THE OBJECTIVES FOR FOREIGN DIRECT INVESTMENTS IN INTERACTION WITH THE FORMS AND TYPES OF FOREIGN DIRECT INVESTMENTS

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Purpose: The main purpose of this dissertation is to:
• examine if there exists any interaction between the different motives that companies have for undertaking FDIs and the different forms of FDIs such as acquisitions and green-field investments
• examine if there exists any interaction between the different motives that companies have for undertaking FDIs and the different types of FDIs such as horizontal and vertical FDIs.

Method: We have chosen to base our research on quantitative data that have been collected through a deductive approach. The method used for collecting data is a questionnaire. The theoretical framework is conducted through studies of books about foreign direct investments.

Conclusions: The clearest conclusion that could be drawn is that market-seekers mainly undertake horizontal FDI in the form of acquisitions.
This dissertation was written during the autumn of the year 2003. During the dissertation we have learned a lot about the subject that has been examined.

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1 INTRODUCTION

The first chapter in this dissertation contains the background of the subject area, the research problem, the purpose and the limitations. Furthermore, the chapter contains the definitions, the outline of this dissertation and the summary.

1.1 Background
The world is more globalized today than ever before. Economic integration arrangements, such as the European Union (EU), the North America Free Trade Area (NAFTA), the Southern Common Market (MERCOSUR), and the ASEAN Preferential Trade Agreements have produced changes in the conditions for trade and investments within and between regional areas.

Nowadays, more and more companies that before serviced international markets by exports, choose to replace exports by having foreign production. Thus, firms often view exports and foreign direct investments (FDIs) as substitutes for each other. FDI occurs when a company invests directly in facilities to produce and/or market a product in a foreign country. A firm that undertakes FDI becomes a multinational enterprise (Hill, 2003).

There are of course some reasons to the growth of FDI during the last few years. In order to obtain higher profits and lower costs, companies want to take advantages of the different factor endowments in different countries. The declining trade barriers, the shift towards democratic political institutions and free market economies, the improved communication, information, and transportation technologies make it possible for companies to look at the whole world as its market.

1.2 Research problem
- Is there any interaction between the different motives for foreign direct investment and the different types of FDIs (horizontal, vertical)?
- Is there any interaction between the different motives for foreign direct investment and the different modes of entry (acquisition, green-field)?
1.3 Purpose
The purpose of this dissertation is to map out a pattern that contains an explanation of the interaction between the different motives for undertaking foreign direct investments and the different types of FDI such as horizontal and vertical FDI. Furthermore, the form of FDI such as acquisitions and green-field investments will also be taken into account.

1.4 Limitations
- Only companies in Sweden that engage in FDI by acquisition or green-field investments are included.
- Companies that engage in licensing or franchising are not included in this research.
- The survey does not concern specific industries but is rather of a general nature containing undertakings from all industries.

1.5 Definitions
*FDI* – Foreign Direct Investment, occurs when a company invests directly in facilities to produce and/or market a product in a foreign country

*Multinational Enterprise (MNE)* – A firm that undertakes FDI

*International/foreign production* – Production controlled or owned by MNEs

*Horizontal FDI* - Investments in the same industry abroad as a firm operates in at home

*Vertical FDI* - two types:

1) *Backward vertical FDI* - Investments abroad made in other levels of the value-chain, for example buying the company that provides inputs or establishing your own plant to produce inputs.

2) *Forward vertical FDI* - Investments abroad made in other levels of the value-chain, for example an industry abroad sells the output that a firm has produced domestically.

*Acquisition* - Investing abroad by buying existing companies.

*Green-field* - Investing abroad by building new facilities such as stores, production plants, etc.

*Objectives for FDI* – Depending on a company’s objective for undertaking FDIs, one
can classify it into different categories such as market-seeking category, resource-seeking category etc.

*Forms of FDI –* The forms of FDIs are acquisition, green-field and other FDIs

*Type of FDI –* The types of FDIs are horizontal and vertical FDIs

### 1.5 Outline

*Chapter 1 - Introduction*

This chapter presents the background, the research problem, the purpose, the limitations, the definitions and the outline. Finally, the chapter ends with the summary.

*Chapter 2 - Methodology*

This chapter presents the methodology, which includes research philosophy, research approach, quantitative and qualitative data, primary and secondary data and a summary of the chapter.

*Chapter 3 - Theoretical framework*

This chapter presents the theoretical framework used in this dissertation.

*Chapter 4 – Empirical method*

This chapter presents the empirical method used in this dissertation.

*Chapter 5 – Analysis*

This chapter presents the analyses that were conducted from the collected data and the literature.

*Chapter 6 – Conclusions*

This chapter presents the conclusions that have been drawn on the basis of the analyses.

*Chapter 7 – Further research*

This chapter presents suggestions for further research within this area.

### 1.7 Summary

The world is experiencing an increasing globalization. Several economic integration arrangements have made it more worthwhile for companies to undertake foreign direct investments.
Companies can be classified into different categories depending on their objectives for undertaking FDI. They can choose to undertake horizontal or vertical FDIs. Furthermore, there are several forms of FDIs such as acquisitions and green-field investments.

The task is to examine if there is any relations between the different categories and the different forms and types of FDI.
2 METHODOLOGY

*The second chapter describes the methods that have been used in this dissertation. The methodology in this chapter includes research philosophy, research approach, quantitative and qualitative data, primary and secondary data and finally a summary of this chapter.*

2.1 Research philosophy

There are different views about the way in which knowledge is developed and judged as being acceptable. According to Saunders et al. (2003), interpretivism, realism and positivism are the research processes that dominate the literature.

Interpretivists argue that the social world of business and management is very complex and due to this complexity it is according to them wrong to theorise the world of business by definite “laws”.

Realists believe that a reality independent of human thoughts and beliefs exists. According to them, there are large-scale social forces and processes in the study of business that affect people without their necessarily being aware of the existence of such influences on their interpretations and behaviour.

Positivists work with observable social reality where the results of a research are generalisations. Our research philosophy reflects the principles of the last of these philosophies. The positivistic approach will be used but no generalisations will be made.

2.2 Research approach

There are two different approaches for research, namely induction and deduction. In the inductive approach one collects data and develops a theory as a result of the data analysis. In the deductive approach one develops a theory and a hypothesis and a research strategy is designed to test the hypothesis.

Thus, the choice of method depends on what the aim of the research is (Saunders et al, 2003).
In this dissertation the deductive approach will be used. According to Robson (1993), there are five sequential stages through which a deductive approach will progress:

1) deduce a hypothesis from the theory
2) express the hypothesis in operational terms, which propose a relationship between two specific variables
3) test the operational hypothesis
4) examine the specific outcome of the inquiry
5) if necessary, modify the theory in the light of the findings
   (cited in Saunders, 2003)

2.3 Quantitative and qualitative data
Data can be divided into quantitative and qualitative data. While quantitative data is numerical data, qualitative data is nominal (named) data.
A quantitative data approach involves the collecting and analysing of numerical data and the application of statistical tests. Questionnaires are examples of such data.

Compared to quantitative data, qualitative data gives an opportunity to get a deeper insight. Examples of qualitative data are personal interviews or telephone interviews. Both of the approaches have strengths and weaknesses. The qualitative approach gives the researcher a deeper insight to a problem but it is more time consuming and, in cases of a large sample, inappropriate. The quantitative approach, on the other hand, makes it possible to study a large sample but no deeper insight to the problem can be achieved.
Since we choose a quantitative approach, the data will be collected through questionnaires.

2.4 Primary and secondary data
There are two main sources of data, primary and secondary data. Primary data is data that is collected for a special purpose. Interviews, questionnaires, observations and experiments are all primary data (Christensen et al, 2001).
The primary data in this research is the data we have collected from our
Secondary data is data that already exists. Examples of secondary data are books, documents, annual reports and so on. This data has been collected for another purpose.

The secondary data used in this dissertation consists of books, newspapers and Internet sources. The books provided us with the theories about foreign direct investments. Dagens Industri provided us with the list of the companies that we wanted to study. The Internet sources that were used in this dissertation consisted of these companies’ web sites.

2.5 Summary
In this dissertation a positivistic and deductive research approach has been used. Furthermore, the data was collected from both primary and secondary data. The primary data was collected from our survey, which was in the form of a questionnaire and the secondary data was collected from various books, newspapers and Internet sources.
3 THEORETICAL FRAMEWORK

The third chapter begins with a discussion on the theories chosen. This part is followed by another discussion explaining the pattern and different concepts of FDI. The chapter continues with a presentation of the theories that have been chosen. These theories are the OLI-paradigm and the theory about the different FDI objectives. The market imperfection theory and the strategic behaviour theory are presented from a horizontal and vertical point of view.

