweden conference on trade in Skövde. She has lived in Mexico for eleven years, so she knows a lot about the Mexican culture and other important issues. At the conference we listened and talked to, inter alia, Ignacio Perrotini, Professor of Economics, National Autonomous University of Mexico, David Enríquez, a Mexican Business lawyer and César Remis, Economist at the Economic Council of Mexico in Brussels, and they gave us new insights in the subject. We talked to Dick Löwendahl, CFO at the Business Area Fastners of Finnveden AB, to gain more information about their intended expansion to Mexico. Tommy Andersson, the Business Area Manager of Fastners at Finnveden AB, was also questioned to gain more
information about their intended expansion to Mexico and because of his prior experiences concerning internationalisation to Mexico.

The negative parts with our interviews were that, we had some difficulties in finding interviewees with up-to-date knowledge about Mexico, and that in some cases we had to split the interviews in half, due to lack of time and had to continue the next day. This could have had a damaging effect on validity and reliability, due to the fact that the interviewee might be influenced by others for example a CEO telling the interviewee to be more restrictive with the answers. But we tried to minimise this by doing the follow-up interview early the next day, to avoid contamination of the answers.

Initially we intended to also use Michael E. Porter’s Five Forces in the market analysis but due to time limitations we had to disband this approach. We came to this understanding towards the end of our work. But then we had already asked the questions connected with Five Forces to the interviewed companies. Thus, these questions are included and presented in the interview questions in Appendix 1a and 1b.

4.4.1 Interview questions

The questions that we asked, served the purpose of providing us with good knowledge about our interviewees’ opinions regarding the internationalisation process and the Mexican market. Questions 1 to 29 were asked only to the companies. Questions 30 to 43 were asked to both the companies and the other interviewees. Questions 44 to 47 were asked only to the other interviewees.

Questions 1 to 3 were asked to examine the Uppsala model. We wanted to investigate if the closeness to the home market and the physical distance (e.g.
language, culture etc.) were of any importance when the companies considered moving abroad.

Questions 4 to 10 were asked to investigate how the Network model had affected our interviewees. Thus, we also wanted to know whether it was difficult or not, to enter into already existing production networks and how the influence of the customers and the suppliers affect a company’s decision to expand abroad.

Questions 11 to 13 were asked to investigate the cost of gaining information and the cost of monitoring that obligations were uphold.

Questions 14 to 29 were all based on Porter’s Five Forces. The bargain power of customers and the bargain power of suppliers were investigated through questions fourteen to eighteen. We wanted to gain further understanding about the size of the Mexican market in terms of offered volumes, amount of buyers and sellers. Furthermore, to understand the bargaining power of suppliers we asked questions about brands and customers.

Questions 19 to 25 treated threats of entry and substitutes. We wanted to examine whether a company using economies of scale gained any advantages at all and if large capital were needed to enter into Mexico. We also wanted to take a look at the loyalty amongst the consumers, if different trade barriers existed such as cartels or legal obstacles and the potential threat of substitutes.

Questions 26 to 29 were asked to investigate the intensity of competitive rivalry. We wanted to examine the intensity of competitiveness and the size of the producers at the Mexican market.
Questions 30 to 43 were asked to gain better understanding about our interviewees’ knowledge regarding Mexico. Further we look at the concept of Maquiladoras and reasons for moving to Mexico. We also examined the difficulties of language, culture, bureaucracy and unions.

Questions 44 to 47 were asked to broaden our knowledge about Mexicans’ feelings towards foreign investors and the level of education in Mexico compared with that in Sweden. We also investigated the possibilities of Maquiladoras and the infrastructure in Mexico.

4.4.2 Follow-up questions

These follow-up questions were asked to broaden our empiricism. The answers were recorded on tape to simplify the review of the answers.

Questions 1 to 10 were asked to gain additional information to answer the hypotheses developed for the Uppsala model. Questions 11 to 18 were asked to broaden our answer to the hypotheses developed for the Network model. Questions 19 to 27 were asked to gain further information to answer the hypotheses developed for the TCA model. Question 28 was asked to gain information about decision making process before internationalising and what factors the respondents considers the most important. Moreover, questions 29 to 49 were asked to broaden our Mexico empiricism. These last twenty questions are divided in the following way. Question 29 was asked to gain some common information about Mexico’s attractiveness. Questions 30 to 32 were asked to get additional information about the Mexican education level. Questions 33 to 40 were asked to gain more information about Mexican labour, the unions and tax duties. Questions 41 to 49 were asked to gain further information about the North American Free Trade Agreement (NAFTA) and the Mexican European Free Trade Agreement (MEUFTA), the Maquiladora industry and the infrastructure.
4.5 Response rate

From the beginning we contacted 35 possible interviewees, both companies and other interviewees. At the beginning a questionnaire was meant to be sent to all these companies, but after estimating a low response rate we edited the questions to be more appropriate for in-depth interviews. During the interviews we all sat down and wrote everything that was said, and later on the interviews were written on the computer. In some of the cases the contacted companies did not answer back with information about a person to interview, thus we needed to be more persuasive and compelling. Occasionally we had to call them back, because they were often busy. Also some of the interviewed companies had been in Mexico for over three decades or more, so the people involved in their establishment were either retired or deceased.

For the theoretical part we received 5 usable interviews from 29 (20.7 % of the total population from the theoretical part) large Swedish companies. When we summarised the answers we concluded that a large proportion i.e. 23 (79.3 % of the population from the theoretical part) were ineligible for our research. The requirement was that the companies had to have production in Mexico, not only an agent or a sales office. The 23 companies that did not participate were ineligible for two reasons: firstly, some of them did not fulfil the requirement and secondly, some did not answer our request to interview them. The reason why we had this requirement was that we planned to take the chance to ask the companies about their experiences in doing business in the Mexican market, and not only to ask them about their general internationalisation process. We expected to be able to interview more companies, and were disappointed in the low interest shown from the companies.

We also had five interviews that were conducted for the market analysis. Here, out of five contacted interviewees all five participated which implies a
response rate of 100 percent. The main reason to the high response rate for the market analysis was that the people we were in contact with were so positive about our interest in Mexico.

4.6 Validity

Validity is concerned with whether the findings are really about what they appear to be about (Saunders et al., 2003).

A thorough research is the basis for reaching a high validity on any type of project. We performed phone interviews, instead of sending out questionnaires to our respondents, because the rate of participating companies was too low. By doing this we minimised the risk of misunderstandings concerning the questions and we hoped to gain higher validity. We took history, one of the threats to validity, into account when we conducted our interviews. History concerns e.g. a matter such as, if the firm just recently have gone through major changes and that this might influence the respondents’ answers. There are many similar scenarios threatening validity and due to that fact we constructed our interviews in a way that history would not interfere with the outcome. (Saunders et al., 2003) We believe that the validity of our research is good since we used many sources that we believe are independent in this subject.

4.7 Reliability

The level of reliability is determined by how well the research method gains the same results on other occasions and if different researchers could reach similar results. This means that the reliability is high, if the research results in the same findings each time it is conducted (Saunders et al., 2003)
In our research, the reliability might have been reduced, due to the fact that the respondents’ answers could have been affected. It means e.g. that the respondents with not enough knowledge or experience may guess the answer or, the respondents may discuss their answers with others. Respondents have recently been hired to the firm and not up-to-date yet or are retired and no longer versed in the firms’ activities, this may also reduce the reliability. We also took into account the respondents’ state of mind, when they participated e.g. if they were stressed during the interview. These types of threats to reliability are called participant error and participant bias. Other possible threats, are the observer error and observer bias, but we minimised both by always conducting the interviews together, avoiding the possibility of misunderstandings and misinterpretations. As in the case of validity, the reliability could also be strengthened as we conducted interviews, instead of handing out questionnaires, to avoid misunderstandings of the questions. (Saunders et al., 2003)

### 4.8 Generalisability

Generalisability also known as external validity, concerns the extent to which the research findings are applicable to other research settings. In this dissertation, the focus lies on Swedish manufacturing companies in Mexico, so any results drawn from the empirical research can only be generalised within the research setting of this industry. Therefore, it is not possible to draw general conclusions about other industries or settings based on the facts from this research alone (Saunders et al., 2003).
Chapter 5

Empiricism

In this chapter a summary of answers from the interviews concerning the theoretical part are presented. The answers given by each company are also categorised by relevance to the Uppsala model, the Network model and the TCA model.

5.1 The Uppsala theory

Ericsson
Ericsson did not fully agree with the picture that companies first moves to a country close to the domestic market. Ericsson’s first foreign establishment was in St Petersburg, Russia. Many times when establishing abroad, Ericsson start up a sales subsidiary with the help from agents or consultants.

ABB
ABB’s internationalisation process can be explained as a stepwise process with a starting point in close proximity to home market.

SCA
Our interviewee at SCA said that SCA did indeed start its internationalisation process close to its home market. In at least one case, SCA started its operation in a foreign country with a joint venture.
Gambro
In Gambro’s case, the company cannot identify themselves with an internationalisation process starting close to the domestic market. Gambro also mentions that sales are important to this explanation, while production is not.

SF Marina System
Since SF Marina Systems’ production is more project-based, it moves its production wherever it finds suitable. The location is of course a question of being close to where the project is.

5.2 The network model
Ericsson
Entrance to new markets is generally not hard regarding breaking through production networks that are tightly structured. Ericsson believed that this was due to its relatively large size and well known brand. It mentioned that the company usually never moved to a new market because of requests from its suppliers. However, its customer had greater influence in this issue. It is generally Ericsson that seeks new foreign business partners and not the opposite. Most of Ericsson’s customers are internationalised companies and approximately 25 percent of the sales go to large global customers. Ericsson mentioned that its suppliers on the production side are internationalised, while suppliers of services are smaller local firms. Ericsson itself is highly internationalised with many cross-border relationships.

