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Location-specific Determinants of Foreign Direct Investment

Study of U.S. ICT Direct Investment in Sweden

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Foreword

Foreign direct investments (FDI) make an important contribution to renewal of the Swedish industrial landscape through competence and access to capital. The issue of attracting foreign investments is hot on the policy agenda and is reflected in several policy areas. This study is based upon interviews with representatives from fifteen US ICT companies that decided either to invest or not to invest in Sweden during the period 2001–2003. In order to understand the determinants of locations specific investments, the study tries to answer the following questions: (1) what are the principle motivations for considering Sweden as a location for American direct investments?, (2) how important are governmental incentives as FDI determinants?, and (3) what determines the attractiveness of Sweden as a target for future FDI?

Although small in scope, the study reveals several interesting insights, most importantly, perhaps, that the principal motivations of the investors were either resource-seeking or market-seeking and that both demands could be satisfied in Sweden. Further, it could be concluded that policy related determinants considerably affect the potential foreign investors, but that that proactive facilitation measures that go beyond policy liberalization have played a minor role in these localization decisions.

The study has been undertaken by Lars J Mattila from ITPS' Washington office during 2004.

Östersund, April 2005

Suzanne Håkansson
Head of Unit

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Summary

This paper present a study based on empirical data collected through in-depth interviews with 15 representatives from U.S. firms within the information, communication and technology sector. All of the investigated companies have been in an internationalization process with Sweden as the specified host-country for foreign direct investment (FDI). After reviewing the main research contributions within the area, special attention was given to the World Investment Report model of location-specific determinants of FDI. According to this model, the determinants can be divided into three categories: (1) Policy framework for FDI, (2) Economic determinants, and (3) Business facilitation. The model is particularly pertinent for the purpose of this research study whereby it constitutes the conceptual framework of the investigation.

The objective of the study is to contribute to the understanding of FDI decisions through an in-depth analysis of location-specific determinants. More explicitly, the aim is to identify and evaluate the most significant variables associated with U.S. FDI in Sweden. The research task has been divided into the following research questions: (1) what are the principle motivations for considering Sweden as a location for American direct investments, (2) how important are governmental incentives as FDI determinants, and (3) what determines the attractiveness of Sweden as a target for future FDI.

The analysis of the data obtained from the interviews revealed that the principal motivations of the investors were either resource-seeking or market-seeking. Further, it could be concluded that policy related determinants considerably affect the potential foreign investors. Regarding the importance of governmental incentives on investment decisions, the result shows that business facilitation determinants, such as social amenities and investment promotion, did not considerably influence the potential foreign investors. It was possible to contend that proactive facilitation measures that go beyond policy liberalization play a minor role in the localization decision. When it comes to the future attractiveness of Sweden for FDI, the empirical evidence suggests that economic growth, accompanied by the availability of skilled labor, are decisive factors in the future locational decisions of multinational enterprises.

1 Introduction

On the expectation that foreign direct investment (FDI) enrich national economies, governments compete for attracting foreign investors. Crucial location-specific advantages are FDI policies and economic determinants. However, attracting FDI is very demanding, especially in an innovative and technological advanced area. Policy-makers have therefore become increasingly interested in comprehending motivating reasons for FDI. The driving force is improving investment incentives for foreign investors (Zitta & Powers, 2003).

The objective of this study is to contribute to the understanding of FDI decisions through an in-depth analysis of location-specific determinants. More explicitly, the aim is to identify and evaluate the most significant variables associated with U.S. FDI in Sweden. The research task has been divided into the following research questions: (1) what are the principle motivations for considering Sweden as a location for American direct investments, (2) how important are governmental incentives as FDI determinants, and (3) what determines the attractiveness of Sweden as a target for future FDI. The result provides a snapshot of the Swedish situation from U.S. investors' point of view.

One prominent feature of the increasing integration of the world economy is the rapid internationalization of business and trade (OECD, 2002). More and more companies are going outside their home countries into foreign markets as a consequence of business opportunities and the growing permissiveness of regulation (GAO, 2004). The growth of international establishments has been accompanied by a significant shift in attitudes toward multinational enterprises (MNEs). Following this progress, many countries have devoted particular attention to attract FDI during the last decade (UNCTAD, 2001). The rationale for increasing efforts to attract foreign investors stems from the belief that FDI results in a number of positive external effects or *"spillovers"* for the destination economy. Tangible benefits may take many forms, including facilitating technology transfer, increasing standards of living, enriching the foreign exchange reserves, and reducing unemployment (OECD, 2002).

At the same time, there seems to be an increasing apprehension that activities aimed at attracting FDI are nothing but a zero-sum game. This concern has been especially articulated when it comes to the use of incentives in order to attract specific investment projects. It presents a challenge for policy-makers and goes beyond the traditional concerns for economic growth. Accordingly, it is critical to examine the motivations that influence foreign investors. Although a number of investigations have been conducted in this area (Blomström & Kokko, 2003), not enough is known about the managerial motivations that influence the investment flows. In fact, the area is still in an exploratory stage, whereby a detailed analysis of case companies may reveal underlying motives and sub-processes.