3.1 Discussion about the theories

The ambition in this chapter is to give the reader an insight to the subject that will be studied.

The first theory that we include in this dissertation is the OLI-paradigm. The reason for choosing this theory is because it gives a good insight in why companies choose to undertake foreign direct investments. It is important to be familiar with the different terms that are explained in the theory enable to get a comprehensive picture of the relation between the different motives for FDIs and the different types of FDIs. Once you know why companies act in a certain way, it is easier to understand the relations that we have examined.

The second theory that is included in this dissertation seeks to explain the different motives that companies have when they undertake FDIs. This theory is used to classify companies in different categories depending on their motives. Since this theory is the gist of this dissertation it pervades this survey.

The last part of this chapter aims at explaining the differences between horizontal and vertical FDIs. The theories about market imperfections and strategic behaviour are presented in the highlight of horizontal and vertical FDIs.

3.2 Foreign direct investment

Foreign direct investment theories seek to explain in which markets FDIs occur as alternatives to local production or trade. According to Hill (2003), FDI occurs when a
firm invests directly in facilities to produce and/or market a product in a foreign country. A firm that undertakes FDI becomes a multinational enterprise.

According to economists international production is defined as production controlled or owned by multinational enterprises (MNEs). The MNE is a company which engages in foreign value-added activities and internalises intermediate product markets across national borders (Dunning, 1995b).

### 3.3 Foreign direct and indirect investment

Foreign investment can be divided into direct (FDI) and indirect investment such as portfolio investment.

The portfolio investment is the purchase of stocks and bonds mainly for the purpose of obtaining a return on the funds invested. In this research we are concerned with the former, namely foreign direct investment. Direct investment is the purchase of sufficient stock in a firm to obtain significant management control (Ball, 2002).

FDI is different from indirect investment in two important respects. FDI involves the “transfer of a package of assets or intermediate products, which includes money capital, management and organizational expertise, technology, entrepreneurship and access to markets across national boundaries” (Dunning, 1995a:5). The foreign portfolio involves only the transfer of money capital.

FDI does not involve any change in ownership. This means that the control of decision taking remains in the hands of the investing entity. In other words, the direct exchange is administered by and within investing hierarchies while the market organizes the indirect exchange of assets and intermediate products.

The reader should be aware of the fact that foreign direct investment has the same meaning as direct investments throughout this dissertation.

### 3.4 The stock and flow of FDI

It is important to distinguish between the stock of FDI and the flow of FDI. While the
stock of FDI refers to the total accumulated value of foreign-owned assets at a given
time, the flow of FDI refers to the amount of FDI undertaken over a given time
period. Thus, there are both inflows and outflows of FDI. Inflows are the flow of FDI
into a country and outflows are the flow of FDI out of a country (Hill, 2003).
The dissertation will focus only on the outflow of FDIs.

3.5 The growth of FDI
During the last fifteen years FDIs have continued to grow and there are some reasons
to why companies invest abroad.
The general decline in trade barriers is one of the reasons. Even if executives see FDI
as a way of circumventing future trade barriers, enterprises still fear protectionist
pressures.

Another reason may be that FDI is encouraged by the shift towards democratic
political institutions and free market economies. Generally, laws governing FDI have
made the environment for FDI much more favourable.

Furthermore, the globalization has pushed firms to engage in FDI. Even if FDIs occur
in the developing countries, usually most of the FDIs undertaken have historically
been directed at the developed countries of the world (Hill, 2003).

3.6 Gross fixed capital formation
Another way of looking at the importance of FDI is to express FDI inflows as a
percentage of gross fixed products. Gross fixed capital formation summarizes the total
amount of capital invested in stores, office buildings, factories and so on. The greater
the capital investment in an economy, all other things being equal, the more
favourable its future growth prospects are.
FDI can be seen as an important source of capital investment and determinant of the
future growth rate of an economy (Hill, 2003).

3.7 The main forms of FDI
There are two main forms of FDI, green-field investments and acquisitions or mergers
with an existing firm in a foreign country.
Green-field investments involve the establishment of a wholly new operation in a foreign country.

Acquisition means that a company buys an existing company. This can be of a minority, majority or full outright stake. While majority means foreign interest of 50 to 99 percent, minority means that the foreign firm takes a 10 to 49 percent interest in the firm’s voting stock. Full outright stake means foreign interest of 100 percent (Hill, 2003).

3.8 Acquisitions and green-field investments

The majority of the cross-border investments are in the form of mergers and acquisitions. The question is why firms prefer to acquire existing assets rather than undertake green-field investments.

One reason is that mergers and acquisitions are quicker to execute than green-field investments. There are a lot of firms which believe that if they do not acquire a desirable target firm, their global rivals will (Hill, 2003).

Another reason for acquiring may be that the foreign firms which are the target for the acquisition may have valuable strategic assets as trademarks or patents, brand loyalty, production systems, customer relationships, distribution systems and so on. The acquiring firm may find it easier and less risky to acquire those assets than to build them up from the ground through green-field investments.

A further reason may be that acquiring firms believe that they can increase the efficiency of the acquired unit by transferring technology, capital or management skills (Hill, 2003).

3.9 Methods of acquisition

Most FDIs involve some type of international capital movement but it is important to know that this is not always the case. An investor may transfer many other types of assets (managers, cost control systems, etc.) as well.
Aside from transferring nonfinancial resources, there are two other means of acquiring assets that do not involve international capital movements.

The first mean of acquiring is that the funds a company earns in a foreign country can be used to establish an investment. For instance, a merchandise exporting company that holds payment for goods abroad can use settlement to acquire an investment. In such cases, the company exchanges goods for equity. This method is not used so much about initial investment but it is a major means of expanding abroad. In order to establish a sales or production facility abroad a company may initially transfer assets to the actual area. If the earnings from the facility are used to increase the value of the foreign holdings, FDI has increased without a new international capital movement (Daniels, 1995).

The second mean of acquiring is that companies in different countries can trade equity (Daniels, 1995).

3.10 The key features of FDI

FDI is the highest commitment a domestic company can make in international business because it involves not only the infusion of capital but also the transfer of knowledge and technology. Such investments come usually after a company has acquired experience in exporting and importing. FDI can provide the controlling company with access to certain resources or to a market. According to Daniels (1995) the key features of FDI are:

- Control
- High commitment of capital, personnel, and technology
- Access to foreign markets
- Access to foreign resources
- Higher foreign sales than exporting (often)
- Partial ownership (sometimes)

3.10.1 Control

Companies that invest abroad view control as a very important issue. To understand the importance of control for companies investing abroad, this issue will be described
in detail.
As mentioned earlier, if a direct investment is to take place, control must follow the investment. Otherwise, it is known as portfolio investment. The share of ownership necessary for control is not clear. When ownership is widely dispersed, a small percentage of the holdings may be sufficient to establish control of managerial decision making. Even a 100 percent share does not guarantee control. Governments can limit stockholders’ control exerting by for instance dictating what the company must sell at a specified price, whom a company can hire, how earnings will be distributed and so on (Daniels, 1995).

Another problem for the owners of the company can occur if themselves do not regulate some of the resources that the company needs in order to operate. This means that those who control these resources may exert substantial influence on the company.
Because of the difficulties to identify direct investments, governments have had to establish some arbitrary definitions. An ownership of a minimum of 10 or 25 percent of the voting stock in foreign enterprise allows the investment to be considered direct (Daniels, 1995).

3.10.1.1 Governmental concern about control
Why is the fact that an investment is controlled from abroad so important? The simple answer to this question is that the national interest of the host country will not be best served if a multinational company makes decisions from afar on the basis of its global or national objectives. The level of control is important for the host country because the decisions made by the multinational company will directly affect the host country’s economy.
This is the reason to why governments intervene in the market. This does not mean that non-controlled investments are unimportant. They may substantially affect a country’s balance of payments (Daniels, 1995).

3.10.1.2 Investor concern about control
Control is very important for many investors who want to transfer certain vital resources to another domestic or foreign organization that can make all its operating
decisions independently. If the investors know that they control the organization they are more willing to transfer technology and other competitive assets. These assets may include patents, trademarks, and management know-how. Investors, who control an organization, usually use faster and cheaper means of transferring assets.

When control is retained, operating costs may decrease for several reasons:
- The parent and subsidiary are likely to share a common corporate culture.
- The company can use its own managers, who understand its objectives.
- The company can avoid protracted negotiations with another company.
- The company can avoid possible problems of enforcing an agreement.

Control through self-handling of operations (internal to the organization), rather than through contracts with other companies, is called internalization (Daniels, 1995).

3.11 Introduction to the eclectic paradigm (OLI)
The eclectic paradigm seeks to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country’s own enterprises and also that of domestic production owned by foreign enterprises. It is, unlike the internalisation theory, not a theory of MNEs alone, but rather of enterprises in general engaging in cross-border value-adding activities.