ABB
ABB did not think that it is hard to break through production networks that are tightly structured. Generally, ABB said that it took initiative to all its foreign direct investments. However, it said that governments sometimes demanded an establishment in the country in order to grant the company the
right to sell its products there. Our interviewee said that it sometimes happens that ABB is invited to business relationships by foreign countries. ABB’s customers are often internationalised companies, whereas its suppliers are in most cases not internationalised.

SCA
Our interviewee in SCA said that he believed that being a large global company probably simplifies the process of breaking into production networks in foreign countries. Generally, SCA’s internationalisation steps are not a result of requests from its customers and suppliers. SCA believed that it had been invited to business relationships by foreign companies but that it generally was SCA that contacted the foreign companies first. SCA is a internationalised company with operations in many foreign countries. SCA’s customers are partly big global companies and partly small national companies. SCA negotiates bigger and more global contracts with suppliers if the service is of a complex character and if there are few suppliers. Thus, SCA’s suppliers are more internationalised if the complexity of the service and if the amount of suppliers demand a central negotiation. For example, there is only one IT and software supplier that are supplying the whole SCA group, while many local transportation firms supply SCA in different countries.

Gambro
In Gambro’s case, requests from customer and suppliers was not a reason for Gambro to internationalise. Gambro mentioned that it had been invited to engage business activities with foreign companies. Gambro is an international company but their customers are not. The same goes with its suppliers which often are not internationalised.
SF Marina Systems
They have not experienced any difficulties with breaking into production networks in foreign countries. SF Marina Systems said that it have felt pressure from its customers or suppliers to move production abroad. Occasionally it happens that SF Marina Systems is invited to engage in business activities by foreign companies. Its business is characterised as internationalised and so are its customers. The suppliers are local companies.

5.3 The Transaction Cost Analysis model
Ericsson
Ericsson does not find it hard to acquire information about foreign countries. It believes that there is a lot of information available on the internet and there are also many consultants that provide information. Ericsson uses both Swedish and foreign management in its subsidiaries in order to emphasise a local workforce. Ericsson has never completely left a market but if necessary Ericsson has sometimes stopped the production and only continued with a sales subsidiary. The main reason for withdrawal of production is war.

ABB
ABB believes that finding information about foreign countries was harder earlier but that it is no problem for a company nowadays. ABB said that it uses both local and Swedish managers in its subsidiaries but that it used Swedish managers at the beginning in order to maintain control. Later on it usually employ locals as a mean to lower costs. Our interviewee in ABB believed that the main reason for companies to close down factories is structural rationalisations.

SCA
SCA believed that there is much information available. It is a question about finding a profitable way to use the right planning, the right persons and the
right contacts. Lack of information has never stopped a planned establishment. However, sometimes shortages of information may increase the establishment process. SCA uses both local and Swedish managers at its subsidiaries.

Gambro
Gambro has during the past years closed many factories around the world. This was done because it wants to focus Gambro’s production to Europe. The focus to Europe was due to centralisation and to make its production more effective.

SF Marina System
The interviewee believed that it is not difficult to obtain information about foreign countries. SF Marina Systems sometimes uses Swedish managers in its subsidiaries. The main reason for this is not to get control. He said that one has to have confidence in the employees’ abilities to do a good job. SF Marina Systems has occasionally withdrawn production from foreign countries, but usually it keeps a sales office in order to have the opportunity to go back.

5.4 Summary
During our inquiry we found that the majority of the interviewed companies did not comply with the Uppsala model’s basic claim. The companies believed that physical distance rarely is an obstacle when internationalising. A majority of the companies said that pressure from its customers and/or its suppliers is not the reason that they internationalise. There are other forces that influence the companies’ internationalisation process. The opinion among the companies was that access to information about the targeted market has become easier to get. This was mainly due to the internet and information provided by consultants. The majority of the interviewed companies had both
Swedish and local managers. This was primarily to maintain control and insight in the foreign subsidiary.
Chapter 6

Analysis

The hypotheses will be presented and analysed and are either rejected or accepted. By doing this we are able to evaluate the relevance of the theories, and to answer the three first research questions. The companies’ interview answers works as a base when examining our hypotheses. The answers to research questions 1-3 are presented here. Finally, a summary of the chapter is presented.

6.1 The Uppsala model

H:1 Swedish manufacturing companies are inclined to begin their internationalisation process by establishing to the nearby countries.

The majority of the companies questioned did not identify with this hypothesis since their internationalisation was based on other factors than physic distance. Our sample of companies believed that physic distance was rarely an obstacle when internationalising. For example, one of our companies placed its first subsidiary in Russia over a hundred years ago when the physic distance was much greater than today. Furthermore, another of the interviewed companies said that because of its project-based production physic distance has no relevance at all. This hypothesis is rejected.

H:2 Swedish manufacturing companies establish themselves in foreign countries through a sales office or an agent, before establishing a manufacturing subsidiary.
Four out of the five companies questioned generally establish manufacturing subsidiaries in foreign countries without starting with a sales office or an agent. *This hypothesis is rejected.*

### 6.2 The network model

H:3 *Internationalisation of a company is a result of pressure from its customers and/or its suppliers.*

A majority of the asked companies said that pressure from its customers and/or its suppliers is not the reason that they internationalise. There are other forces that influence the companies’ internationalisation process; the governments of the host countries sometimes demand that if a company wishes to sell its products there, they also have to start production in the host country. One of the interviewed companies has in some cases felt pressure from its customers or suppliers to move production abroad. *This hypothesis is rejected.*

H:4 *It is generally hard for a foreign company to break into production networks in new markets.*

Four of the five asked companies believed that it was easy to break in to a foreign production network. However, some of the companies believed that it is an advantage to be a large global company with a well known brand when breaking into new production networks. *This hypothesis is rejected.*

### 6.3 The Transaction Cost Analysis model

H:5 *The cost of gaining information influences companies choice of expansion targets.*
The common opinion among the companies was that access to information about the targeted market has become easier to get. They also believed that because we are living in an information society; the available information and the accessibility to information about foreign countries has improved due to the creation of the internet and the fact that there are many consultants providing information. The companies believe that the cost of gaining information about foreign countries is too low to be regarded as a factor to be considered when targeting new markets. \textit{This hypothesis is rejected.}

\textbf{H:6} \textit{Swedish companies uses managers from Sweden in its foreign subsidiaries to safe-guard themselves from opportunistic behaviour.}

The majority of the interviewed companies had both Swedish and local managers. This was primarily to maintain control and insight in the foreign subsidiary. One of the companies said that this was the case only in newly established subsidiaries and they later on employed locals in order to lower costs. Another company said that it is important to have confidence in the employees' ability to do a good job which was the reason for them to employ local managers. \textit{This hypothesis is rejected.}

\subsection*{6.4 Answers to research questions 1-3}

\textbf{RQ:1} \textit{Does the stage model, which is based on the Uppsala theories, explain the internationalisation process of Swedish manufacturing companies?}

When we interviewed the companies we noticed a clear tendency that physic distance did not affect the company in its internationalisation process. However, the opinion that physic distance played a bigger role in the past was given by several interviewees. We also noticed that the majority of the companies did not start their foreign operation with a sales offices or agents, but started with a manufacturing subsidiary directly. This implies that companies want to be close to the market and that the cultural, language and
politically differences in foreign markets have little effect on its internationalisation. This may be the case because the interviewed companies are very large in size as well as having many experiences of internationalisation.

- **RQ:2** How are external and internal production networks influencing a company’s internationalisation process?

There are many factors involved in the decision to move business abroad. One of these factors is, according to the Network model, pressure from the customers or suppliers to internationalise the company. From our interviews we got the answer that pressure from its customers or suppliers did not affect them when taking the decision to expand to foreign countries. As the interviewed companies are large in size they are not influenced much by pressure from the suppliers. However, customers’ wishes have more influence on the company than the suppliers’. The size of the company and its global position, simplifies the entrance into a new production networks. The companies also stress the importance of having a well known brand that already exists in peoples mind. The companies’ general opinion is that brand awareness among customers simplifies the process of breaking into new production networks.

- **RQ:3** In what way does the element of information, in the TCA model, affect companies’ internationalisation behaviour?

We noticed that the companies do not regard the cost of gaining information about new markets as an issue that creates problem. The companies said that there was no case of foreign establishment where they experienced lack of information. However, they believes that the access to information have been much better in the last few years. Hence, this gives the companies a better foundation to base their decisions. They believe that internet have had a profound impact on the accessibility to information. Furthermore, the
increased use of consultants has also facilitated the process of gaining information. Opportunistic behaviour can be regarded as a matter of intentionally holding back or giving wrong information by the foreign management to the parent company. To minimise the risk of opportunistic behaviour, companies often use managers from the home country. Some companies use management from the foreign country to lower costs and they have confidence in the foreign managers ability to do a good job and provide the parent company with truthful information.

6.5 Summary

As our intentions were to find correspondence between the three theories and the reality of the interviewed companies we created six hypotheses. In this chapter we analysed the answers given by the asked companies. Furthermore, we related these answers to our hypotheses and found common similarities in the answers. This enabled us to either reject or accept our hypotheses. We found that six out of six hypotheses were rejected. When we analysed the answers there was no doubt whether to reject or accept the hypotheses. These hypotheses were all rejected which implies that the theories in some cases lack relevance when explaining the internationalisation process of the interviewed companies. When answering the research questions we found that the Stage model is not as valid as it might have been in the past. Companies nowadays do not regard political and cultural obstacles as very big issues. We also found that pressure from companies’ customers did nor affect their internationalisation process. This may be because the interviewed companies are large corporations. Smaller companies may be more coherent to this statement. Regarding the issue of gaining information about foreign markets the interviewed companies said that this was no longer a problem. The information technology plays a profound role in the companies’ access to information as well as the large increase in consultants.
Chapter 7

Empiricism and Analysis - the Mexican market

In this chapter we start with presenting a brief review of FDI activities in Mexico. Eight country specific factors are analysed in this chapter. This analysis is based on answers given by six interviewees and data collected from literature and the Mexican-Sweden conference on trade, development and environment. We present the answer to research question 4 and finally we present a summary.