This research is based on an in-depth-analysis of fifteen U.S. companies through the use of personal interviews. All investigated corporations have been involved in an internationalization process with Sweden as the specified host country. Two distinctive groups of U.S. companies have been investigated in the research project. The first group consisted of U.S. companies that have gone through the decision-making process and determined to choose Sweden as the destination for the investment. Conversely, the second group consisted of U.S. companies that after the evaluation process decided not to invest in Sweden. Intentionally, the selection was confined to companies operating in the information, communication and technology (ICT) sector. Though relative small, the sample is indeed interesting as it captures a substantial percentage of the total U.S. ICT investments in Sweden between the years 2001 to 2003.

The paper is organized as follows. FDI key features and global trends are described in the next section. The following section is devoted to the conceptual framework of the investigation. Subsequently, methodological aspects, such as research approach, are taken into consideration. The empirical results are presented and discussed in the penultimate section, followed in the final section by concluding remarks.

2 FDI: Key Features and Global Trends

An investment is defined as FDI when it involves an equity capital stake of 10 percent or more of the ordinary share of the incorporated enterprise or its equivalent for an unincorporated enterprise (UNCTAD, 1999). From an economic point of view, the central characteristic of FDI is the existence of a long lasting relationship combined with a significant degree of influence on the control of the venture (OECD, 1996; Borga & Mataloni, 2001). For this reason, the majority of definitions of the term include an inflow of both capital and managerial input in order to differentiate FDI from other arrangements such as foreign portfolio equity investment (FPEI)[1]. For instance, the United Nations Conference on Trade and Development (UNCTAD) defines FDI as *"an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other then that of the foreign direct investor"*. For a further discussion of FDI concepts, see Lipsey (2003).

To undertake FDI, the investing company has to make a choice between the acquisition of an existing enterprise and the establishment of a new venture via a greenfield investment. In an acquisition, the investing company purchases shares of an existing foreign enterprise in a sufficient amount to gain control. Acquisitions are generally subsumed with mergers under the title mergers and acquisitions (M&A). The other alternative, greenfield investment, refers to the establishment of an entirely new venture in a foreign country. The two entry modes carry with them different benefits and risks from a foreign investor's point of view. From a strategic management viewpoint, the entry mode decision is more complex than selecting between prototypical organizational forms. The broad classifications of entry modes disguise a wide variety of alternatives (Meyer & Estrin, 2004). Several investment options are more or less hybrids of the described alternatives, including brownfield and partial acquisition. The preferred choice of entry mode is primary a decision over the origin of the resources for the foreign enterprise (Meyer & Estrin, 2001, Anand & Delios, 2002).

Another important distinction in the analysis of entry mode decisions is related to the level of control of the subsidiary. The investment can be made solely or jointly by two or more companies. Sharing of control is often based either on contracts or equity. In the former, cooperation is emphasized and in the latter, emphasis is put on dividing risk and ownership. Generally, companies investing abroad prefer to have a wholly owned or a majority owned subsidiary, given that a joint venture agreement requires sharing of control. However, there are advantages that may arise with a new entry created under shared ownership. To exemplify, a joint venture can be used as a means of overcoming unfavourable political conditions in the target country (Contractor & Lorange, 1988).

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[1] *FPEI provides financial capital by purchasing shares without exercising any form of management control of the foreign venture. The overriding motivation is a short-term financial return whereby the long-term interest is limited.*

One way to measure the development of FDI activities is to consider financial investment flows and stockholdings (UNCTAD, 2000). FDI flows represent annual changes in the activities of MNEs, while FDI stocks give an idea about the accumulated value of the share of the capital owned by MNEs that forms the base for international production. Unfortunately, FDI data suffer from various measurement problems. For example, the registered home country of the capital flows is not always the final one because of the role of foreign-owned financial intermediaries (Borga & Mataloni, 2001). Nevertheless, this type of data is published by many countries, allowing comprehensive inter-country comparisons. Financial FDI data will therefore be used in this study to give an overview of the global trends in FDI and to demonstrate its volume and importance.

The numbers in Table 1 document an increasing pace of global integration since the beginning of the 1980s. The world-wide FDI flows nearly quadrupled between 1982 and 1990, reaching a peak value of approximately 1.4 trillion dollars in the year of 2000. This upward trend occurred in the context of economic changes that liberalized global investment and trade (UNCTAD, 2002). Restricting barriers such as limitations on the size of a foreign investor's stake in a local company, restrictions to remove invested capital, high rates of taxation on investment returns, and sector prohibitions were eliminated.

Table 1 Selected indicators of International Production 1982–2002

	Value at current prices (in billions of US dollars)			
	1982	**1990**	**2000**	**2002**
FDI inflows	59	209	1,393	651
FDI outflows	28	242	1,201	647
FDI inward stock	802	1,954	6,147	7,122
FDI outward stock	595	1,763	5,992	6,866
Cross-boarder M&As	n.a	151	1,144	370

Source: UNCTAD based on its FDI/TNC database

After the seventh consecutive year of rapid FDI growth, the flows declined significantly 2002. The major forces behind the dramatic fall were a slowdown in the world economy and increasing geopolitical uncertainty (UNCTAD, 2002). Despite the sharp post-2000 decline in FDI flows, the importance of international business in the world economy has not changed. The marked slowdown represents a correction to sustainable levels rather than a reversal of a trend. In fact, fundamental economic driving forces have not been affected, and FDI policies are still being liberalized by many governments. Furthermore, recent surveys of corporate expectations show that senior executives give an optimistic view of the coming years (e.g. UNCTAD, 2003; Economist Intelligence Unit, 2004).