3.11.1 OLI
The intention of the OLI paradigm was, according to Dunning (1988), “to offer a holistic framework by which it was possible to identify and evaluate the significance of factors influencing both the initial act of foreign production by enterprises and the growth of such production” (cited in Ekström, 1998:36).

The involvement in economic activity by one country’s enterprises in those of another can have various purposes e.g. supplying foreign or domestic markets, or both. The production for a foreign market may be wholly or partly located in the home country, in the foreign market, in a third country, or in a combination of the three. In the same meaning, production for the home market may be serviced from a domestic or a foreign location.
3.11.1.1 Ownership-specific advantages (O)

These advantages arise when one country’s enterprises possess or are able to acquire certain assets not available, or not available at such favourable terms, to another country’s enterprises. The word “asset” means, in this text, resources that are capable of generating a future income stream (Dunning, 1995a).

In the OLI framework, a distinction is made between asset advantages (Oa) and transaction cost minimising advantages (Ot).

In empirical studies, a number of tangible and intangible asset ownership advantages have been identified.

The most common Oa advantages that are evaluated are the possession of firm-specific technology, patents, management knowledge, manpower, capital and product differentiation through brand names or advertising (cited in Ekström, 1998).

The Ot advantages represent the ability to capture transactional benefits from the common governance of inter-related assets located in different countries. These transactional benefits are associated with the advantage of organising Oa advantages with Ot advantages. Ot advantages increase the propensity to undertake new FDI project and they can affect a firm’s ability to protect its Oa advantages from deterioration. They also affect a firm’s ability to exploit its Oa advantages efficiently within the organisation (Ekström, 1998).

According to Dunning, Ot advantages derive mainly from size, product diversity, learning experience and synergistic economies in production, purchasing, marketing, research and development, finance and transportation. This means that these Ot advantages are related to the benefits of economies of scale and scope and to those of specialisation in differentiated products.

Another source of Ot advantages comes from the degree of multinationality per se of a firm. Firms that operate in multiple markets increase their operational flexibility, their opportunities to take advantage of geographical differences in factor endowments and their ability to reduce or diversify their risks.
3.11.1.2 Location-specific advantages (L)

The assets that are mentioned above might be specific to a certain location in their origin and use, but available to all firms. These are the L advantages and they do not only include Ricardian type endowments but also the cultural, legal, political and institutional environment in which they are deployed, market structure and government legislation and policies (cited in Ekström, 1998). The common denominator among locational advantages is that they influence:

- the expected profitability of foreign production in relation to export
- the expected profitability of having production located in different countries (Ekström, 1998)

Conducted studies have identified a number of location-specific advantages that have had a significant effect on the propensity of firms to engage in foreign production and on the location of that activity.

The most commonly evaluated locational advantages include market size and growth, factor endowments, sources of supply, transportation costs, trade barriers and physical distance (Ekström, 1998).

From this it follows that location-specific advantages include not only factor endowments but also a number of locational advantages derived from spatial (or structural) market failures, such as restriction in trade, and from transactional market failures (cited in Ekström, 1998).

The decision on where to locate production has, according to Dunning (1988), actually become “less based on the comparative advantages of factor endowments, and more on the strategies of competitors of supplying regional or global markets, the desire to fully exploit the economies of large-scale production, the need to reduce market instability and uncertainty, and the incentive to reap the gains from integrating related activities over space” (cited in Ekström, 1998:40).

The presence of market failure affects transfer costs, such as tariff and non-tariff barriers or exchange risks. These kinds of trade barriers, thereby, create advantages (or disadvantages) for operating in a particular location.
In the same way, the choice of location may be influenced by a reduction in transportation costs and trade barriers, e.g. where there is a formation of economic integration arrangements (cited in Ekström, 1998).

Since high transfer costs create advantages associated with operating production units in particular locations, it follows that factors that, in general discourage trade stimulate foreign production (Ekström, 1998).

Despite the conceptual differences between location-specific advantages and ownership-specific advantages, the decision on where to locate production is still dependent on the presence of O advantages or of the ability to acquire or generate new O advantages by establishing foreign production at different locations. An investing firm may be stimulated to undertake FDI in a specific location in order to advance or protect its O advantages. Similarly, it may be stimulated to undertake FDI in a specific location in order to generate new O advantages that are derived from operating in that location (cited in Ekström, 1998).

### 3.11.1.3 Internalisation advantages (1)

According to Dunning et al, internalisation advantages arise when the potential rents to be realised from the O advantages are higher if they are transferred across borders within a firm’s own organisation than if they are sold in the external market for O advantages. It thereby follows that O and I advantages are closely interacted with each other. Firms undertaking foreign production internalise their O advantages in foreign markets but, by doing so, they may also generate new O advantages and increase the benefits of internalising. These new O advantages may either be internally generated or acquired from other firms (cited in Ekström, 1998).

Since FDI increasingly has become the means by which new O advantages are created, the benefits of internalisation are increasingly derived from O advantages that internalisation might generate.

This means that the interplay between O advantages and I advantages has become more dynamic (cited in Ekström, 1998).

Foreign production is utilised whenever the transaction costs of using the market to
exchange products across borders exceed the costs of co-ordinating the production and exchange of these products within the same hierarchy (cited in Ekström, 1998).
The things that speak in favour of hierarchies and that induce firms to undertake foreign production rather than other servicing modes are following:

The need to:
- reduce buyer, supplier and governmental uncertainty
- protect the quality of production
- possess a high level of control
- capture economies of independent activities

There are differences in the concept of internalisation between the OLI framework and the Internalisation theory. The OLI framework argues that, by internalising, a firm utilises or circumvents the existence of transactional market failures in order to economise on transaction costs and to capitalise more fully on its O advantages.

The Internalisation theory, on the other hand, argues that firms internalise markets in order to economise on transaction costs, which, in turn, generates advantages over other firms (Ekström, 1998). The essential difference between these two is that the eclectic paradigm views market failures as endogenous meaning that a firm can circumvent or utilise them while the Internalisation theory, on the other hand, views market failures as entirely exogenous.

3.12 The importance of strategy
Before describing the different objectives for foreign direct investments it is important to clarify the importance of strategy.

Dunning (1995a) describes strategy by itself as an objective for foreign direct investments. He calls these investments strategic asset-seeking investments and they are undertaken in order to capture the benefits of the common ownership of diversified activities and capabilities, or of similar activities and capabilities in different economic and potential environments. They are similar to the efficiency-
seeking motives.

Given the OLI variables facing a firm, the extent to which a firm engages in foreign production is dependent upon whether foreign production is consistent with the firm’s long-term management strategies (Dunning, 1995a).

Thus, strategy is mainly concerned with the ways in which managers act to achieve their long-term strategic objectives. This means that decisions about how resources are acquired, created, and utilized are very important. The way in which markets are identified and served and how transactions relating to these decisions are organized is also of major importance.

The strategies and long-term strategic objectives of firms determine consequently the strategic choices associated with exploiting OLI advantages. They also determine the sustainance, advancement or creation of new O and L advantages within the firm. Because firm strategies together with the OLI advantages explain the changing propensity of firms to engage in MNE activity, the incorporation of firm strategies both applies and extends the economic factors. Firms undertake FDIs only when it is consistent with their long-term strategies. Because of that it is assumed that FDIs are undertaken only when they generate strategic advantages (cited in Ekström, 1998).

Ekström (1998) states that strategy is involved in all of the objectives and some kind of strategic thinking precedes any decision taken by firms. In other words, even if strategy is not seen as a single motive, it is important to know that strategy is important for all companies. For this reason, strategy is not seen as a single objective for foreign direct investments in this dissertation.

3.13 Main types of objectives for FDI
Based upon the firms’ investment-level strategic objectives, there is a classification of different types of FDI projects. It is important to have in mind that the individual strategic objectives mentioned here should not be seen as mutually exclusive. FDI projects may be driven by several strategic objectives simultaneously and in various combinations.
The main types of objectives for foreign direct investment projects are:

- market-seeking
- resource-seeking
- knowledge-seeking
- efficiency-seeking
- risk reduction-seeking

### 3.13.1 Market-seeking FDIs

Market-seeking FDI projects are undertaken in order to serve local or regional demand. Such FDI projects may be aimed towards markets presently served by exports as well as towards new national or regional markets (Ekström, 1998). Market size and prospects for market growth, the need to stay close to customers, high transportation costs, unfavourable exchange rates and barriers to trade are all factors that influence firms to serve national or regional demand via local production.

The reason for market-seeking FDI projects may be explained by the relative production and transaction costs of servicing markets through export or local production. Especially, economies of scale, trade barriers, transportation costs and exchange rates may influence the trade-off between exports and foreign production.