7.1 Market Analysis

7.1.1 Mexico

Mexico is the 9th largest economy in the world and also the 8th largest exporter of goods and services. Furthermore it is the 4th largest oil producer in the world. Mexico has signed 11 free trade agreements involving 32 countries, comprising 95 percent of Mexican trade. Mexico has accepted international free trade agreements as a way to promote industrial competitiveness and export-oriented growth. From being a relatively close economy, Mexico has moved to being one of the most open countries in the world. These changes have been in motion over the last 16 year. This movement has led to implementing a series of domestic measures to deregulate business activities and encourage private investments (Swedish Trade 2005). By 2002, USD46,942 million of USD164,102 million of sales came from export. In 2002 Mexico had 5,591 manufacturing plants and the manufacturing sector employed 1,360,866 people. Of these manufacturing plants 193 are industrial parks located in 93 cities in 32 states. 30 percent of the manufacturing industry employees are working in foreign firms. The
economical growth rate 2004 was 4.4 percent and it is expected to be 4 percent for 2005 (Mexico’s Ministry of Economy 2005).

Mexico is a receiver of 37 percent of the FDI headed to Latin America. In 2004, Mexico received USD16 billion in FDI and in 2005 the expected flows of FDI will be USD17.6 billion. FDI has helped Mexico to modernise the production plants in different sectors, regions and companies, and has made it possible to transfer new technology to the country. Mexico is the fourth largest recipient of FDI in the world (Mexico’s Ministry of Economy 2005).

**FDI in Mexico (1994-2003)**

![Diagram showing FDI in Mexico (1994-2003)]

**Figure 7.1 Source:** Ministry of Economy. Investments notified at RNIE between January 1994 and December 2003

### 7.1.2 Education

Mexico has many natural resources which have influenced their education policies. The Mexican government has put more resources in developing these resources than developing its human capital. This trend has changed due to the fact that Mexico is a large receiver of FDI. The workforce has rudimentary skills which must evolve to add value to the company. Foreign companies believe that it is very cheap to educate people in Mexico. Historically the patron-client structure was very strong where it was more important to know the right people than to possess the right skills. The government and the majority of the population are becoming more aware of
the importance of education as a necessity for building an internationally competitive labour force and economy. It is mandatory for all Mexicans to study for nine years. Despite this, not all can afford the costs associated with schooling. Consequently, this leads to parts of the population being illiterate. (Nolan, 1994, pp 285)

Comments
Generally the level of education is much lower than in Sweden. It is also harder to get qualified workers such as engineers and economists. Many of the interviewees mentioned that companies educate the workforce internally. As can be seen from some interviews the Swedish companies think that Mexico needs to improve the education level. Generally the Mexican people are enthusiastic regarding the internal education. In some cases companies arrange evening courses to help the workers to achieve a High School Diploma. Because of the low level of educational, unskilled workers are easy to find.

7.1.3 Labour
In case of unjustified dismissal, the employee is entitled to a severance payment consisting of three months of salary, 20 days of salary of each year of services rendered and 12 days per year seniority bonus. The social benefits are supported by law. They include housing fund, saving fund, one paid day off per week and a minimum of six paid vacation days per year. Furthermore, social benefits include a Christmas bonus consisting of 15 working days in cash, a vacation bonus consisting of 25 percent of the salary earned during the days of vacation and 10 percent of all pre-tax profits must be paid out to employees annually in cash. As in Sweden, companies have to pay two percent of the wages to fund a self-directed individual retirement account for each employee. The housing fund has to be paid by companies with five percent of the individual salary. In addition, virtually all foreign firms offer a matching savings to give employees an amount equal to 13 percent of their
salary on a tax free basis. All expenses included, employers pay 40 to 80 percent above nominal salary in other expenses. Mexico in comparison to Sweden may not at all be as satisfying regarding differences in labour costs as a company can expect. This is due to all social benefits. The workforce in Mexico is paid per day not per hour. Minimum wage is about USD 4 per day and roughly 25 percent of the 40 million workers earn only that. Moreover, half of the workforce earn USD8 or less a day.

Comments
When we processed our interview material we found that companies in general have no problem finding unskilled workers. However, there is a shortage of skilled workers in the Mexican labour market. Due to the increase in demand of workers in general, labour costs have slightly increased. We found that the labour cost can be much higher than expected due to all the social benefits that the company has to pay. We think that it is important to have a Mexican person in the management that knows the labour laws, how the unions work and understand the Mexican culture.

7.1.4 Unions
Up to 50 percent of the labour force is unionised. Mexican labour unions can be divided into three types. Firstly, company unions are representatives of a specific company. Secondly, industrial unions represent workers of several companies in the same industry. Finally, national unions represent workers in state agencies or across several related areas and jurisdictions. The company unions are often established by people with no union experience and no connection with the government or the established labour movement. For the reasons mentioned and the fact that they do not have any guidelines, they are considered to be quite unpredictable. The industrial unions are usually represented by union professionals who are inclined to work with management to reach a compromise.
Confederación de Trabajadores Mexicanos (CTM) is a union confederation that has between five and six million members (Nolan, 1994). A collective bargaining agreement must be negotiated with the union. A minimum of 20 employees have the right to establish a company union. However, as few as two employees may choose to affiliate with a recognised outside union, and the employer will be required to recognise and deal with that organisation. The Mexican labour law is based on article 123 of the Constitution of 1917 (La Constitución Política). Article 123 was a response to one of the primary causes of the Mexican Revolution of 1910, the exploitation and the abuse of the working class. This article gave workers the right to organise labour unions and to strike. However, there is a way for employers to avoid unionisation. They may enter a so called protection contract with “Sindicatos Fantasmas” or “Ghost Unions”, before a plant is ever built. Such contracts authorize the union to demand the employer to fire a worker who is not a member in the union. This power can be used to single out employees who seek to organise independent unions.

Comments
During our inquiry we noticed that the interviewees had different opinions about the importance of the labour unions in Mexico. While some believe that the unions have no importance at all, others believe that they have significant powers. There was also an interviewee that believed that there were no labour unions whatsoever. It seems like the labour unions in Mexico have varying power in different sectors. We have found that unions are rather powerful in the petroleum- and electricity sectors, whereas their influence is weaker in manufacturing, mining and automotive sectors. According to one of our interviewees, it is highly recommended to establish a labour union. The union should belong to one of the national organisations such as Confederación de Trabajadores Mexicanos (CTM). The unions’ power varies in different Mexican states, for example, in Tijuana their power is not as big as in Matamoros.
7.1.5 The Mexican tax system

The Tax system consists of three different types: federal taxes, state taxes and local taxes, where federal taxes include income taxes, value added tax (VAT), business asset tax and import duties. Local taxes include real property tax, payroll tax and tax on real property acquisition (Mexconnect 2005). State taxes consist of an annual real estate holding tax, which is determined on the physical value appraised by the state government appraiser. Furthermore, the state taxes include a real estate transfer tax, which varies in different states. (Mexicolaw 2005)

Mexican residents are taxed on all income, from whatever source. Foreign residents, with a permanent establishment in Mexico, are taxed on the income attributable to such permanent establishment, no deductions allowed. Foreign residents with no permanent establishment are taxed on income attributable to Mexican sources. Permanent establishment is any place in which business activities are carried out, wholly or partially, that includes branches, agencies, offices and factories. Minimum tax on net assets is applicable on resident corporations as well as non-resident corporations that have permanent establishment in Mexico. The asset tax is also applicable on non-resident corporations without permanent establishment, meaning that maquiladoras are subject to this tax. However, exemptions are generally applicable. Minimum tax on corporate assets is 1.8 percent on the net worth of the assets, determined in accordance with specific rules. This tax must be paid by Mexican companies or individuals engaged in business activities. It is not levied for the first four years of operations. Income tax may be credited against asset tax. Income tax on Mexican companies was 32 percent in 2005. The income tax for individuals is progressive and fluctuates between 3 and 35 percent.
Value added tax are levied on transfer of goods and will happen when the goods are located in Mexico, even if the sale takes place abroad. VAT is also levied on lease of goods, rendering of services and import of goods or services. The general VAT rate is 15 percent, but in the border zone to the US it is 10 percent. A wide variety of imports is subject to VAT. Any use of intangible property granted or transferred to a Mexican resident by a non-resident also is subject to VAT, as well as services rendered by non-residents that benefit companies or enterprises inside Mexico. Most exports are subject to the zero VAT rate. Residents in Mexico qualify for the exemption.

Mexico has entered into treaties to avoid double taxation and prevent tax evasion with almost all members of the EU, including Sweden. Such treaties, among other things, reduce withholding taxes on interest, royalty and capital gain payments. In any event, since 2002, there is no withholding tax on dividend payments made to foreign companies.