3 Conceptual Framework

Following the growing significance of FDI, several studies have investigated the internationalization process and corporate decisions to go beyond national borders. A majority of the research contributions are based on the work of Stephen Hymer (Dunning, 2003). In his doctorial dissertation (1960, published 1976), Hymer argued that indigenous companies have advantages over foreign corporations in the domestic market as they have better knowledge over the local environment. In order to compete in a foreign country, the MNEs must therefore possess specific proprietary or ownership qualities that compensate for the disadvantages of investing abroad. In addition, market imperfections must also deny domestic access to the firm-specific qualities of the MNEs. The conditions for perfect competition are therefore not likely to apply in cases where FDI and MNEs are present.

Hymer's insight regarding the concept of ownership advantages has been further developed by Dunning (1977, 1980, 2002). In explaining why companies become global, Dunning introduced a comprehensive framework built on the specific-advantage hypothesis. This proposed framework, known as the Ownership-Location-Internationalization (OLI) or eclectic paradigm, provides a point of departure for understanding the main economic mechanisms behind the development of MNEs, and it helps to clarify the emergence of FDI. The OLI paradigm suggests that the undertaking of a successful FDI is determined by the presence of three cumulative conditions: (1) ownership advantages, (2) localization advantages, and (3) internalization advantages.

The first condition, presence of ownership advantages, relates to characteristics that enable the company to be competitive on the home market, for example superior technology skills, high R&D intensity, or copyrights and patents. The second condition refers to institutional and production advantages associated with specific geographic environments. The final condition, presence of internalization advantages stems from the ability to coordinate activities involving international transfer of tangible and intangible assets inside the organization. According to the OLI paradigm, the beneficial outcome of FDI is related to a process in which the three groups of advantages come together. Thus, the framework helps explain the conditions under which FDI are most likely to occur. See Markusen (1995) for a further description of the OLI paradigm.

It is interesting to note that while the first and the third determinants are firm-specific, the second is location specific (UNCTAD, 1998). Thus, the second condition is the only one that governments can influence directly[2]. One attempt to integrate the location-specific determinants into a single model was made in the World Investment Report (WIR)[3] *"Trends and Determinants"* released by UNCTAD in

[2] Government can influence the other two conditions indirectly, e.g. through promotion of cross-boarders partnership in R&D.

[3] The World Investment Report has been published annually since 1991. These publications seek to contribute to a better understanding of the role of FDI in the world economy and to the ongoing discussion on globalization. The contributions are an established part of the literature on FDI.

1998. In this publication, issues were addresses related to investment policy, and the evolving nature of location-specific factors that determine the flows of FDI to host countries. The understanding of policies and measures particularly important for attracting FDI was further discussed in the publication *"FDI Policies for Development: National and International Perspectives"* (UNCTAD, 2003).

According to the WIR publication (1998), there are three sets of location-specific determinants of FDI. In consequence, the model proposed is composed of three categories of factors, namely (1) Policy framework for FDI, (2) Economic Determinants, and (3) Business facilitation. It is important to note that although the model treats each of the sets of determinants separately, the interrelationships among them must be taken into consideration. Further, the relative significance of different location-specific determinants may change over time. It is therefore important to emphasis that investigations of host country determinants represent a snapshot *"in a particular country, at a given time"* (UNCTAD, 1998:91). Figure 1 illustrates a graphic overview of the host country determinants of FDI.

Figure 1 Host country determinants of FDI

I. Policy Framework for FDI

- Economic, political and social stability
- Rules regarding entry and operations
- Standards of treatment of foreign affiliates
- Policies on functioning and structure of markets (especially competition and M&A policies)
- International trade and investment agreements
- Privatization policy
- Trade policy (tariffs and non-tariff barriers) and coherence of FDI and trade policies
- Tax policy

II. Economic determinants

A.	**Market-seeking**	• Market size and per capita income • Market growth • Access to regional and global markets • Country-specific consumer preferences • Structure of markets
B.	**Resource/ Asset-seeking**	• Raw materials • Low-cost unskilled labour • Skilled labour • Technological, innovatory and other created assets (e.g. brand names), including in individuals, firms, and clusters • Physical infrastructure (ports, roads, power, telecommunication)
C.	**Efficiency-seeking**	• Cost of resources and assets listed under B, adjusted for productivity for labor resources • Other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products • Membership of a regional integration agreement conductive to the establishment of regional corporate networks

III. Business facilitation

- Investment promotion (including image-building and investment–generating activities and investment-facilitation services)
- Investment incentives
- Hassle costs (related to corruption, administrative efficiency, etc.)
- Social amenities (bilingual schools, quality of life, etc.)
- After-investment incentives

Source: UNCTAD (1998:91)

The first set of determinants, Policy Framework for FDI, refers to the national rules and regulations governing the operations and market entry of foreign investors. The foundation or the so-called "inner ring" of this policy framework is constituted of policies intentionally used to influence foreign investors. There are also supplementary policies that influence the locational decision. These represent the "outer ring" and consist of macroeconomic and macro-organizational policies. Once an enabling FDI policy framework is in place, economic determinants come into consideration. Following from the principle motivations for FDI, the second set of determinants is divided for analytical convenience into three clusters: (1) market-seeking, (2) resource-seeking, and (3) efficiency-seeking. As with the evolution of the FDI policies, the economic determinants have changed in response to the increasing integration of the world economy. The third set of determinants, business facilitation, consists of promotional policies aimed at attracting foreign investors. These actions are often used together in order to facilitate the business the foreign investor undertake. This may simply involve removing constraints to foreign affiliate operations.