In other words, “the choice between production and exports depends upon whether the benefits of economies of scale exceed the costs of export induced by trade barriers, transportation costs, exchange rates or other disadvantages of not being a local producer” (Ekström, 1998:90).

In general, firms with low degrees of plant-level economies of scale that experience high transportation costs are more inclined to undertake market-seeking FDI projects than other firms are, and vice versa. In particular, firms in countries with relatively small market sizes are motivated to undertake market-seeking FDIs in order to expand and reduce their dependency on the small domestic market (Ekström 1998). Investing firms are motivated by the opportunity to capitalise upon their established O advantages by undertaking market-seeking FDI projects (cited in Ekström).

The need to stay close to customers is an important objective for market-seeking
When the need to respond to unique local tastes and desires is pronounced or when important customers move abroad, firms may find it necessary to reallocate their production in order to retain their business.

### 3.13.2 Resource-seeking FDIs

The objective of resource-seeking FDI projects is to exploit the comparative advantages of individual countries. This means that firms can allocate production resources in countries where factor prices are low relative to the firms’ productivity. Another important advantage may be the access to raw materials, parts and components (Ekström, 1998).

Dunning (1995a) recognizes three main types of resource-seekers. There are those seeking physical resources of one kind or another. These firms are driven by the motives of cost minimisation and security of supply. Primary producers and manufacturing firms, from both developed and developing countries, which seek resources like raw materials and minerals can be categorised to this first group.

The second group is seeking supplies of cheap and well-motivated unskilled and semi-skilled labour. Manufacturing and service firms from countries with high real labour costs usually undertake this kind of resource-seeking FDI. To supply labour intensive intermediate or final products for export, these firms set up or acquire subsidiaries in countries with lower real labour costs. This kind of activity appears usually in the more advanced industrialising developing countries.

The last type of resource-seeking FDI is prompted by the need of firms to acquire technological capability, management, organisational skills or marketing expertise.

### 3.13.3 Knowledge-seeking FDIs

Knowledge-seeking FDI projects are undertaken to maintain or develop a better competitive position in certain product or geographical markets. This competitive position can be achieved by acquiring technological knowledge and capabilities and/or management expertise.
Dunning and Oxelheim (1993) classified the acquisitions of new technology or capabilities under the category of resource-seeking motives. However, there is an important distinction between advantages motivating FDI projects designed to acquire technological capabilities and management expertise and those advantages associated with establishing a firm in locations with favourable factor endowments. While knowledge-seeking FDIs are designed to acquire new Oa advantages, resource-seeking FDI projects are primarily designed to internalise new locational advantages (cited in Ekström, 1998).

Hedlund and Kverneland (1984) argue that FDI projects which are designed to acquire new technology are not explained by O advantages as they are designed to create new O advantages rather than exploit existing O advantages (cited in Ekström, 1998). The strategic objective to acquire new technology is, by Dunning (1995a), categorised as a strategic asset-seeking motive.

3.13.4 Efficiency-seeking FDIs

The purpose of efficiency-seeking FDI projects is to rationalise the structure of established production units so that a firm can benefit from the common governance of economic activities in different locations (Dunning, 1995b).

Efficiency-seeking FDI projects tend to occur in capital or technology-intensive sectors in which the advantages of intra-industry and intrafirm trade are the most prevalent. Firms in these sectors tend to differentiate their products as a form of competitive advantage. Potential benefits like economies of scale and economies of scope can be derived from product and geographical concentration and from process specialisation.

To capture the advantages of process specialisation means that different stages of the value-added chain are concentrated to different countries. The advantage of this is that each activity is located in the country providing the lowest marginal cost of production for that particular activity. In this way firms can exploit different factor
endowments among various locations as well as they can exploit the scale economies in vertical integration (Ekström, 1998).

The pharmaceutical and the consumer product industry are examples of industries in the manufacturing sector that can achieve some of the advantages mentioned earlier. Availability of national resources and size of local markets are factors that are less important for these kinds of companies. Their location strategies are instead much more influenced by technological and educational factors, as well as by transport and communication infrastructure (Dunning, 1995b).

In efficiency-seeking FDI projects, the advantages of exploiting economies of scale and scope predominate over the importance of relative factor endowments across countries. According to Dunning (1995b), efficiency-seeking investments are normally undertaken in countries with broadly similar economic structures and income levels.

It is important to distinguish between efficiency-seeking and resource-seeking FDI projects. “While resource-seeking FDIs are designed to internalise new locational advantages, efficiency-seeking FDIs are designed to change a firm’s portfolio of locational advantages in order to capture the transaction cost minimising advantages of a common governance of inter-related activities in different locations” (Ekström, 1998:94).

### 3.13.5 Risk reduction-seeking FDIs

Risk reduction-seeking FDI projects are designed to reduce the corporate risk associated with unfavourable changes in macroeconomic variables, changes in supply and demand among national markets and the moves of competitors and of national and regional governments. These FDIs represent internal hedging activities conducted in order to reduce the level of corporate risk.

Minimising the firm’s exchange rate exposure is an important goal for risk reduction-seeking FDIs. For instance, firms may handle exchange rate risk by moving production from unfavourable to favourable locations. Furthermore, because of the supply and demand fluctuations among national markets,
firms may undertake FDI projects designed to diversify the market risk by having production at multiple locations.

Another way for firms to reduce risk is to undertake FDI projects that are designed to broaden the product line.

Firms may also undertake FDI projects because of the risks associated with the actual or potential moves of competitors. The purpose of the project could be to prevent competitors from exploiting new profit opportunities as well as to create better opportunities for responding to competitors in the future (Ekström, 1998).

3.14 Other motives for undertaking FDIs

It is worth mentioning that firms can undertake FDIs by other reasons as well. These reasons do not fit into our described categories but in the following they will be presented. There are three groups:

- escape investments
- support investments
- passive investments.

3.14.1 Escape investments

The reason for the FDI may be to escape restrictive legislation or macro-organizational policies by home governments. For instance, the firm’s home government can limit investments in some sectors. Flight of capital does not belong to this group since it may be associated with political unrest or dire economic circumstances.

Escape investments originate usually from countries whose governments pursue strongly interventionist macro organizational policies. These escape investments tend to occur in regulated sectors such as the service sector. In recent years, the liberalization of many markets has made these investments more unusual. One exception might include firms that are pushed to relocate their value activities as a result of trade barriers imposed on home country exports (Dunning, 1995a).
3.14.2 Support investments
The purpose of support investments is to support the activities of the rest of the enterprise of which they are part. These activities are costly and the major benefits accrue to the rest of the MNE. Thus, these affiliates are rarely self-contained profit centres. Most of these investments are trade-related investments of MNEs. They are mainly designed to promote and facilitate the exports of goods and services from the investing companies and/or to assist in the purchasing of foreign produced goods and services from the investing companies.

The value-added activities undertaken by MNE trading affiliates do not include only wholesale and retail distribution and marketing but also a whole range of import facilitating, which they undertake on behalf of the investing company. The sale of sophisticated intermediate products and those that need regular after-sales maintenance and servicing may need the presence of trained personnel and of warehousing facilities for spare parts.

Other kinds of support activities may also be provided by the foreign affiliates of the MNEs and regional or branch offices may undertake these activities. For instance, regional offices can act as intermediate centres of control and administration between the head office and the foreign operating units. They may provide the parent company with financial and marketing information and they may coordinate the activities of the operating units (Dunning, 1995a).

3.14.3 Passive investments
Direct investments are undertaken to provide new resources and management skills into the company, or to acquire new assets to increase its own profits. Portfolio investment, on the other hand, is an expression of faith in the existing organization and management of the company. It is undertaken to earn profits or to gain capital appreciation.

While direct investments are presumed to involve active management, portfolio investments involve passive management. Passive investments consist of two types. The first type consists of large institutional
conglomerates that specialize in the buying and selling of companies. Although income potential or capital gain motivates these investments, some direct managerial input is usually involved. It is not usual that an acquired company is left to its own devices. Some of these investments are undertaken to improve marketing, technological or organizational capabilities but the main motivation may be financial.

The second group of passive investments consists of small firms and individual investors in real estate. These investors may expect an appreciation in land and property prices and because of that they choose to make such investments.

To promote the foreign ownership of holiday or second homes is usually another explanation for such investments (Dunning, 1995a)

3.15 Horizontal FDI
A company undertakes horizontal FDI when it invests in the same industry abroad as it operates in at home. Compared with the alternatives of exporting or licensing FDI is expensive and risky. It is expensive because a firm must bear the costs of establishing production facilities in a foreign country or of acquiring a foreign enterprise. There is also a risk associated with doing business in another culture where the ways of doing business may differ from the ones at home.