Comments
Generally, the tax levels in Mexico are lower than in Sweden. Further tax incentives for a Swedish company can be that if their Mexico affiliate is associated with a Maquiladora, they can avoid or enjoy lower taxes, for example on import, export and VAT. Swedish companies that are planning to establish a Maquiladora should consider the differences in tax rates in different Mexican states. The distribution of a dividend to a non-resident by a company resident in Mexico is not subject to taxation, which can be considered very positive. The tax treaties that Mexico is engaged in reduce withholding taxes on interest, royalty and capital gain payments. In this respect, these treaties also provide Swedish companies with further benefits. There are less tax incentives for a Swedish company that set up their establishment as a permanent establishment. Consequently, to gain tax incentives the company must avoid being associated as a permanent establishment.
7.1.6 NAFTA/MEUFTA

Swedish companies that are established in Mexico and imports from an EU country fall under the MEUFTA. Furthermore, if the company exports from Mexico to the US it falls under the NAFTA.

MEUFTA is a free trade agreement between Mexico and the European Union which came into effect on 1 July 2000. MEUFTA is composed of two main sections; trade in goods and trade in services. The objective of MEUFTA is to allow preferential access for EU and Mexican exporters of goods and services into their respective markets. To achieve this MEUFTA provides for:

- Liberalisation of trade in goods and services by the dismantling of customer’s tariffs and the elimination of all import and export restrictions other than customs duties and taxes.
- Removal of barriers to investment
- Guaranteeing equal treatment for the investors of the other party, as granted to their own domestic investors
- Insuring that investment will not be coerced by restrictive government policies
- Protection of intellectual property
- Guaranteed access to government procurement contracts
- Co-operation in competition issues
- A dispute solving mechanism

(Goodrich, Riquelme y Asociados 2004)

MUEFTA creates the confidence required to make long-term investments and partner commitment investors of both parties. Industrial products account for more than 90 percent of the total bilateral trade in merchandise. In this case, the liberalisation covers the entire range of products. The liberalisation includes eliminated tariffs on an additional 5 percent of EU industrial products to total 52 percent of the same, ensuring that the remaining 48
percent of the EU industrial products were subject to a maximum tariff of 5 percent. The tariffs on industrial products are predestined to be gradually eliminated until 1 January 2007. Furthermore, the agreement envisages very favourable access for the main EU auto parts and components.

The protection of intellectual property, such as patents, trademarks and copyrights is adjusted to the strictest international standards and the EU investors have the guarantee that the EU competitive advantage in high technology is fully protected. Moreover, a special committee attends to the effective application of such rights.

In order to take part of some of the MEUFTA’s advantages such as tax relief’s and avoiding tariffs when importing from the EU, the company has to fulfil the rules of origin. This means that the company has to produce a certain percentage of the final product in Mexico. This percentage varies between different product types. There are certain types of activities that are not considered sufficient work on non-originating components, for example packaging of goods or assembling of parts to constitute a complete product. Overall, the value that must be added in Mexico is 40 to 60 percent of the ex-works price of the finished product, where ex-works price is equivalent to the sales price of the finished product.

NAFTA is a North American free trade agreement between Canada, the United States and Mexico and became law January 1, 1994.

The contents of NAFTA include the following:
- Abolition within 10 years of tariffs on 99 percent of the goods traded between Mexico, Canada and the United States.
- Removal of most barriers on the cross-border flow of services, allowing financial institutions, for example, unrestricted access to the Mexican market by 2000.
- Protection of intellectual property rights.
Removal of most restrictions on foreign direct investments between the three member countries, although special treatment (protection) will be given to Mexican energy and railway industries, American airline and radio communications industries, and Canadian culture.

Application of national environmental standards provided such standards have a scientific basis. Lowering of standards to lure investment is described as being inappropriate.

Establishment of two commissions with the power to impose fines and remove trade privileges when environmental standards or legislation involving health and safety, minimum wages, or child labour are ignored. (Hill 2005, p 285)

There are requirements considering the rules of origin within NAFTA. NAFTA requires that all non-originating components go through a shift of tariff classification. The classification of the non-NAFTA components imported into Mexico must be different from the tariff classification of the finished product to be exported. NAFTA provides two different types of valuation to determine the NAFTA content of the products. The valuation is based on:

- Ex-works price of the finished product
- Cost of the non-originating component

The non-originating components can be 40 to 50 percent of the ex-works price of the finished product. Furthermore, there is no limit as to the percentage of regional (NAFTA) components to be included in a finished product. (Goodrich, Riquelme y Asociados 2004)

Finally, Mexico is the only country in the world functioning as a bridge between the two free trade blocks NAFTA and EU.
Comments
Any EU company may benefit from the existence of NAFTA and MEUFTA, by combining the rules of origin of each treaty. Products that have content from both Mexico and the EU have a tariff advantage for import into the US and Canada compared with products that either come directly from the EU or from other parts of the world. Special access to the US and Canada for Mexican production requires that a certain proportion of the finished product contains components from the US, Canada or Mexico. We believe that the key to success regarding NAFTA and MEUFTA is the correct combination of the rules of origin provided for each of them.

7.1.7 Maquiladora
Maquila derives from the Spanish word maquilar, to process (The Texas State Historical Association, 2005). The history of the Maquiladora industry can be dated back to World War II, when the US and Mexico signed a contract, sending Mexican labourers up north to work over the next decades. The name of the program was, the Bracero Program, and it survived after the war, due to the fact that the US needed the workers and Mexico could not provide enough work for its citizens. It was cancelled in 1964 and its successor, the Maquila Program, was developed by the Mexican government, who realised the need to keep the production sharing contacts alive. (Nolan, 1994)

It was first introduced during the “National Program of Unemployment Abatement in the North” and was meant to attract US companies that could profit from the combination of Mexico’s low labour cost and the closeness to the US. The Maquiladora industry is situated around the border to the US, which gives great privileges to the foreign investors. One of the main factors, distinguishing the Maquiladora industry from the traditional industry, is that foreign businesses have 100 percent ownership in their companies, when producing solely for export. They are also offered duty-free temporary import of machinery, equipment, and materials needed in the production. This action
is called the Program for Temporary Importations to Manufacture Exportation Products, PITEX. The Maquila Program only allows production for export, direct or indirect, meaning that a foreign company can export directly to the US or sell products to other Maquiladoras, another name for a foreign investor in this industry. (Nolan, 1994)

The introduction of NAFTA has changed the Maquiladora industry’s position, since it no longer has monopoly on duty free imports. The infrastructure has also improved, thus making the border region lose its edge towards the industries in the centre and the south of Mexico. In 1994, the government started to reform the provision that Maquiladoras could not sell to the Mexican market, on a phased-in basis allowing 55 percent of the previous year’s production to be sold in the country. Today it has become up to 100 percent of the produced content. It is said that every sixth Mexican worker is positioned in the Maquiladora industry, showing the effect the industry has had on the Mexican employment. The industry has had a growth rate of 20 percent per year since 1994, making it Mexico’s second most important source for foreign currency, after oil products. (Nolan, 1994)

7.1.7.1 Three common types of Maquiladora operation

Subcontracting is most often used by newcomers to the Mexican market, has a rather simple production process. The foreign company signed a contract with an already operating company in Mexico, either foreign- or Mexican-owned, who assemble the products on site. The foreign investor provides supplies, materials and parts from abroad. The stake for the foreign company is minimal in this type of operation, whereas the contracted company on site, bears all the responsibility for the production. Shelter program is the obvious alternative for smaller companies and companies new to production abroad. The shelter company handles all the contacts with the local government, workforce and other types of administrative obstacles that the foreign company is bound to run into. It also provides the physical plant; the manufacturer brings capital, equipment, material, technical know-how etc.
The advantages with this type of operation are many, for example the foreign company does not have to worry about making cultural mistakes or approaching the administrative ordeals in a wrong way. The shelter strategy also helps the company to ease into the Mexican way of business. The problems occur first if the shelter team fails or if there are disruptions in the production line, because the foreign company has little or no control at all over this. The only way out, from this type of predicament is most often to cancel the shelter contract. A shelter contract often ranges from one to three years. Subsidiary is the operation style that is most coveted, thus to the possibility to control every part of the company. Almost every company expanding abroad wants to have a wholly-owned business, where they can attack every problem directly, smoothly and quickly, with the basis in both local knowledge and corporate strategy. (Nolan, 1994)

The Maquila program enforces some requirements on the Maquiladora companies, for example they must create jobs, help Mexico’s trade balance through net foreign currency contributions and improve linkage to Mexican industry. A Maquiladora should also provide employee training and technical development and, last but not least, as an article in the decree, it should uphold environmental laws and regulations. Foreign employees and their families must acquire provisional working visas, FM3, non-immigrant visa. (Nolan, 1994)

7.1.7.2 How to start up a Maquiladora?
There are four steps to take, if one wants to avoid unnecessary confusion:

1. Incorporation – To get the license for incorporation from the Secretariat of Foreign Relations, companies have to hand in suggestions for a corporate name, preferably at least three alternatives. The incorporators will then outline the company’s articles, of incorporation, which then will be notarised for registry purposes with the Federal Tax Registry.
2. Prepare to operate – After the incorporation, it is time to look for suitable locations and contact the local land zoning and public works authority for approval. The following negotiations are made to determine whether the company wants an option, a lease or purchase agreement. Now when the location is established, it is time to draw-up an inter-company (assembly) contract to cover whatever arrangement the foreign or parent company will have with the new Maquiladora company. These agreements usually contain matters concerning technical, financial assistance and other types of support to facilitate this start-up.

3. Authorise the Maquila program – This is the bureaucratic part of the investment, to gain access to the Maquila export program, the company needs to file yet another application. Here it is extremely important to follow the instructions and fill in all the information needed e.g. name, address, capital, annual investment, value of machinery, description of product and its use, who signed the Maquila contract, export destination, information about the process, number of jobs involved, the Mexican value-added and annual production volume. Concerning import, the Secretariat of Commerce and Industrial Development, SECOFI, request a list of the quantity to be imported, how long the goods will be in the country, unit and total costs. Same goes for machinery and equipment. Except this new information, also all other agreements, already signed, should be handed in to SECOFI. They will also issue the permanent Maquiladora identification code.