In summary, the overall theoretical framework utilized in this study to analyze the determinants of FDI is Dunning's OLI paradigm. Dunning proposed that the undertaking of FDI is determined by the realization of three sets of advantages variables. The WIR model explores one of them in more detail, namely locational-specific advantages. It gives researchers the possibility to go into the details of host country determinants of FDI. Therefore, the WIR model is particularly pertinent for the purpose of this research study.

4 Research Methodology

This research study uses a multiple case-study approach. The purposeful selection of companies that is investigated represents a key decision point in any qualitative study (Creswell, 1998). The objected population was comprised of totally fifteen corporations. Eight of the firms invested in Sweden, while the remaining firms decided not to invest in Sweden. As stated in the introduction, all examined companies in the sample operate in the ICT industry. The motivation for this decision is twofold. Firstly, attracting FDI in an innovative and technologically advanced area, such as the ICT business, is very demanding (UNCTAD, 2003). Secondly, innovative and technology advanced investments have an important impact on economic growth (OECD, 2004). Accordingly, the chosen industry represents an interesting and appropriate business sector for the study. Regarding the size of the companies, the majority had up to 1.000 employees. Among the fifteen cases, three firms have employees between 1000 and 4000. Annual revenues varied in the range of $50 million to approximately $1.3 billion. In order to get in contact with corporations involved in an internationalization process with Sweden as the specified host country, collaboration with Invest in Sweden Agency and Swedish-American Chamber of Commerce was initiated. For reasons of confidentiality, the names of the companies have been omitted.

Primary data were obtained through in-depth interviews with chief officers who were perceived to be the most knowledgeable individuals about FDI activities in the organization. All of the respondents were members of the companies' management board and thereby closely involved in the FDI decision. Each of the interviews was conducted based on a semi-structured interview guide[4] in order to simplify the forthcoming mapping process of the collected data. The interview guide ensured that approximately the same areas were covered. To preserve as much data as possible, the interviews were recorded whenever feasible. Finally, the outcome was reported back to the investigated corporations and sought their feedback to correct mistaken interpretations.

As a supplement to the data obtained from the interviews, a five page questionnaire was developed, distributed, and completed by the interviewees. The questionnaire[5] obtained measurements that were selected after a review of the literature and were grouped under three sections. The respondents were asked to value a number of measurements according to the importance they had for their decision on FDI. The first section contained factors related to the principal motivations for considering Sweden as an investment location. The purpose with the questionnaire was to more explicitly identify and evaluate FDI determinants.

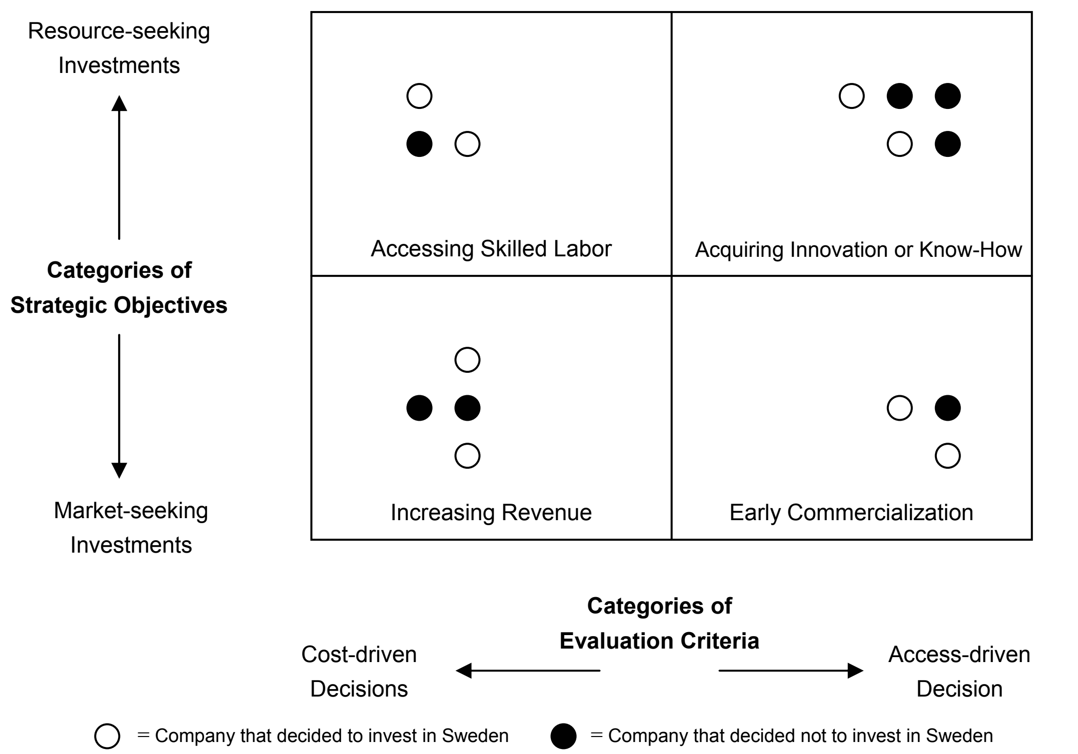
[4] *The interview guideline is enclosed in appendix A.*