There is a greater probability that a company in a foreign culture will make costly mistakes because of ignorance compared to a native company (Hill, 2003).

After reading this part, one could wonder why firms go through the trouble of undertaking FDIs when this way of doing business seems far more risky and expensive compared to exporting or licensing.

The chapter will continue with a description that covers different theories that try to explain why undertaking FDIs can be a better option than exporting or licensing.

3.15.1 Market Imperfections (Internalization Theory)
The factors that inhibit markets from working perfectly are called market imperfections. This theory is favoured by most economists and states, with regard to horizontal FDI, that market imperfections arise in two circumstances:

• when there are impediments to the free flow of products between nations
• when there are impediments to the sale of know-how (Hill, 2003).
We will explain these two types of circumstances in the following text.

3.15.1  Impediments to exporting
The main source of impediments to the free flow of products between nations are
governments. They impede trade by placing tariffs on imported goods and thus
make FDI and licensing more attractive compared to exporting. Similarly,
governments make exporting less attractive compared to FDI or licensing by
imposing quotas that limit imports. These impediments create incentives for
companies to undertake FDI rather than exporting (Hill, 2003).

3.15.1.2  Impediments to the sale of know-how
Technological, marketing, or management know-how create the competitive
advantages that many firms enjoy. If a specific know-how is viewed as a competitive
asset, it follows that the larger the market in which that asset is applied, the greater the
profits that can be earned from that asset. However, this alone does not explain why a
company chooses to undertake FDI rather than licensing. There are three main
reasons for why undertaking FDI is a better option than licensing.
The first reason is that a company, by licensing, may give away its know-how to
future competitors.

The second reason is that, by licensing, a firm loses the tight control over
manufacturing, and strategy in a foreign country that might be required to profitably
exploit its advantage in know-how.

The third reason for why firms may discard licensing as an option is that the firm’s
know-how may be non amenable. This is particularly true when a firm’s competitive
advantage arises from management or marketing know-how. ”It is one thing to license
a foreign firm to manufacture a particular product, but quite another to license the
way a firm does business, in other words how it manages its process and markets its
products” (Hill, 2003:215).
3.15.2 Strategic Behavior
This theory is based on the idea that FDI flows are a reflection of strategic rivalry between firms in the global market. F.T. Knickerbocker presented an early variant of this argument when he examined the relationship between FDI and rivalry in oligopolistic industries. "A critical competitive feature of such industries is interdependence of the major players" (Hill, 2003:216). This means that one firm’s move can have immediate impact on the major competitors, forcing them to respond in a similar way. If one firm in an oligopolistic situation decides to cut prices, the other firms in the same situation are forced to do the same thing to keep their market shares.

Knickerbocker argued that the same situation, which forces firms in an oligopolistic position to imitate each other's moves, can explain why companies undertake FDI. There are several studies on FDIs, made by U.S. firms during the 1950s and 60s, that show that firms in oligopolistic industries tended to imitate each other's FDI. Other studies that examined Japanese firms and their FDIs during the 1980s support the argument of imitative behavior.

The theory from Knickerbocker can be extended to embrace the concept of multipoint competition (Hill, 2003). Multipoint competition arises when two or more undertakings encounter each other in different national markets, regional markets, or industries. Economic theory compares the moves of these competitors with the moves of chess players, where the firms will try to match each other's moves in different markets to try to hold each other in check. The basic goal is to ensure that a rival does not gain a commanding position in one market and then use the profits earned there to subsidize competitive attacks in other markets.

These arguments tell only a part of the story since they fail to explain why the first firm in an oligopolistic chooses to undertake FDI rather than exporting or licensing. Furthermore, the imitative theory also fails to address the issue of whether FDI is a more efficient way to expand than exporting or licensing.

3.16 Vertical FDI
There are two forms of vertical FDI, backward and forward vertical FDI. Backward
vertical FDI into an industry abroad is undertaken to secure control of the inputs for the firm’s domestic production processes. Companies in the extractive industries (i.e. oil extraction, tin mining, bauxite mining, and copper mining) usually undertake these kinds of FDIs. The objective is to provide inputs into a firm’s downstream operations (e.g. oil refining, aluminum smelting and fabrication etc).

In the case of forward vertical FDI, an industry abroad sells the outputs of a firm’s domestic production processes. Compared to backward vertical integration, these kinds of FDIs are less common.

Why do companies set up operations in a foreign country when they know that it is an expensive and complex process? The direction of such FDIs can be explained by the location specific advantages. Multinationals in extractive industries that integrate vertically invest where the raw materials are. This argument does not cover why these companies did not import raw materials extracted by local producers. The strategic behaviour argument and the market imperfection approach may be used when trying to explain this (Hill, 2003).

3.16.1 Market Imperfections
The market imperfection approach gives a more general explanation of vertical FDI. According to this approach there are two explanations for vertical FDI:

- when there are impediments to the sale of know-how
- when a firm must invest in specialised assets (Hill, 2003)

3.16.1.1 Impediments to the sale of know-how
The first explanation is that there are impediments to the sale of know-how through the market mechanism. Backward vertical FDI is usual when a firm has the knowledge and the ability to extract raw materials in another country and there is no efficient producer in that country that can supply raw materials to the firm.

3.16.1.2 Investment in specialised assets
The second explanation is that vertical FDI will occur when a firm must invest in specialized assets whose value depends on inputs provided by a foreign supplier. A
specialized asset is an asset designed to perform a specific task and whose value is significantly reduced in its next-best use.

3.16.2 Strategic Behaviour
By vertically integrating backward to gain control over the source of raw materials, a company can raise entry barriers and shut new competitors out of an industry. This kind of strategic behaviour involves vertical FDI if the raw material is found abroad. However, the opportunities for preventing entrance through vertical FDI is not enough to explain the FDI undertaken by the world’s multinational enterprises. Any attempt to monopolize all viable raw material deposits will prove to be very expensive, if not impossible.

A further explanation of the strategic behaviour argument of vertical FDI is that such investments attempt to circumvent the barriers established by firms already doing business in a country and not to build entry barriers.

3.17 Summary
The theories that are presented in this chapter try to make the reader familiar with different concepts that are used within the area that has been examined. Acquisitions and green-field investments are discussed and the difference between them is presented. The OLI paradigm tries to explain why companies choose to undertake FDIs. The theory about the different motives that companies have when undertaking FDIs is presented. Finally, the chapter ends with an explanation of the differences between horizontal and vertical FDIs.
4 EMPIRICAL METHOD

The fourth chapter will explain how the survey has been conducted. It begins with an explanation of the sample that has been used in this survey. It continues with a discussion about the problem of bias. Furthermore, the concept of piggybacking and the screening process are presented. The questionnaire and the explanations to each question in it are also presented. Finally, the chapter ends with a discussion about reliability and validity.

4.1 The sample
The first stage of the survey is to select the sample, which is made up of some of the members of a population. The population is defined as the set of people or collection of items which is under consideration (Hussey, 1997).

Data collection about each member of the population is normal when the population is small. When the population is large, only a sample of the whole population is used. The reason for this is that it would be too time consuming and expensive to collect data about every member.

4.2 The problem of bias
It is important to ensure that the sample is not biased and that it is representative of the population from which it is drawn. An example of a biased sample is when you ask volunteers to participate in the research. These volunteer people may possess certain characteristics that the others, who did not volunteer, do not possess (Hussey, 1997).

Another example of bias is when respondents deliberately answer false to the questions. A reason for doing this can be that the respondent wants to depict a better picture of him/herself.

One has to obtain as high response rate as possible to ensure that the sample is representative. In reality, it is likely that the sample will contain non-respondents. These are different from the rest of the population since they have refused to be involved in the research for some reason. As a result of this, the respondents will not
be representative of the total population and the collected data may be biased (Saunders et al, 2003).

According to Saunders et al (2003), non-response is due to four interrelated problems:
- refusal to respond
- ineligibility to respond
- inability to locate respondent
- respondent located but unable to make contact

Our main problem in this survey is the first mentioned, namely refusal to respond. The survey received only 19 responses of 128.

As mentioned above, one has to ensure that the sample is not biased. However, if one, despite everything, detects that some answers are distorted because of bias, it is important to know how to handle this.

When designing the questionnaire, we tried to avoid leading questions. Despite this, the answers to our last question were distorted. The reason for this is that the question was constructed in a wrongful way. The respondents were asked to rank the statements from one to five, where one meant that they fully agreed to the statements and five meant that they did not agree at all. The purpose of this was to distinguish the most important and the least important objective. This would then be compared to the previous answers to see if there was any association between them. In other words, the last question was meant to be a control question that tested the respondents’ credibility.