4. Registration – A company must, on a federal level, register not only to SECOFI, but also to the National Industry Chamber, the National Foreign Investment Registry, the National Workers Housing Fund Institute, the State Directorate of Ecology, the Social Security Institute, and the Health Department. On a state and local level, it has to register to the Public Registry of Property and Commerce in the city where it has corporate residence. It needs to obtain registrations and licenses and permits covering land use and construction as well. After all this is done, the operation can begin.
Incorporation should take about three weeks after approval from the Secretariat of Foreign Relations, and the additional permits and registrations should be filed within 30 days. *The key is proper preparation of all preliminary papers.* (Nolan, 1994)

This chart displays the scattering of the Maquiladora industry’s manufacturing field.

![Chart showing the distribution of industries in the Maquiladora industry.](https://via.placeholder.com/150)

Figure 7.2 Cited by CorpWatch 2005, adapted from The Maquiladora Reader 1999

Comments

The Maquiladora industry’s existence has been challenged by NAFTA, due to the fact that it has removed more or less every tariff between the US and Mexico, and that it has become more attractive to establish production further down in Mexico and not only around the border. And as the infrastructure is getting better, the problem with heavy trucks is no more relevant. Another positive aspect of the Maquiladora industry is the combination of the closeness to the US, the tax exemptions and low Mexican labour costs. Only one of our interviewees knew about the Maquila program. He had been in Mexico a couple of times, setting up factories, so he was well acquainted with the Maquiladora industry. The fact that the rest of our interviewees did not
know or had ever heard of the Maquiladora industry, led us to believe that this is a rather unknown concept among the Swedish manufacturing companies in our sample.

7.1.8 Mexican Business Culture

The Mexican personality is complex, as is the history of the nation. The Mexican work ethic follows the traditional Latin American principle that one works to live rather than lives to work. Mexicans generally approach work as a necessary evil that must be submitted to in order to enjoy the more important things in life. The introductions of economic policies that stress competitiveness and efficiency, these perceptions have recently undergone dramatic changes. Consequently, foreign managers may find employees and business partners more willing to accept new management and productive regimes. Mexican businessmen have great respect and need for authority. Foreign business people entering into a contract or venture in Mexico should realise that Mexicans tend to enjoy the big-picture excitement of developing projects, but often have limited interest in the detail work needed to implement and manage operations. The lack of delegated authority contributes to the difficulties in completing business projects. Mexican business people do not have the cut-throat business mentality attributed to their neighbours in the north. Open conflict or even direct opposition of viewpoints is to be avoided. Respect is one of the most important elements of a Mexican’s relationship with those one comes in contact with. Conversation and personal interchange is important when cultivating relationships. Foreigners should be prepared to give respect as well as demand it in return, as well as being confident and strong without appearing to be aggressive or arrogant. (Nolan, 1994)

Comments

We found from our interviews that Swedes often have a simplified picture of how the Mexican people. A common belief is that Mexicans are often late to
appointments. However, we found from the interviews that this is not general for all Mexicans. The Mexicans put great value to personal contact. You have to show your personal side which Swedes sometimes find a little tough. According to our interviews, a formal approach is preferred with formal clothes, business cards and a formal title. However, when you have established a relation with a Mexican, it is important to maintain a personal relationship. Mexicans are not happy when they are regarded as Spaniard. Generally, when performing business activities during a greater span of time in Mexico, it is important to master English but also social Spanish. We found that since foreign companies are common in Mexico, there are good possibilities to find people that master the English language. An interviewee said that he perceived the use of bribes as being much more frequent in Mexico than in Sweden.

7.1.9 Infrastructure

Truck transportation is the most efficient way to ship freight in Mexico. Companies are allowed to operate their own trucking fleets to carry their own products. The only legal restriction is that it must buy its tractors in Mexico. Transportation costs are an important factor to consider for foreign companies when choosing location for establishment. A comparatively small amount of international cargo moves by rail, although Mexico’s biggest railway company, Ferromex, plans to invest 15 million USD in order to convert the currently undersized railroad network into a globally competitive one with ten state-of-the-art terminals by 2009. The road connections between the biggest cities have improved very much the past ten years. There are over 330,000 km of roads available for transportation compared with 26,655 km railroad (Mexico’s ministry of economics 2005).
From our interviews we got that Mexico has rather high transportation costs compared to China. This is partly due to lack of railroads. The far most frequent way of transporting goods is still by road. One of our interviewees mentions that one reason for railways being so underdeveloped is that it is very costly and takes much time to shift goods between trucks and trains. Therefore, the companies use trucks the whole way to the freight destination. Due to the use of trucks by companies that are transporting to the USA, there are periods when border crosses are very congested.

**7.2 Answer to research question 4**

*RQ:4 Why should a Swedish company move production to Mexico?*

Regarding the eight factors that were analysed we found several reasons that speak for an establishment in Mexico while the negative sides are few. From
our interviews we were able to draw the conclusion that the main reasons for Swedish companies to start a subsidiary in Mexico were the closeness to the US market, low labour costs and the fact that Mexico is a member of both NAFTA and MEUFTA which grant the company import and export benefits. Moreover, Mexico’s membership in those free trade agreements creates a good opportunity for Swedish companies to compete in the US market on the same conditions as the domestic American companies. A couple of interviewees mentioned that the fact Mexico is a very large market, was important when they decided to move production there. This was more common among the companies that did not produce for export to the US.

Even though the education level is very low in Mexico, we found from our interviews that it is not costly to educate personnel internally. Unskilled workers are easy to find, but skilled workers are a bit harder to find. If labour cost is the only incentive for the company to move production, then China is a better choice where labour cost is about a quarter of that in Mexico. From a purely economic point of view the labour unions in Mexico do not provide any incentives for a Swedish company to move production to Mexico when they negotiate higher salaries and more social benefits for the workers. In short, this implies higher labour costs. On a conservative calculation, one may increase the cost of labour by 30% to include social security, vacation time, Christmas bonus, and other similar fringe benefits provided to Mexican Workers by law. Severance pay is also high. These issues should affect foreign companies in their decision. Labour Law allows workers to form unions within any company. If you deal with a national union, a well-established organization, at least you know with whom you are dealing and it makes it easier to negotiate. If a company does not establish a labour contract with an established union, a group of workers may decide to unionize or to join a leftist union. So, it’s either form your own union, and register it before starting operations, or establish a contractual relationship with an established union. However, labour unions have diverse power in different industry sectors.
Tax levels in Mexico are generally lower than in Sweden. A company registered as a Maquiladora has additional tax relief. Generally, the biggest tax cost for a Maquiladora is income tax, if the company is profitable. Sales tax may be also an issue, but since the products are basically being exported, and components imported, these taxes can be offset. This would be an issue that can be cleared with an international accounting firm. Tax rates also vary in different states. Very important is to shed light on the risk of being associated as a permanent establishment which has different tax rates. Foreign companies can take advantage of Mexico’s membership in NAFTA and MEUFTA, but they must be careful to combine and fulfil the rules of origin of each treaty. NAFTA is criticised by US and Canada for taking jobs from the countries. However, many companies from these countries still reap the benefits from this agreement. For example, many of the large Automobile Industry members have established plants in Mexico to manufacture certain types of vehicles at lower labour costs, and with tax preferences based on NAFTA. These vehicles are then exported to different parts of the world. For example, the Ford Hermosillo plant, the GM Plant in Silao, the Nissan plant complex in Aguascalientes, the VW plant in Puebla, and others. Global industry is how these manufacturers obtain the best advantages of market locations, costs of production, government promotion of industrial parks, etc. This implies great benefits for Swedish companies that want to penetrate the US market.

Also that Mexico is centrally located; right between North America and Central and South America. It has ports on the East Coast connecting with Europe, US, Africa and South America, and ports on the West Coast connecting with Asia. This may be very beneficial for foreign companies.
7.3 Summary

Generally the level of education is much lower than in Sweden. It is also harder to get qualified workers such as engineers and economists. We found that the labour cost can be much higher than expected due to all the social benefits that the company has to pay. We think that it is important to have a Mexican person in the management that knows the labour laws, how the unions work and understand the Mexican culture. It seems like the labour unions in Mexico have varying power in different sectors. According to one of our interviewees, it is highly recommended to establish a labour union. The union should belong to one of the national organisations such as Confederación de Trabajadores Mexicanos (CTM). The unions’ power varies in different Mexican states, for example, in Tijuana their power is not as big as in Matamoros.

The tax levels in Mexico are lower than in Sweden. Further tax incentives for a Swedish company can be that if their Mexico affiliate is associated with a maquiladora, they can avoid or enjoy lower taxes, for example on import, export and VAT. Swedish companies that are planning to establish a Maquiladora should consider the differences in tax rates in different Mexican states. Moreover, any EU company may benefit from the existence of NAFTA and MEUFTA, by combining the rules of origin of each treaty. Positive aspects of the Maquiladora industry are the combination of the closeness to the US, the tax exemptions and low Mexican labour costs. The key to successfully establish a Maquiladora is proper preparation of all preliminary papers.

Regarding the business culture we found from our interviews that Swedes often have a simplified picture of how the Mexican people. The Mexicans put great value to personal contact. You have to show your personal side which Swedes sometimes find a little tough. Transportation costs in Mexico are rather high compared to China. This is partly due to lack of railroads. The far
most frequent way of transporting goods is still by road. Due to the use of trucks by companies that are transporting to the USA, there are periods when border crosses are very congested.
Chapter 8
Conclusion

In this part we present our conclusions. The dissertation’s two parts are summarised. Methodological criticism, future research and practical implications are also presented.