[5] *The questionnaire is enclosed in appendix B.*

5 Empirical Results

In the following paragraphs, the empirical result obtained from the in-depth analysis of the collected data will be presented. Fifteen U.S. companies involved in an internationalization process with Sweden as the specified host country have been investigated. Overall, it was possible to differentiate two types of FDI classified by the principle motivators of the MNEs, namely (1) resource-seeking investments and (2) market-seeking investments. Moreover, it was possible to empirically identify two types of investment decisions shaped by the interplay of prominent evaluation criteria, namely (1) cost-driven decisions and (2) access-driven decisions. The two dimensions of the FDI process have been combined in order to provide a graphical visualization of the empirical result. The outcome is a matrix which depicts the extent to which market- or resource-oriented factors had an strong impact on the potential foreign investors, and whether the investment decisions was cost- or access-driven. Each of the examined companies is represented by a circle and the colors illustrate the final investment decision. One evident pattern is the even distribution of the investigated cases in the matrix. It can be noted that the strongest representation of corporations that after the evaluation process decided not to invest in Sweden is to be found in the grouping resource-seeking and access-driven investments.

Figure 2 Map of Strategic Objectives and Evaluation Criteria



When the study was initiated, it was considered to utilize the final decision as a point of departure of the analysis. However, the empirical material suggests that it is more adequate to analyze the data without taking the outcome of the decision-making process into account. FDI is clearly a complex matter and that there are a number of factors that influence the potential investors. As a result, the final decision does not seem to constitute an appropriate dimension of analysis.

5.1 Why undertake FDI in Sweden?

Table 2 gives an overview of the influence of host country factors ranked based on their determinant power. The average rating reveals that four factors have had strong impact on U.S. investors, more specifically (1) technological, innovatory and other created assets, (2) skilled labor, (3) market size and per capita income, and (4) market growth. A vast number of respondents emphasized that the decision to investigate Sweden as a potential location for FDI was prompted by these factors. For the purpose of a thorough understanding of the strategic objectives, the principle motivators were targeted. As stated previously, the analysis of the data obtained from the interviews made it possible to distinguish two types of FDI classified by the motives of the MNEs, namely (1) resource-seeking investments and (2) market-seeking investments. The subsequent paragraphs explore different aspects that are particularly relevant for understanding the motives for considering Sweden as the location for FDI.

Table 2 Impact on the decision to consider Sweden as the location for an investment (rating 1–7)

Factors	Average Rating
Technological, innovatory and other created assets	5.07
Skilled labor	5.00
Market size and capita income	4.93
Market growth	4.8
Cost of resources and assets	3.67
Country-specific consumer preferences	3.47
Taxes and regulations	3.47
Access to regional and global markets	3.4
Membership of a regional integration agreement	3.33
Structure of markets	3.13
Policy uncertainty	3.0
Physical infrastructure	2.93
Other input cost	2.87
Quality of public services	2.4
Investment incentives	2.33
After investment services	2.26
Investment promotion	2.2
Social Amenities	2.13
Low-cost unskilled labor	1.33

Evidence of the first category, resource-seeking investments, was found in eight of the fifteen cases examined. The US investors had recognized a knowledge-related problem or opportunity whereby the FDI decision process was initiated. In five of these cases, the need of a particular innovation or certain know-how was articulated as the principle motivators for investing in a site in Sweden. For example, one of the interviewees declared: ”*We had to develop our product in order to meet our competitors. The moment we found a suitable technology that could improve the product features, we initiated the FDI process.”* In the remaining three cases, Sweden was identified as an investment target mainly because of a high level of skills or experiences in a specific area of interest. A respondent reflects in the following way about their strategic objective: *“Our intention with going abroad was to get located in an area with a high level of knowledge in wireless technology.”* Taken together, eight FDI decision processes were driven by the recognition of a knowledge gap often originated inside the organization. The investment in Sweden was seen as an option in the challenge of bridging this gap.

Regarding the second category, market-oriented investments, seven clear cases emerged in the study. The FDI process was initiated by U.S. investors in search of new customers. It became evident in four of these cases that the primary purpose was to increase revenue by entering the Swedish market. This objective was clearly expressed by one of the interviewees as follows:*”The primary opportunity we recognized was establishing a direct sales force in Sweden to serve the Nordic customers. The investment would give us the possibility to grow our revenue in the Nordic market substantially.”* In the other three cases, the respondents put forward first-stage commercialization and product tests as priorities. An initiating force was the market potential of early adopters within the ICT sector. One of the interviewees stated: *“Our main purpose was to target early adopters in the Swedish market. We were looking for the opportunity to carry out pre-commercial studies.”* In conclusion, approximately half of the examined cases were driven by the characteristics of the Swedish market and the extent to which an investment would give access to large or sophisticated consumer demand.