After the data collection, we realised that a mistake had occurred. Several respondents had answered that they fully agreed with two or more of the statements. It would have been better to construct this question in the same manner as the previous questions. This would have made it possible to answer only on one of the five categories. However, this mistake is of minor concern since the last question does not affect the classification of the companies into the different categories. The classification is based on the five previous questions in the questionnaire.
Furthermore, the survey received a low response rate and because of this there is a risk that the respondents are not representative and that the collected data may therefore be biased.

4.3 Piggybacking and the screening process

The type of sampling method used in this research is called piggybacking. This means that you extract your sample from an existing survey. In our case, we used the list of the 100 largest companies in Sweden, which was made available to us by Dagens Industri Pocket 2003. These companies were ranked after turnover from the highest to the lowest.

Furthermore, a screening method was used. In this top 100 list, all of the companies were not engaged in foreign direct investments. These companies were screened out meaning that there were 78 companies that would be examined. 50 additional companies that undertook FDIs were chosen from Dagens Industri and added to the sample. These companies were presented in an alphabetic order which means that we started from A and continued until we had 50 companies. By visiting each company’s web page, we ensured that the selected companies undertook FDIs. When visiting the companies’ web sites, we examined if there was anything mentioned about foreign investments. If there was not mentioned anything about this, the company was screened out. All of the companies were not examined in this way since we knew for sure that some of them undertook FDIs.

Finally, the number of companies that constituted our sample was 128.

Since the companies were selected from Dagens Industri, we assumed that those companies were listed on Stockholmsbörsen. For that reason, the companies were informed that the survey examined companies that were listed on Stockholmsbörsen.

Later on, we began to receive replies from a number of companies and they explained that they were not listed on the stock exchange market. We were forced to make changes in the cover letter.

Five days after sending the first round of questionnaires, we sent the questionnaire
again to all the companies that had not replied. Together with that reminder we wrote a notification that the company did not have to be listed on Stockholmsbörsen to participate in our research. It was enough if the company had undertaken foreign direct investments.

4.4 The questionnaire

The questionnaire is a popular method for collecting data. The questions are in the same order for all respondents and the order is predetermined. Thus, each respondent is asked to respond to the same set of questions. The aim of the questionnaire is to find out what a selected group of participants do, think or feel. Large samples can be taken by using this method (Hussey, 1997).

Some other options, when conduction a research, are for instance face-to-face interviews and telephone interviews.

Since we chose to use a quantitative data approach, face-to-face interviews were inappropriate. A questionnaire is cheaper and less time consuming than personal interviews. Conducting the survey through telephone interviews was also an inappropriate option. The reason for this was that there were five statements in each one of the five questions, which were used to classify the respondents into different categories. It would be too complicated for the respondent to remember each statement in every case and answer correctly. By constructing a questionnaire, the respondents could easily view the statements several times and have time to reflect upon each statement.

The questionnaire was available to the respondents through a web page that was created by us. A link to the questionnaire was sent to the companies by e-mail. Since the purpose of the questionnaire must be apparent, we sent a cover letter in that e-mail, where we explained the purpose of the research.

Those companies that, for any reason, could not send their replies directly from our web site had the opportunity to get access to the questionnaire in Microsoft Word format.

Our survey is in the form of an analytical survey. The intention of the study is to
determine whether there are any indications of relations between different variables.

In our questionnaire we used some strategic objectives that were presented by Ekström (1998). In his book, Ekström used different questions to classify companies in different categories depending on their strategic objectives. We supplemented those objectives by adding questions which had the purpose of dividing companies in groups depending on the form (acquisition/green-field) and the type (horizontal/vertical) of FDI that they undertook.

We realised that some of the concepts that were used in the questionnaire could be difficult for the respondent to understand. To solve this problem, the respondent had the opportunity to receive explanations to some of the words in the questionnaire by clicking on those words. Explanations were given only to those words that we felt could be difficult to understand.

4.4.1 Explanation of each question

1) *What is your position in the company?*
   The purpose of this question is to find out how reliable the respondent is.

1) *Which industry does your company operate in?*
   The purpose of this question is to examine if there exist any notable trends among the different industries. This means that the data collected from this question would not be considered as a variable and thus not be examined in relation to the other questions. Instead, they would present a descriptive picture of the situation.

3) *Please state the main type of FDI that the company has undertaken?*
   There were three options to this question, namely acquisition, green-field and other. The first two options were used to classify the respondents into respective category. The answers derived from these two categories would then be combined with other variables (question 4 and 5) to examine if there exist any relationships between them. The last category (other) was used to screen out companies that did not undertake FDI in the form of acquisition or green-field investments.
4) What type of FDI characterises your company?

There were two options to this question, namely horizontal and vertical. The purpose was to divide the respondents into these two categories. The answers from this question would then be combined with other variables (question 3 and 5) to examine if there exist any relationships between them.

Before proceeding to question 5, we would like to explain how this question is constructed. The question presents 25 statements, which are divided into five subcategories. The respondent can only choose one out of each five statements that best describe his/her company. Depending on which statements the respondents chose, they were classified into the different categories.

For example, if a respondent has chosen two of the statements that are within the market-seeking objective and three of the statements that are within the resource-seeking objective, that respondent would be classified as a resource-seeker. Each one of the 25 statements will be followed by a presentation. This enables the reader to understand the meaning of each statement.

5) How important are the following statements for your company when undertaking FDI? Please, mark the most important statement in each one of the five cases.

The most common reason for undertaking FDI was to:

5.1) Get access to cheap input goods

This objective belongs to the resource-seeking category. To be able to continue with its operations a firm must ensure itself that its operation will work without any frictions. Otherwise, when the firm does not control the supplier, the supplier can raise prices. The result will be that the firm will be “forced” to look for another cheaper supplier. Since time is money, this will be costly for the firm because there will be frictions in the operations of the firm.

Get access to technological expertise and knowledge in relation to product technology

This objective belongs to the knowledge-seeking category. By acquiring
technological expertise and knowledge, firms try to maintain or develop better competitive positions in certain product markets.

*Get access to or establish the firm in a new global/regional market (EU, NAFTA, ASEAN, and so on)*

This objective belongs to the market-seeking category. Firms strive to establish themselves in new larger markets. Many firms view this as a good opportunity to make profits. Market size and prospects for market growth are some key features of these firms (Dunning, 1992).

*Enhance the opportunity to counteract the moves of competitors*

This objective belongs to the risk reduction-seeking category. Firms undertake this kind of FDI projects because of the risks associated with the actual or potential moves of competitors. Companies have a fear of being pre-empted by competitors. This fear appears when the moves of the competitors imply significant cost advantages or access to strategically important locations. Thus, these projects are designed to prevent competitors from exploiting new profit opportunities and to create better opportunities for responding to competitors in the future (Ekström, 1998).

*Acquire a global/regional production site*

This objective belongs to the efficiency-seeking category. Acquisition is often a fast and efficient way to enter a new market. The advantage of this is that the employees in the acquired unit already know how to produce, market, sell etc. The result of this is that the company can, without any major frictions, operate in an efficient way almost immediately after entering a new market.

5.2)

*Have a physical presence at the markets served by the competitors*

This objective belongs to the risk reduction-seeking category. Firms that try to establish physical presence at the markets served by the competitors, are driven by the willingness to not to loose market shares. It is better for them to enter that market and gain some market shares instead of not entering and thereby, giving their competitors
an opportunity to increase their market shares.

**Capture or enhance economies of scale in production, distribution, marketing, R&D, etc**

This objective belongs to the efficiency-seeking category. Companies may be driven by the transactional benefits associated with exploiting the economies of scale and scope in production, distribution, marketing, R&D etc. Scale economies can be captured by handling multiple products within the same distribution system and by utilising the same source of supply (cited in Ekström, 1998).

**Get access to technological expertise and knowledge in relation to process technology**

This objective belongs to the knowledge-seeking category. There are firms that, to sustain or develop their international competitiveness, find it necessary to acquire know-how in relation to process technology.

**Secure the availability of input goods**

This objective belongs to the resource-seeking category. These investments are characterized by the willingness to integrate backwards. By securing the availability of input goods a firm can gain full control over the resources it uses for its operations.

**Strengthen the competitive position in an established global/regional market**

This objective belongs to the market-seeking category. It is important for firms to have a competitive position in the established markets. A competitive position can be achieved by making aggressive investments, for instance companies can invest more in marketing campaigns and new technology.

5.3)

**Get access to competent top management team**

This objective belongs to the knowledge-seeking category. Getting access to competent top management team is a very important objective. It is of crucial importance for the companies’ future that their leaders are competent. If this would not be the case, the company would probably not survive.
Avoid high transportation costs associated with import of inputs
This objective belongs to the resource-seeking category. A lot of firms all over the world experience high transportation costs when they are importing the inputs needed for their operations. Due to this, many firms find it profitable to stay closer to the resources by locating their activities there.