8.1 Summary of the Theoretical Part

Internationalisation can be explained as companies moving activities abroad. The internationalisation is usually done with some type of FDI. An FDI involves moving capital to a foreign market. This can be money wise through acquiring another company or make a Greenfield investment which means that the company starts their business in the foreign country from scratch. The companies may gain advantages by internationalising, such advantages may be lower wages, lower taxes, lower transportation costs and getting access to new markets.

Is the geographical distance an important factor to consider for managers when moving production? As one can assume the geographical distance has played a bigger role historically regarding companies internationalisation processes, but with the infrastructure and logistics of today the geographic distance may not be an issue. Differences in culture, language and political systems are probably a source of uncertainty for managers when deciding what country to expand to. As we are living in an information society, the importance of the problem which culture, language and political systems may have been lowered.
There are many theories and models that have evolved throughout the years. Many of them have been subject of alterations, changes and critics, partly due to that they generalising a very complex matter. These theories have been around for many years but the world has changed in many aspects and it seems that these changes are happening faster and faster. One of these changes that may have had major effects on companies’ internationalisation processes are information. The amount and the accessibility to information have drastically changed since the introduction of internet. We based our research on three well known internationalisation theories. The three theories that we used are the Uppsala model, the Network model and the Transaction Cost Analysis model.

Our research question’s foundation lies in the three theories that we wanted to research. These questions are adjusted to test if the theories can explain the internationalisation process of five Swedish companies. These theories were developed some decades ago and we tested if they still are applicable.

✓ **RQ:1  Does the stage model, which is based on the Uppsala theories, explain the internationalisation process of Swedish manufacturing companies?**

When we interviewed the companies we noticed a clear tendency that physic distance did not affect the company in its internationalisation process. However, the opinion that physic distance played a bigger role in the past was given by several interviewees. We also noticed that the majority of the companies did not start their foreign operation with a sales offices or agents, but started with a manufacturing subsidiary directly. This implies that companies want to be close to the market and that the cultural, language and politically differences in foreign markets have little effect on its internationalisation. This may be the case because the interviewed companies are very large in size as well as having many experiences of
internationalisation. The Stage model do not explain the internationalisation process of firms.

- **RQ:2** How are external and internal production networks influencing a company’s internationalisation process?

There are many factors involved in the decision to move business abroad. One of these factors is, according to the Network model, pressure from the customers or suppliers to internationalise the company. From our interviews we got the answer that pressure from its customers or suppliers did not affect them when taking the decision to expand to foreign countries. As the interviewed companies are large in size they are not influenced much by pressure from the suppliers. However, customers’ wishes have more influence on the company. The size of the company and its global position, simplifies the entrance into a new production networks. The companies also stress the importance of having a well known brand that already exists in peoples mind. The companies’ general opinion is that brand awareness among customers simplifies the process of breaking into new production networks.

- **RQ:3** In what way does the element of information, in the TCA model, affect companies’ internationalisation behaviour?

We noticed that the companies do not regard the cost of gaining information about new markets as an issue that creates problem. The companies said that there was no case of foreign establishment where they experienced lack of information. However, they believes that the access to information have been much better in the last few years. Hence, this gives the companies a better foundation to base their decisions. They believe that internet have had a profound impact on the accessibility to information. Furthermore, the increased use of consultants has also facilitated the process of gaining information. Opportunistic behaviour can be regarded as a matter of intentionally holding back or giving wrong information by the foreign
management to the parent company. To minimise the risk of opportunistic behaviour, companies often use managers from the home country. Some companies use management from the foreign country to lower costs and they have confidence in the foreign managers ability to do a good job and provide the parent company with truthful information.

To test our hypotheses we conducted in-depth interviews with five Swedish companies. These interviews were performed through telephone. To gain further information to our analysis we also conducted follow-up interviews.

Our aim was to find correspondences between the chosen theories with companies’ reality.

### 8.2 Summary of the Market Analysis

*RQ:4 Why should a Swedish company move production to Mexico?*

Regarding the eight factors that were analysed we found several reasons that speak for an establishment in Mexico while the negative sides are few. From our interviews we were able to draw the conclusion that the main reasons for Swedish companies to start a subsidiary in Mexico were the closeness to the US market, low labour costs and the fact that Mexico is a member of both NAFTA and MEUFTA which grant the company import and export benefits. Moreover, Mexico’s membership in those free trade agreements creates a good opportunity for Swedish companies to compete in the US market on the same conditions as the domestic American companies. A couple of interviewees mentioned that the fact Mexico is a very large market, was important when they decided to move production there. This was more common among the companies that did not produce for export to the US.
Even though the education level is very low in Mexico, we found from our interviews that it is not costly to educate personnel internally. Unskilled workers are easy to find, but skilled workers are a bit harder to find. If labour cost is the only incentive for the company to move production, then China is a better choice where labour cost is about a quarter of that in Mexico. From a purely economic point of view the labour unions in Mexico do not provide any incentives for a Swedish company to move production to Mexico when they negotiate higher salaries and more social benefits for the workers. In short, this implies higher labour costs. On a conservative calculation, one may increase the cost of labour by 30% to include social security, vacation time, Christmas bonus, and other similar fringe benefits provided to Mexican Workers by law. Severance pay is also high. These issues should affect foreign companies in their decision. Labour Law allows workers to form unions within any company. If you deal with a national union, a well-established organization, at least you know with whom you are dealing and it makes it easier to negotiate. If a company does not establish a labour contract with an established union, a group of workers may decide to unionize or to join a leftist union. So, it’s either form your own union, and register it before starting operations, or establish a contractual relationship with an established union. However, labour unions have diverse power in different industry sectors.

Tax levels in Mexico are generally lower than in Sweden. A company registered as a Maquiladora has additional tax relief. Generally, the biggest tax cost for a Maquiladora is income tax, if the company is profitable. Sales tax may be also an issue, but since the products are basically being exported, and components imported, these taxes can be offset. This would be an issue that can be cleared with an international accounting firm. Tax rates also vary in different states. Very important is to shed light on the risk of being associated as a permanent establishment which has different tax rates. Foreign companies can take advantage of Mexico’s membership in NAFTA and MEUFTA, but they must be careful to combine and fulfil the rules of origin of each treaty. NAFTA is critisised by US and Canada for taking jobs from the
countries. However, many companies from these countries still reap the benefits from this agreement. For example, many of the large Automobile Industry members have established plants in Mexico to manufacture certain types of vehicles at lower labour costs, and with tax preferences based on NAFTA. These vehicles are then exported to different parts of the world. For example, the Ford Hermosillo plant, the GM Plant in Silao, the Nissan plant complex in Aguascalientes, the VW plant in Puebla, and others. Global industry is how these manufacturers obtain the best advantages of market locations, costs of production, government promotion of industrial parks, etc. This implies great benefits for Swedish companies that want to penetrate the US market.

Also that Mexico is centrally located; right between North America and Central and South America. It has ports on the East Coast connecting with Europe, US, Africa and South America, and ports on the West Coast connecting with Asia. This may be very beneficial for foreign companies.

8.3 Practical Implications

We used theories to explain the internationalization process and to see if they could explain the process that companies go through when expanding abroad. In the information gained from the interviewees, they explained how they approached and expanded to foreign markets. These stated factors can be looked at by other companies that are planning to use FDI when moving to another country.

We hope that the provided information in the market analysis can be beneficial for our principal company. Furthermore, the empirical research can only be generalised within the research setting of this industry. Therefore, it is not possible to draw general conclusions about other industries or environments based on this research alone (Saunders et al., 2003). We hope
that our analysis will facilitate our principal company’s decision making process, when considering expansion to Mexico

8.4 Methodological Criticism

Our research was conducted through interviews. We performed telephone interviews, due to geographical limitations and because we hoped to gain deeper answers than through questionnaires.

In the beginning we discussed a division of the dissertation, since we were trying to meet the demands from both the university and our principal company. This led us to actually perform the division after a few weeks, in an attempt to make the dissertation as clear as possible. Therefore, we also divided our interviews into two parts, the ones concerning the theoretical part and the other ones concerning the Mexican market analysis. The questions to the theoretical part were asked only to five Swedish companies with production in Mexico. Furthermore the questions to the Mexican market analysis were asked to five, independent from each other, persons with good knowledge about Mexico. We know that a division of the dissertation might cause the paper to lose depth and maybe in the end also quality.

We began by developing a couple of questions that we asked to our first two interviewees, but we soon realised that these questions were poorly structured, so we created completely new questions with a clear outline. The change of questions did not affect our empiricism, since the new questions, where integrated with the old questions. These new questions were asked to all of our companies and the other interviewees. We did not send the questions before hand to our interviewees, which might have deteriorated the answers. And also that we had two different respondent groups might have weaken the whole empiricism, since we had to focus on two groups instead of diverting our attention to only one. In the end to make matters worse, we
learnt that our questions were wrongly formulated and asked, so we had to come up with new questions the weekend before the deadline of the dissertation. This suggests that we might have forced ourselves to quickly create new questions at the cost of the quality of the questions. Then we started the almost impossible assignment of finding interviewees with only one day’s notice that would be able to find time to answer our follow-up questions. As we expected, the turnout were very low, only two interviewees was able to participate and this clearly speaks against the validity and reliability of the follow-up questions. Thus, we did not include the answers of our follow-up questions, because they do not add any value to our empiricism.

Due to geographical, financial and time limitations, we were only able to interview Swedish companies. We thought about contacting Mexican officials and companies, but due to high telephone rates we dropped that idea. It might have benefited the dissertation and taking it to another level, but it was unfeasible to carry through.

### 8.5 Future research

_**Optimising a production network** - One interesting subject to investigate would be how to build up and optimize a network between companies. Is it possible to create a network that not only optimizes efficiency vertically in the supply chain, but also, create networks horizontally with other companies in related industries that use the same technology? This network may not only decrease transaction costs horizontally but also create more know-how and shared knowledge vertically.