Apart from the economic determinants, the data collected clearly showed the significance of policy related measurements. Several of the respondents put forward the importance of a liberal policy framework for FDI. This is not surprising, considering that an open FDI policy is a prerequisite for a corporation to be able to enter a foreign country. More interestingly, the majority of the potential U.S. investors stressed that macroeconomic and macro-organizational policies were very influential. In particular, policies affecting corporate and income taxes, and the labor market were suggested as influential parameters. As seen in table 2, factors related to these policies were given high average ratings. Thus, Sweden was in many cases evaluated by the potential investors on the basis of a broader set of policies. In general, the respondents perceived that the Swedish policy framework constitutes a *“good investment climate”*. However, it is important to note that this does not mean that the policy framework is a sufficient determinant of FDI. Rather, it was a clear tendency that the Swedish policy frameworks allow, but does not encourage FDI. Hence, other factors have to come into play in order for FDI to be realized.

In contrast to policy related and economic determinants, the analysis indicated that the set of determinants within the category business facilitation did not have considerable impact on U.S. investors. In fact, the respondents accentuated that business facilitation very seldom influence the initial motivation. Further, the result of the questionnaire showed that four out of five determinants with the lowest average rating (the exception is low-cost unskilled labor) are included in the business facilitation category. Hence, proactive measures aimed at facilitating the business that the foreign investor undertakes in a host country seem to play a minor role as initiating force. This is an interesting outcome, especially taking into account that the range of investment incentives and government promotion and the number of countries that offer them have increased significantly during the last years. Regarding the fifth factor, low-cost unskilled labor, the result was predictable given the selection of examined categories of companies

5.2 How to enter the Swedish market?

The study confirms that the strategic decision on how to enter a foreign market is multifaceted and a number of hybrids of broad entry mode classifications are utilized. The collected data indicates that different modes of entry may be more appropriate depending on the product type and company. The findings are broadly in line with previous analysis of alternative forms of international market entry. There are, however, some interesting contributions derived from the case-study evidence. These will be explored in more detail in the following subsections.

The majority of the examined cases focus on the purchase of stock in an existing company. The idea of combining corporate advantages and managerial capabilities with assets of a local firm was considered in twelve of the fifteen cases. Respondents articulated the possibility of creating synergies and the importance of cost reductions in the establishment of procedure as the two main advantages. One of the respondents described their entry mode decision as follows: *"We believed that the best alternative was to acquire a local competitor. This way our customers would get improved support for our current products. Besides, it would give us the possibility to incorporate advanced features from their products into future versions of ours."*

Six of the investigated cases had greenfield investment as an alternative, or as the only option under investigation. The perceived benefit of a new establishment was primarily a higher degree of management control. This view is supported in the following quotation: *"Based on our past experience, we didn't consider any other alternatives than a new establishment. A greenfield investment is the best option as it guarantees a high degree of control in the operations."* In this specific case, the questioned executive indicated that past experience influenced the final entry mode decision.

Empirically, it was not possible to observe evidence that would support a direct correlation between the different entry modes and the type of FDI classified by the motives of the MNEs. There is a tendency for resource-seeking companies to prefer acquisition of an existing entity. In addition, the data indicates that the companies who favored greenfield investments, seldom considered other solutions. In order to advance knowledge and theory in this area, additional cases need to be examined. However, insignificant correlations regarding the preference of entry mode and the investment objective also provide useful suggestions. A conclusion that can be drawn here is that the strategic objectives do not always apply equally across all modes of entry strategies.

More interestingly, it was possible to contend that strategic consultations play a pivotal role in the development process of FDI, irrespective of the mode of entry strategy. The empirical material reveals that the entry mode decision is not made in isolation within the organization. Rather, it is made in close collaboration with external consultants. On the same notion, one of the interviewees declared: *"We used external expertise to investigate how to enter the Swedish market ... It's difficult to evaluate the entry mode strategy, and I have to point out that we don't have that kind of knowledge inside our organization."* The result of the study demonstrates that the majority of the investigated cases utilized competence outside their own organization in the development process of the entry mode strategy. In fact, more than half of the respondents stated that strategic consultations have a very important impact when making final investment decisions. Thus, the empirical evidence indicates that consultants have a significant influence in the development process of global strategies of MNEs.

5.3 Which evaluation criteria are important?

The empirical data in table 3 outlines a number of factors and their level of impact on the final decision regarding investing in Sweden. The average rating shows that five of them have had strong impact on the U.S. investors, namely (1) local market characteristics, (2) costs of transportation, material equipment, labor, (3) availability of entrepreneurial, R&D, or management skills, (4) access to technology, and (5) access to knowledge or innovative clusters. However, the analysis of the data obtained from the interviews indicates that it is hard to distinguish between certain evaluation criteria and the specific relationship to the final decision. In fact, the empirical evidence shows that a combination of relevant variables often have an impact on the final decision. As stated in the first paragraph of this chapter, the in-depth analysis provided empirical evidence of two types of investment decisions shaped by the interplay of prominent evaluation criteria, namely (1) cost-driven decisions and (2) access-driven decisions.