Allocate production resources close to the competitors in order to improve the possibility to keep up with the technological development
This objective belongs to the risk reduction-seeking category. From the point of view of global production and marketing strategy, firms may find it necessary to be located close to their competitors. The global technology race may motivate firms in their international activities and stimulate allocation of R&D facilities and value adding activities close to competitors.

Sustain or strengthen the competitive position by establishing the firm closer to the customer
This objective belongs to the market-seeking category. The need to stay closer to the customer becomes very important for companies when important customers move abroad or when there is a need to respond to unique local tastes and needs (Dunning, 1995a).

Concentrate the firm’s operations globally/regionally to a lower number of units with a higher degree of production and export
This objective belongs to the efficiency-seeking category. Firms may benefit by concentrating certain types of production resources in limited number of locations. Advantages may also arise from the operating, geographically dispersed value-added activities (cited in Ekström, 1998).

5.4)
Get access to low cost of labour
This objective belongs to the resource-seeking category. It is not always the case that resource-seeking firms try to benefit by controlling the inputs it uses for its
operations. There are firms who seek supplies of cheap and well motivated labour as well. Since labour is seen as a resource it belongs to the resource-seeking category.

*Increase the degree of process specialisation*

This objective belongs to the efficiency-seeking category. As mentioned earlier, firms may benefit by concentrating the different stages of the value-adding chain in different countries. The benefits from process specialisation arise from exploiting different factor endowments among various locations. Thus, each activity is located in the country with the lowest marginal cost of production for that particular activity (Ekström, 1998).

*Reduce or diversify the risk associated with long-term exchange rate fluctuations*

This objective belongs to the risk reduction-seeking category. It is of major importance for firms to minimize their exchange rate exposure. Firms may handle exchange rate risk by for instance moving production units from unfavourable to favourable locations. Furthermore, creating production flexibility among the production units in different countries can reduce this risk. The result of this is that firms can then circumvent or exploit exchange rate fluctuations.

*Get access to organizational skills*

This objective belongs to the knowledge-seeking category. The way in which a firm organizes and coordinates its activities will not only influence the efficiency at which its competitive advantage is utilized, but also constitute a valued competence in its own right.

*Reduce transportation costs associated with exports*

This objective belongs to the market-seeking category. Firms that experience high transportation costs are more inclined to undertake market-seeking investments than other firms are (Ekström, 1998).

5.5)

*Improve the competitive or strategic advantage by enhancing organizational skills*

This objective belongs to the knowledge-seeking category. Firms can improve their competitive advantage by combining successful
organizational skills at home with the organizational skills that exist within the acquired company.

*Increase the degree of globalization or regionalization of the firm strategy*
This objective belongs to the market-seeking category. Many companies find it necessary to act within the global market since the competition is increasing. The globalization has more or less pushed companies to serve global and regional demand via local production. Market size, prospects for market growth, the need to stay close to customers, high transportation costs, unfavourable exchange rates and barriers to trade are some of the reasons to why companies choose to act within the global market (Ekström, 1998).

*Reduce or diversify the risk associated with differences in market growth, demand, supply among national/regional markets*
This objective belongs to the risk reduction-seeking category. There are firms that undertake FDIs in order to capture the advantages of smoothing the effects of supply and demand fluctuations among national or regional markets. These fluctuations make it necessary for firms to diversify the market risk by having production at multiple locations.

*Raise the security of supply sources*
This objective belongs to the resource-seeking category. By raising the security of supply sources a firm can protect itself against different actions that the supplier could take in other cases. A non-controlled supplier could for instance raise prices and alter delivery dates. This can be avoided when the firm has control over these parts. By exerting control over the supplier, the firm can also by itself decide the amount of output and the quality of the input.

*Restructure the firm globally in order to take advantage of the comparative differences between countries in terms of cost and availability of labour, inputs, technology, etc*
This objective belongs to the efficiency-seeking category. By rationalising and restructuring the configuration of a firm’s established production units the firm may
capture economies of scale and scope. Another way for capturing the advantages of scale economies is by establishing new production units which are designed to serve the global market (Ekström, 1998).

4.5 Reliability and validity
Reliability and validity are two aspects that are important for the credibility of the findings.

The findings can be said to be reliable if you or anyone else were to repeat the research and obtain the same results (Hussey, 1997). The findings can also be said to be reliable if the right person answers the questions.

Since every employee in a company is not familiar with the company’s FDI strategies, we asked the mail recipient to send the questionnaire forward to a person within the company that was well acquainted with the strategic objectives.

To be able to secure the reliability of our research it was very important that the right person answered our questionnaire. We solved this problem by formulating a first question where we tried to find out the position of the respondent in the company.

Validity is concerned with the extent to which the research findings accurately represent what is really happening in the situation. In other words, the test is valid if the collected data gives a true picture of the situation.

Validity can be undermined by research errors such as poor samples, faulty research procedures and inaccurate or misleading measurement (Hussey, 1997).

The research received a low response rate. As we mentioned above, this can undermine validity. Since the low response rate was beyond our control it was impossible to remedy this.

It is important that the questions that are sent to the sample are valid. A valid question will enable accurate data to be collected, and one that is reliable will mean that these data are collected consistently. According to Foddy (1994), the questions and the answers must make sense. “The question must be understood by the respondent in the way intended by the researcher and the answer given by the respondent must be understood by the researcher in the way intended by the respondent” (cited in
We believe that the questions that were used in our questionnaire were valid. The reason for this is that a large part of the questionnaire was taken from Ekström (1998).

Another problem that may affect validity is that the respondents might not understand the questions. To avoid misunderstanding we made explanations for the words that we thought would cause problems for the respondents. Those words were in bold text and if the respondent did not know what it was about he could just click on the word to get the explanation.
The fifth chapter presents the propositions and the analyses of the collected data.

5.1 Introduction
The response rate in this survey was almost 15 percent, which is very low. It is hard to draw conclusions based upon such a small number of answers. Because of this, no company could be classified within the resource-seeking category. The knowledge-seeking, efficiency-seeking and risk reduction-seeking categories were under-represented, containing only a few responses in each case.

The low response rate made any attempts to conduct mathematical calculations useless, because the calculations would not present a fair picture of the situation. The questionnaire was sent to the companies during a very busy time of the year and many stated that they did not have time to fill in the questionnaire. The economists in the companies were occupied with annual reports among other things.

On the whole, it is very difficult to neither support nor reject the propositions in this dissertation. Despite this, the results from this survey will be analysed. The reader must, however, bear in mind the statements that were just discussed when proceeding with this chapter.
5.2 Acquisition, green-field or other forms of FDI

Before proceeding with the analysis it is of importance for the reader to get a picture of the proportions of FDI that the companies in this survey undertook. Hill (2003) states that the majority of cross-border investments is in the form of mergers and acquisitions rather than green-field investments. According to UN estimates, 80 percent of all FDI inflows 1999 was in the form of mergers and acquisitions (cited in Hill, 2003).

The collected data clearly showed that the majority of the companies in this survey undertook FDI by form of acquisition. These results support Hills (2003) statement. Figure 1 below shows that 68.4 percent of the respondents undertook FDIs by acquisition. The remaining 31.6 percent were equally shared between the two other categories, green-field and other.

![Figure 5.1 Proportions of different forms of FDIs](image_url)

Figure 5.1 Proportions of different forms of FDIs
5.3 **Horizontal or vertical FDI**

As stated earlier, companies that do business in foreign countries/cultures are more likely to make mistakes due to ignorance compared with companies that do business domestically. The majority of the respondents in our survey stated that their company undertook horizontal FDIs.

A possible explanation to this might be that companies in general try to lower their risks, when doing business in a foreign country, by not engaging in more parts of the value-chain than necessary. There is always a risk associated with foreign direct investments. That risk might be increased when a company decides to undertake vertical FDI, since the company has more things to consider compared with undertaking horizontal FDI. For that reason, horizontal FDI might be preferable.

Figure 5.2 shows that 73.7 percent of the respondents stated that their company undertook horizontal FDIs.

![Figure 5.2 Proportions of different types of FDI](image-url)
5.4 The different motives

“The need to stay close to customers represents an increasingly important market-seeking objective” (Ekström, 1998:91).

A research that was done by Shepherd et.al (1985) investigating the motives underlying British outward FDI showed that the need to stay close to customers was the single most important reason underlying the decision to undertake FDI.

In our case the respondents were asked to choose one of every five statements that best described the objectives of his/her company when undertaking FDIs. Earlier, five different motives for undertaking FDIs were presented. However, none of the companies could be classified into the resource-seeking category. The reason for this is that none of the respondents responded in a way that would have classified them into that category. The most frequent motive in this survey was the market-seeking motive with its 57.9 percent.