_**Information society** - A topic for another dissertation may be to investigate further in what way the information technology have changed the business conditions for companies in the modern world. How do the new information
technologies affect companies’ total costs? Is it really the case that internet has lowered the cost of handling information, including all overhead costs? Is the internationalisation process of internet companies similar to other industries?

*Human resources* - Human resources may have been aggregated in the mother company for many years through education of the employees and step-by-step experiences. Managers might consider human resources as an issue that is solved gradually after the establishment. It would be interesting to investigate how to move human resources to a foreign subsidiary.
Works Cited

Books:
Abraha, D. (c.2005) *Major factors impacting the international market relationship and entry modes: A case of Swedish automotive industry in Mexico, Scania and Volvo*


**Articles:**


**Internet:**

[www.finnveden.se](http://www.finnveden.se) (Retrieved) cited 3 September 2005

[www.his.se](http://www.his.se) (Retrieved) cited 12 September 2005

[www.intermex.com](http://www.intermex.com) (Retrieved) cited 19 October 2005

[www.regeringen.se](http://www.regeringen.se) (Retrieved) cited 12 September 2005

[www.swedishtrade.se](http://www.swedishtrade.se) (Retrieved) cited 12 September 2005


Available from <URL:http://www.brs-inc.com/porter.asp>

CorpWatch (Retrieved) cited 21 November 2005

Available from <URL:http://www.corpwatch.org/article.php?id=1528#industry>

Dagens Industri (Retrieved) cited 29 August 2005
Available from <URL:http://di.se/nyheter>

Mexconnect (Retrieved) cited 20 November 2005

Mexicolaw (Retrieved) cited 20 November 2005
Available from <URL:http://www.mexicolaw.com/LawInfo18.htm>

The Texas Historical Association (Retrieved) cited 23 October 2005
Available from <URL:http://www.tsha.utexas.edu/handbook/online/articles/MM/dzm2.html>

Wikipedia, the free encyclopedia (Retrieved) cited 5 August 2005
Available from <URL:http://en.wikipedia.org/wiki/Outsourcing>

Wikipedia, the free encyclopedia (Retrieved) cited 3 October 2005
Available from <URL:http://en.wikipedia.org/wiki/Foreign_direct_investment>

World Bank (Retrieved) cited 17 October 2005
Available from <URL:http://rru.worldbank.org/PapersLinks/Policies-Attract-Foreign-Direct-Investment/>

Interviews:
Alkenius, Anders, Retired, ABB AB, Nora, 21 October 2005

Andersson, Johan, Business Analyst, SCA AB, Stockholm, 8-9 November 2005

Andersson, Susanne, Head of Investor Relations, Ericsson AB, Stockholm, 9 November 2005

Andersson, Tommy, Business Area Manager of Fastners, Finnveden AB, Göteborg, 27 October 2005
Blomberg, Sanja, Market Analyst, Gambro AB, Stockholm, 29 November 2005

Enriquez, David, Mexican Business lawyer, Goodrich, Riquelme & Ass., London, 3 November 2005

Eriksson, Anders, Market Director, ABB AB, Malmö, 29 November 2005

Löwendahl, Dick, Chief Financial Officer, Finnveden AB, Göteborg, 21 September 2005

Jonsson, Anita, ITT Director, Swedish Trade Council, Mexico, 9 November 2005

Monsén, Sophie, Manager, Gambro AB, Stockholm, 9 November 2005

Perrotini, Ignacio, Professor of Economics, National Autonomous University of Mexico, Mexico City, 3 November 2005

Rémis, César, Economist, Economic Council of Mexico in the EU, Brussels, 3 November 2005

Svensson, Ann-Marie, Teacher, University of Skövde, Skövde, 5 October 2005
Intervjufrågor

The Uppsala model


3. Vilken typ av utlandsinvestering är vanligast i början, ett försäljningskontor eller ett helägt dotterbolag?

The Network model

4. Ett företag är beroende av resurser som är kontrollerade av andra organisationer. Hur har etableringen i andra länder varit, med hänsyn till svårigheter att komma in i produktionsnätverket?

5. Etablerade Ni er utomlands som ett resultat av påtryckningar från Era kunder och/eller leverantörer?

6. Har detta skett i något fall av utlandsinvesteringar gjorda av Er?

7. Har Ni någon gång blivit inbjudna till långvariga affärsrelationer av utländska organisationer som inte upp till då ingått i Ert produktions- eller affärsnätverk.
8. Håller Ni med om att Er verksamhet har präglats och präglas av en hög grad av internationalisering med många starka gränsöverskridande relationer.

9. Är Era kunder internationaliserade?

10. Är Era leverantörer internationaliserade?

**Transaction Cost Analysis**

11. Är det svårt och kostsamt för Er att få tag på information om länder som t.ex. Venezuela eller Kina?

12. Hur är möjligheterna för Er, att ha insyn i era utländska dotterbolag, om det som så många gånger är inhemska personer i ledningen?

13. Hur ofta inträffar det att Ni dra er hemåt igen bara efter ett par år pga. uteblivna resultat?

**Porter’s Five forces**

**The bargain power of customers**

14. Är det stora utbjudna volymer och många köpare av Era produkter i Mexiko?

15. Består marknaden i Mexiko av många små företag? (Utbudssidan)

16. Vilka typer av produkter bjuder Ni ut på den Mexikanska marknaden?

**The bargain power of suppliers**

17. Är Ert varumärke starkt i Mexiko?
18. Är Era kunder grupperade i organisationer eller sker försäljningen mot enskilda konsumenter?

The threat of entry

19. Är producenterna på den mexikanska marknaden så pass stora att de tar fördelar av economies of scale?

20. Fordrar en etablering i Mexiko stora kapitalinvesteringar relativt andra typer av industrier.

21. Anser Ni att det var lätt att komma åt nödvändiga distributionskanaler i Mexiko?

22. En tidig närvaro på en marknad kan medföra lojalitet hos kunder och leverantörer. Var Ni tidiga på den mexikanska marknaden och hur har Ni löst frågan med lojalitet.

23. En barriär mot etablering kan vara att redan etablerade företag tillsammans agerar för att motarbeta er etablering. Upplevde Ni det som ett problem?

24. Upplevde Ni några rättsliga hinder när Ni etablerade Er i Mexiko?

The threat of substitutes

25. Ser Ni potentiella hot från andra produkter i Mexiko som kan agera som substitut till Era produkter.
**Intensity of competitive rivalry**

26. Anser Ni att konkurrensen Ni Mexiko är av den karaktären att Ni hela tiden måste göra investeringar i produktionsapparaten och FoU för att stävja hotet från konkurrenterna?

27. Är producenterna i Mexiko ungefär lika stora?

28. Upplever Ni en stor organisk tillväxt i Mexiko, eller slåss Ni för att ta marknadsandelar från konkurrenter?

29. Har Ni någon gång upplevt ett priskrig på den mexikanska marknaden?

**Mexiko och Maquiladora**

30. Känner Ni till Maquiladora programmet?

31. Vilka andra möjligheter och attraktioner ser Ni med Mexiko, varför ska man överhuvudtaget flytta verksamhet dit?

32. Är språket ett problem?

33. Är det lätt för mexikanarna att ta till sig det engelska språket?

34. Vilket språk gäller mellan management och arbetare?

35. När man handlar med mexikanska kunder, måste man ha en social spanska eller går det med engelska också?

36. Finns det välkända kulturella problem som kan uppstå mellan ett svenskt företag och den mexikanska kulturen?

37. Hur fungerar byråkratin?
38. Hur är det med fackorganisationer i Mexiko?

39. Säljer Ni enbart på den mexikanska marknaden?

40. Finns det övriga incitament som den mexikanska regeringen ger till svenska företag för att attrahera dem till Mexiko?

41. Är det lätt att inom relativt kort tid hitta kompetent personal i Mexiko som t.ex. ingenjörer, ekonomer osv.?

42. Är det vanligt att Ni utbildar personal internt i Mexiko?

43. I Sverige är vi relativt informella i business, hur är det i Mexiko?

44. Vad tycker gemene man om att svenska och andra utländska företag flyttar till Mexiko?

45. Hur är utbildningsnivån i Mexiko jämfört med Sverige?

46. Hur underlättar Maquiladora programmet för svenska företag?

47. Hur upplevde Ni infrastrukturen i Mexiko?
Appendix 1b

Interview questions

The Uppsala model

1. When considering expansion abroad, was the closeness to the market the main choice or did you consider moving to a far market directly? For example, a Swedish company’s choice of expansion in Scandinavia before they consider Europe.

2. How important are the differences in language, culture and the political system when taking the final decision?

3. What kind of investments are the most common in the beginning, a sales office or a wholly owned subsidiary?

The Network model

4. A company is dependent on resources that are controlled by other organizations. How has previous establishments to other countries been, regarding difficulties to enter production networks?

5. Was your establishment a result of pressure from your customers and/or your suppliers?

6. Have this occurred at any of your establishments abroad?

7. Have you, at any time, been invited to long-term business relations by foreign organizations, which up to then have not been included in your production- or business network?
8. Do you agree that your business has been marked or is characterised by a high degree of internationalisation with many strong cross-national relations?

9. Are your customers internationalised?

10. Are your suppliers internationalised?

The Transactions Cost Analysis model

11. Is it difficult and costly for your company to get information about other countries such as Venezuela and China?

12. What chances are there, to have good insight in your foreign subsidiaries, if there are local people in the management?