Table 3 Impact when making the final decision regarding investing in Sweden (rating 1–7)

Factors	Average Rating
Local market characteristics	4.66
Costs of transportation, material, equipment, labor	4.6
Availability of entrepreneurial, R&D or management skills	4.26
Access to technology	3.93
Access to knowledge or innovative clusters	3.80
Employment laws and other regulations	3.53
Market access	3.4
Good Infrastructures	3.13
Corporate tax	3.13
Income tax	2.93
Availability of resources and equipment	2.07
Currency risk	1.93
Government emphasis on FDI through established agency	1.8

Regarding the first category, cost-driven decisions, empirical support was found in seven of the examined cases. Cost related issues were cited as the most important evaluation criteria that influenced the final decision. In particular, low costs of resources and assets, and low cost of skilled employment were stressed by the respondents. The empirical data also indicate that the companies who made cost-driven decisions were interested in the potential development of the examined investment site. In fact, the majority of the interviewees emphasized that the future progress of Sweden had an important influence on their final investment decision. One respondent said this about their decision making process: *"When we made the decision to enter the Swedish market, it was based on the long-term view we hold both on the economic growth of the country, and its potential to develop into one of Europe's important regions in our business field."* This quotation reveals that the decision was not made based on the current situation in the Sweden, but rather its potential development.

In light of the previous, it is interesting to note that the remaining eight companies with access-driven decisions did not subscribe to this view. Actually, quite the opposite was apparent. It was possible to see a focus on the present situation in the investigated target country. The future development of Sweden was not indicated by the respondents as a very important influence on the final decision. On the question of the most important factors that influenced the decision making, the interviewees were more emphatic about the present availability of entrepreneurial, R&D or management skills, and the access to technology, knowledge or innovative clusters. A very distinct and specific intention with Sweden as the target country was suggested as a possible cause. One of the interviewees explains his perception of their decision as follows: *"We didn't consider any other alternatives than investing in Sweden. It was in fact the only option which met with the decision criteria."*

Worth highlighting, the majority of the interviewees proclaimed that the high level of geopolitical uncertainty and the low level of economic growth have had a negative influence on their decision regarding global expansion. Interestingly, the result of the study shows that the economic downturn did not affect the investors' attitude towards FDI. One finding is that the desire to get established internationally is unchanged. It is possible to detect an existing enthusiasm among the executives about international establishments, even though the economic decline has created a high awareness of risks. This was indicated by one of the interviewees as follows: *"Without a doubt, the trade off between expected value and risk plays a central role in our global strategy. There is still a cautious attitude as a result of the economic downturn. However, we need to increase awareness in global markets for our products."* Evidently, the current situation has affected the confidence among executives and therefore the total value of FDI flows. Nonetheless, the optimistic mind-set of the potential foreign investors seems to be unaffected.

On the contrary to most of the influential criteria, the study also provides empirical evidence of factors with a low level of impact on the final decision. In particular, three measurements stood out in the survey. These are, in upward order in table 3, (1) Governmental emphasis on FDI through established agency, (2) Currency risk, and (3) Availability of resources and equipment. The empirical data collected through the interviews confirm that proactive policies aimed at bringing in FDI do not seem to affect the potential foreign investors in the decision process. Rather, the U.S. investors accentuate that business facilitation were not especially influential in the FDI process. Regarding currency risk, some respondents actually put forward concerns over currency volatility. Despite this, the rating was in general very low regarding its impact on the final decision. The minor significance of the availability of resources and equipment is naturally a result of the selection of examined cases.

5.4 Which factors will make Sweden more attractive as a target for future FDI?

The empirical data in table 4 show a number of factors related to the future attractiveness of Sweden for FDI. The rating depicts the grading, displaying whether the factor would have no or significant differences for Sweden's attractiveness of future establishments. Three factors emerge as strongly influential, namely (1) growing local market, (2) better availability of skilled labor, and (3) growing optimism. On the whole, the result mirrors the importance of local market development and economic growth, combined with a better availability of a high quality workforce. They all exceed five in the average score given by the respondents. The high average rating indicates that these factors are of decisive importance for investors of various types.

Table 4 Impact on future attractiveness of Sweden for FDI (rating 1–7)

Factors	Average Rating
Growing local market	5.93
Better availability of skilled labor	5.47
Growing optimism in Sweden	5.33
Lower costs of employment	3.67
Lower income tax	3.40
Lower corporate taxes	3.33
Less regulations	3.33
Lower taxes on capital	3.27
Full Swedish participation in the European Monetary Union	2.93
More competitive exchange rate	1.93
Better availability of local financing	1.27
Better availability of unskilled labor	1.13

In addition to the above, there is a group of six factors which are quite relevant regarding Sweden's future attractiveness of FDI. Positioned in the upper layer are the following factors: cost of employment, lower income tax, and lower corporate tax. As this indicates, the economic attractiveness of a country for FDI also depends on conditions that make the investments more viable. Following close behind are less regulation and lower taxes on capital. Both of them exceed three in the average rating. It is worth noting that full Swedish participation in the European Monetary Union (EMU) gets a fairly low average rating by the respondents. However, this is a result of a few interviewees rating an adoption of full euro extremely low on the seven-point scale.

When it comes to factors that have insignificant or little affect on Sweden's attractiveness as a target for future FDI, three factors clearly stand out from the others. In upward order: (1) Better availability of unskilled labor, (2) Better availability of local financing, and (3) More competitive exchange rate. The low rating of better availability of unskilled labor was expected, considering the sample of case companies. Regarding the second, better availability of local financing, the majority of the respondents expressed in the interviews that they do not use local financing channels. When this fact is taken into account, the low rating becomes predictable. The final factor was more surprising as the exchange rate directly affects the prices of the host country assets. On the other hand, the empirical data and previous research show that policy related factors seldom work as principal motivators.