13. How often does it occur that you pull back your operations from a foreign country, because of lack profit?

Porter’s five forces

The bargain power of customers

14. Are there large offered quantities and many buyers of your products in Mexico?

15. Does the market consist of many and small companies on the supply side?

16. What kind of product do you offer for sale on the Mexican market?

The bargain power of suppliers

17. Is your trademark strong in Mexico?
18. Are your customers characterised as organisations or are the sales aimed towards single customers?

_The threat of entry_

19. Are the producers on the Mexican market as large that they take advantage of economies of scale?

20. Does an establishment in Mexico carried out by you, demand large investments comparatively to other types of industries?

21. Do you agree that it was easy to attain the necessary distribution channels in Mexico?

22. An early presence on a market may bring loyalty from customers and suppliers. Was your presence at the Mexican market an early one and how did you solve the loyalty issue?

23. A barrier against an establishment is that already established companies may act to oppose your establishment. Did you experience that as a problem?

24. Did you experience any legal obstacles when establishing in Mexico?

_The threat of subsidiaries_

25. Do you see any potential threats from other products in Mexico that may act as substitute to your products?
Intensity of competitive rivalry

26. Do you agree that your establishment in Mexico needs a lot of investments in production and R&D to suppress the competitors?

27. The producers in Mexico, are they similar in size?

28. Do you experience a large organic growth in Mexico, or do you have to fight to take market shares from the competitors?

29. Have you ever experience a price war on the Mexican market?

Mexico and Maquiladora

30. Are you familiar with the Maquiladora programme?

31. What other possibilities and attractions do you see with Mexico, why should Swedish companies move activities there?

32. Is the language an issue?

33. Is it easy for the Mexicans to learn the English language?

34. What language is used between the management and the workers?

35. When doing business with Mexican customers, is a social Spanish enough or can I get by with the English language?

36. Are there any well known cultural problems that can arise between a Swedish company and the Mexican culture?
37. Is there any bureaucracy and how does it work?

38. What about Mexican labour unions?

39. Do you sell to the Mexican market only?

40. Does the Mexican government offer any further incentives for Swedish companies to attract them to Mexico?

41. Is it possible to within a short period of time find competent labour in Mexico, such as engineers and economists?

42. Do you usually educate your Mexican staff internally?

43. In Sweden we are usually rather informal when doing business, how does that work Mexico?

44. What is the general opinion in Mexico about foreign companies moving to Mexico?

45. How is the education level in Mexico compared with Sweden?

46. In what way does the Maquiladora programme simplify for Swedish companies?

47. How did you experience the Mexican infrastructure?
Follow-up Questions

The Uppsala model
H:1; H:2

1. Hur påverkar det geografiska avståndet era internationaliserings beslut?

2. Varför är det så?

3. Hur viktigt brukar skillnad i språk, kultur och politiskt system vara för det slutgiltiga beslutet?

4. Varför är det så?

5. När tror du det geografiska avståndet spelar roll?

6. Varför är det så?

7. Under vilka omständigheter tror du att det är bra att etablera ett försäljningskontor före en produktionsanläggning?

8. Varför är det så?

9. Under vilka omständigheter tror du att det är bra att upprätta en produktionsanläggning direkt vid etableringsstarten?

10. Varför är det så?

The Network model
H:3; H:4

11. Under vilka omständigheter tror du att utlandsetableringen beror på kundernas och/eller leverantörernas önskemål?
12. Varför är det så?

13. Har någon etablering i ett annat land skett i samarbete med någon i ert nätverk?

14. Varför är det så? Om JA, hur yttrade sig det samarbetet?

15. På vilket sätt påverkar era kunder och underleverantörer er internationalisering?

16. Är det lätt Er att bryta in i produktionsnätverk på nya marknader?

17. Varför är det så?

*The Transaction Cost Analysis model*

H:5; H:6

18. Hur tror du att kostnaden att inhämta information om nya marknader påverkar era internationaliserings beslut?

19. Varför är det så?

20. Har denna kostnad påverkat erat val av marknader att expandera till?

21. Varför är det så?

22. Tycker Ni att denna kostnad hög?

23. Varför är det så?

24. När ni använder svenska managers i era utländska enheter, är det för att minimera risken för opportunistiskt beteende?

25. Varför är det så?
26. Hur vet ni att den informationen ni får från era utländska enheter är korrekt?

27. Hur kontrollera ni detta?

**Slutfråga**

28. Beskriv kortfattat hur ni går tillväga inför ett internationaliseringsbeslut. Vilka faktorer anser ni vara de viktigaste?

**Mexiko**

29. Mexiko har inte de lägsta lönerna i världen, ändå etablerar sig många utländska företag i Mexiko. Varför?

**Utbildning**

30. På vilket sätt innebär den låga utbildningsnivån i Mexiko ett problem för svenska företag?

31. Har den låga utbildningsnivån någon gång medfört att utländska företag inte etablerat sig i Mexiko?

32. Varför är det så?

**Arbete**

33. På vilket sätt påverkar arbetarnas sociala förmåner den totala lönekostnaden?

34. Har dessa förmåner på något sätt inneburit problem för svenska företag?
35. Om Ja. På vilket sätt?

**Facket**

36. Varför är det viktigt att arbetarna är knutna till ett fackförbund?

37. Vilka risker tar ett svenskt företag genom att inte ha fackanslutna arbetare?

**Skatt**

38. Om ett svenskt företag blir associerat som ett ”permanent establishment” istället för ett Maquiladora, vilka skattekonsekvenser får detta för företaget?

39. På vilket sätt kan man undvika att bli associerat som ett ”permanent establishment”?

40. Vilka skatter innebär den största kostnaden för ett Maquilla?

**NAFTA/MEUFTA**

41. Vilka fördelar och vilka nackdelar innebär det för ett svenskt företag som är etablerat i Mexiko, att Mexiko är medlem i NAFTA och MEUFTA?

42. Vilka ”rules of origin” gäller för MEUFTA?

**Maquiladora**
43. Hur mycket av den totala produktionen i Mexiko är tillåtit för ett Maquila registrerat företag att sälja på den mexikanska marknaden?

44. Vi har märkt att Maquiladora är ett relativt okänt begrepp bland svenska företag, varför är det så?

45. Vilken påverkan har NAFTA haft på Maquiladora industrin?

46. Det finns kritiker mot Maquiladora industrin, har den spelat ut sin roll som ett incitament för utländska investerare?

47. Om JA. Varför är det så?

48. Vilka är nackdelarna med Maquiladora programmet för svenska företag?

**Infrastrukturen**

49. Varför är tågsystemet i Mexiko, så underutvecklat?
Appendix 2b

Follow-up Questions

The Uppsala model

H:1; H:2

1. In what way does the geographic distance influence your internationalisation decisions?

2. Why is it like that?

3. What importance does differences in language, culture and political system play when deciding to internationalise?

4. Why is it like that?

5. When do you think that the geographical distance plays a role when deciding what to internationalise?

6. Why is it like that?

7. Under what circumstances do you think that it is preferable to establish a sales office before establishing a production subsidiary?

8. Why is it like that?

9. Under what circumstances do you think that it is preferable to establish a production subsidiary directly at the start?

10. Why is it like that?

The Network model
11. Under what circumstances do you think that a foreign establishment is a result of the customers’ and suppliers’ wishes?

12. Why is it like that?

13. Has any of your internationalisation steps occurred in cooperation with member of your production network?

14. If yes, in what way did the cooperation appear?

15. In what way do your customers’ and suppliers’ affect your internationalisation steps?

16. Is it easy for you to break into production networks in new markets?

17. Why is it like that?

The Transaction Cost Analysis model

18. How do you think the costs to obtain information about new markets effects your internationalisation decision?

19. Why is it like that?

20. Does this cost affect your choice of markets to expand on?

21. Why is it like that?

22. Is this a high cost?

23. Why is it like that?
24. By having Swedish managers in your foreign unit, is it to minimize the risk of opportunistic behaviour?

25. Why is it like that?

26. How do you know that the information that you receive from your foreign unit is correct?

27. How do you control this?

**Final question**

28. Describe shortly your decision process before internationalising. What factors do you consider most important?

**Mexico**

29. Mexico does not grant the lowest wages in the world still many foreign companies establishes in Mexico. Why?

**Education**

30. In what way does the low education level in Mexico create problems for Swedish companies?

31. Has the low education level in Mexico prevented a foreign company to establish itself in Mexico?

32. Why is it like that?
**Labour**

33. In what way do the workers social benefits affect the total labour cost for a foreign company?

34. Have these benefits in any way meant problems for Swedish companies?

35. If yes, in what way?

**Unions**

36. Why is it important for a foreign company to have the workers tied to a labour union?

37. What risks are the foreign company exposed to if it do not tie its employees to a labour union?

**Tax**

38. What tax consequences is the foreign company liable to meet if it is associated as a “permanent establishment” instead of a Maquiladora?

39. How do a company avoid being associated as a “permanent establishment”?

40. What tax costs represents the largest cost for a Maquiladora?

**NAFTA/MEUFTA**

41. What benefits and what disadvantages do Mexico’s membership in NAFTA and MEUFTA impose on a Swedish company that is established in Mexico?
42. What are the “rules of origin” that a foreign company has to fulfil in order to enjoy the benefits of Mexico’s membership in MEUFTA?

Maquiladora

43. How much of the total production is allowed for a Maquiladora registered company to sell in the Mexican market?

44. We have noticed that the Maquiladora programme in Mexico is a relatively unknown concept for Swedish companies. Why?

45. In what way has NAFTA influenced the Maquiladora industry?

46. There is criticism towards the Maquiladora concept. Has the Maquiladora program played out its role as an incentive for foreign investors?

47. If Yes, Why?

48. Which are the disadvantages with the Maquiladora programme for a Swedish company?

Infrastructure

49. Why are the train services as underdeveloped as it is in Mexico?