6 Concluding Remarks

The objective of the study is to contribute to the understanding of FDI decisions through an in-depth analysis of location-specific determinants. More explicitly, the aim is to identify and evaluate the most significant variables associated with FDI in Sweden. The main conclusions reached in the study can be summarized as follows:

- The analysis of the data obtained from the interviews revealed that the principal motivations of the investors were either resource-seeking or market-seeking. Further, it could be concluded that policy related determinants considerably affect the potential foreign investors. In particular, policies affecting corporate and income taxes, and the labor market were suggested as influential parameters. Thus, the economic attractiveness of a country depends partly on macroeconomic and macro-organizational policies. However, the significance of these policies must be seen in a broader context of the economic determinants of FDI. Nevertheless, its influence on foreign investors should not be underestimated.
- Regarding the importance of governmental incentives on investment decisions, the result shows that business facilitation determinants, such as social amenities and investment promotion, did not considerably influence the potential foreign investors. It was possible to contend that proactive facilitation measures that go beyond policy liberalization play a minor role in the localization decision. This is an interesting outcome that should concentrate the minds of established governmental agencies and policy makers with the purpose to attract FDI. It also implies that further investigation of the effect of incentives on investment decisions is called for.
- When it comes to the future attractiveness of Sweden for FDI, the empirical evidence suggests that economic growth, accompanied by the availability of skilled labor, are decisive factors in the future locational decisions of MNEs. As stated in the introduction, host governments want to encourage FDI in order to create economic opportunities in their respective countries. Interestingly, the result indicates that the causality between FDI and economic growth can run either direction. In other words, economic growth can induce the inflow of FDI in the same way as FDI can promote economic growth. It is important to stress that the direction of the causality between FDI and economic growth is dependent on a number of political and economic factors. Despite the fact that the linkage between FDI and economic growth has been the subject of study for many years, it is still a very challenging area of further research.

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Appendix A: Interview Guide

- When did you begin the FDI decision making process?
- Which principle motivators set this process in motion?
- To what extent did the location-specific factors listed in the questioner have an impact on the decision to consider Sweden as the location for an investment (see appendix B).
- Were there any triggering factors inside the organization, such as earlier experiences of the local market, for considering Sweden as the location for the foreign investment?
- Which was the primary opportunity you recognized concerning investing in Sweden?
- Describe how you developed a strategy regarding how to invest in Sweden.
- What was the entry mode to implement the strategy – acquisition, joint venture or green-field investment?
- Which alternatives did you consider, and why did choose acquisition/joint venture/green-field investment?
- Was the acquisition/green-field investment a joint venture or a sole venture?
- Was the joint venture contract-based or equity-based?
- What advantages and disadvantages do you see with the chosen entry mode?
- Please describe how your firm evaluated the entry strategy?
- Did you consider any other countries as possible locations for the foreign investment?
- Which evaluation criteria influenced the decision-making process?
- To what extent did the factors listed in the questioner have an impact when making the final decision regarding investing in Sweden (see appendix B)?
- Which evaluation criteria were the most important when making the final decision?
- In your opinion, which actions do you think the Swedish Government could take in order to further attract US investors?
- What would make Sweden more attractive as a target for future FDI investments (see appendix B)?

Appendix B: Questionnaire

Section 1: To what extent did the factors listed below have an impact on the decision to consider Sweden as the location for an investment?

Market size and capita income

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Market growth

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Access to regional and global markets

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Country-specific consumer preferences

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Structure of markets

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Low-cost unskilled labor

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Skilled labor

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Technological, innovatory and other created assets

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Physical infrastructure (telecommunications, roads, power)

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Cost of resources and assets

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Other input cost, e.g. transport and communication to/from Sweden

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Taxes and regulations

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Policy uncertainty

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Quality of public services

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Membership of a regional integration agreement

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Investment promotion

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Investment incentives

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

After investment services

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Social Amenities

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Other ____________________________

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Section 2: To what extent did the factors listed below have an impact when making the final decision regarding investing in Sweden?

Local market characteristics – Size, Growth

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Market access – EU, Baltic Sea region, Nordic

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Availability of resources and equipment

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Costs of transportation, material, equipment, labor

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Access to technology

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Access to knowledge or innovative clusters

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Availability of entrepreneurial, R&D or management skills

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Infrastructure

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Government emphasis on FDI through established agency

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Employment laws and other regulations

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Corporate tax policy

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Currency risk

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Other ____________________________

Not important ☐ ☐ ☐ ☐ ☐ ☐ ☐ Very Important
1 2 3 4 5 6 7

Section 3: Would the factors listed below make Sweden more attractive as a target for future FDI?

More competitive exchange rate

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Better availability of local financing

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Better availability of skilled labor

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Better availability of unskilled labor

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Growing local market

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Lower costs of employment

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Less regulations

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Lower corporate taxes

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Lower income tax

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Lower taxes on capital

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Full Swedish participation in the European Monetary Union

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Growing optimism in Sweden

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

Other ______________________________

No difference ☐ ☐ ☐ ☐ ☐ ☐ ☐ Significant difference
1 2 3 4 5 6 7

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