The efficiency-seeking objective was the second most common motive. Figure 5.3 shows that 26.3 percent of the respondents were classified in this category.

![Figure 5.3 Proportions of the different motives for FDI](image)

5.5 Propositions and analyses
The previous figures in this chapter show that the majority of the respondents were classified into the market-seeking category. Furthermore, most of them undertook horizontal FDI by form of acquisition. At the end of this chapter, figure 5.4 and 5.5 demonstrate the relationship between the different variables that are going to be discussed in this part.

The collected data indicates that there exists a relation between the market-seeking objectives and horizontal FDI. The market-seekers mainly undertook horizontal FDI (82 percent). Among the companies that undertook horizontal FDIs, 64.3 percent were classified as market-seekers.

The results also indicate that there exists a relation between the market-seeking objectives and FDIs by form of acquisition. The market-seekers mainly undertook FDI by form of acquisition (73 percent). Among the companies that undertook FDIs by form of acquisition, 61.5 percent were classified as market-seekers.

5.5.1 Proposition 1 and analysis

*P1: Market-seekers mainly undertake horizontal FDI in the form of acquisition*

The reason for this statement is that market-seekers have as their main goal to conquer new markets and/or grow in existing markets. To be able to do this they must focus on the quickest way possible and in this case undertaking FDI by buying existing companies seems to be just that. It is less time consuming than undertaking FDIs in the form of green-field investments. By acquiring existing companies, the investors get access to the company’s customers and other parts of the network. This means that the company that undertakes FDI by acquisition does so with a smaller risk and can thus concentrate its efforts on its main objective, namely enlarging its market shares.

It is also stated in the proposition that market-seekers mainly undertake horizontal FDI. The reason for this is that if the company should choose to undertake vertical FDI instead, then the company’s main objective would not be to enlarge market shares but rather to enhance efficiency. This would mean that the company would be
classified as an efficiency-seeker.

The previous figures in this chapter show that the majority of the respondents were classified into the market-seeking category. Furthermore, most of them undertook horizontal FDI by form of acquisition.

The collected data indicates that there exists a relation between the market-seeking objectives and horizontal FDI. The market-seekers mainly undertook horizontal FDI (82 percent).

The results also indicate that there exists a relation between the market-seeking objectives and FDIs in the form of acquisition. The market-seekers mainly undertook FDI by form of acquisition (73 percent).
This proposition is the most supported one since the majority of the market-seeking respondents undertook horizontal FDIs by acquisitions.

**5.5.2 Proposition 2 and analysis**

*P2: Resource-seekers mainly undertake vertical FDI in the form of acquisition*

The word resource aims at explaining that a resource-seeker is interested in getting access to the inputs for its products. This means that the most logical assumption is that companies within this category will undertake vertical FDI. A company that has as its main objective to find new resources can get access to these by acquiring existing undertakings that provide the inputs to the producing companies. By buying existing suppliers in a market, the company can get access to the resources that the suppliers possess and thereby achieve its main objectives.

This proposition is impossible to evaluate since none of the respondents were classified within the resource-seeking category. It does not, however, follow that this category is unusual or, for that manner, unimportant among the existing companies in Sweden. It is more likely that this category was neglected because of the low response rate.

Some of the respondents did in fact select some of the alternatives that were within the resource-seeking category but none of these constituted a majority in its entirety.
For example one of the respondents chose two of the statements which would have classified his/her company into the resource-seeking category but this was not taken into consideration since the remaining three statements classified his/her company into the market-seeking category.

5.5.3 Proposition 3 and analysis

P3: Knowledge-seekers mainly undertake horizontal FDI in the form of acquisition
Knowledge-seekers invest abroad with the purpose of getting access to other companies’ know-how. For this reason it would be inappropriate for a knowledge-seeker to undertake FDI in the form of green-field investments. The company would not get access to any new technological or management know-how. On the other hand, if a company acquires an existing company the company would automatically get access to the know-how that would derive from the company that has been acquired. Furthermore, our proposition states that knowledge-seekers undertake horizontal FDI. It seems clear when considering that a company that tries to get access to knowledge is interested in getting a specific know-how. These companies are not interested in controlling the production of the inputs and because of this vertical FDI is not an appropriate option.

The poor results that we received indicate that this proposition is correct. However, it is unwise to assume that the proposition can be proved since there were only two companies that contributed to these results.

However, we would, once again like to remind the reader that our results do not mean that this category is unusual or unimportant among Swedish firms.

5.5.4 Proposition 4 and analysis

P4: Efficiency-seekers mainly undertake vertical FDI in the form of green-field investments.
Efficiency-seekers have as their main objective to increase efficiency. From this it follows that they want control over the complete value-creating chain. By having this control they can concentrate on achieving economies of scale. Because of this our assumption is that an efficiency-seeker mainly undertakes vertical FDI. Furthermore, by undertaking green-field investments companies can setup plants so that it fits their
way of producing in the best possible way.

The results from our survey indicate that this proposition is incorrect and must thereby be rejected. According to the received data, efficiency-seekers mainly undertake horizontal FDIs by form of acquisition. The distribution among the results, however, is in this case fairly even and it is thus difficult to draw any clear conclusions. In addition, as in the previous cases it is difficult to draw conclusions because of the low response rate.

5.5.5 Proposition 5 and analysis

*P5: Risk reduction-seekers mainly undertake horizontal FDI in the form of acquisition*

Green-field investments are associated with a higher degree of risk. This makes the assumption that companies that are characterised as risk reduction-seekers do not choose to undertake FDI by green-field investments. For that reason our proposition states that risk reduction-seekers undertake FDI by acquisition. Furthermore, the proposition states that risk reduction-seekers undertake horizontal FDI. We have made this assumption because if a company has its operations more focused on specific parts (and is not involved in every step of the value-creating chain) the risks will be smaller. The company can focus its attention on one part of the value-creating chain instead of having to be concerned with every part of it.

There was only one respondent that was classified into the risk reduction-seeking category. For what it is worth, this respondent contradicted our proposition. The respondent stated that his/her company mainly undertook vertical FDI in the form of green-field investments. Since there was only one respondent, it is unappropriate to draw any conclusions. Our proposition can neither be supported nor rejected.

5.6 Summary

The response rate in this survey was very low (15 percent). This made it difficult to test the hypotheses that have been presented. However, the analysis has shown that the proposition about market-seekers (P1) is the clearest and most reliable one, considering the circumstances.
None of the respondents were classified into the resource-seeking category. This makes it impossible to evaluate the proposition concerning this category (P2). The remaining propositions received vague support which made them difficult to support or reject.
5.7 Figure 5.4 and 5.5

**Figure 5.4** Relationships between the different objectives and horizontal/vertical FDI

**Figure 5.5** Relationships between the different objectives and the different forms of FDI
6 CONCLUSIONS

The sixth chapter presents the conclusions of the analyses. It begins with an introduction and is followed by a discussion about the response rate. It continues with a presentation of the conclusions drawn on the basis of the analyses. Furthermore, the contribution and subcontribution of this survey are discussed. The chapter ends with a summary.

6.1 Introduction
As mentioned in the very beginning of this dissertation, the task has been to examine if there are any interaction between the different motives for undertaking FDI and the different forms of FDI. The different motives would also be examined together with horizontal and vertical FDI to find out if there were any interaction between these.

6.2 The response rate
In the previous chapter it was mentioned that the survey received a very low response rate (15 percent). As a result of this, it is very difficult to draw reliable conclusions.

The survey contains five categories in which the respondents can be classified depending on their objectives for undertaking FDIs. This high amount of options combined with a low response rate creates problems since the 19 respondents had to be classified into five categories. In other words, there were not enough of respondents to fill each category in a desirable manner.

Reducing the number of categories was not an option since all of these are of major importance. If one or more of the categories were excluded, the respondents would run the risk of being classified within a wrong category. This would distort the research in its entirety.

The low response rate is, without doubt, the major reason that made it difficult for us to draw clear conclusions.

It is very hard to receive a satisfying response rate during Christmas times since the economists are either occupied with annual reports or on vacation. In other words, the low response rate was beyond our control.
We firmly believe that a much higher response rate would be obtained if this survey had been conducted during another time of the year, for example during the spring. Furthermore, it is possible that the companies refused to answer the questionnaire because they feared that, by doing so, they would give away secret information about their companies. We tried to minimize this risk by assuring the companies that their answers would be confidential.

The initial idea was to construct five hypotheses and test them on the basis of the collected data. However, because of the low response rate this had to be modified. The reason for this is that hypotheses must be tested to prove their significance and it was impossible to do this with such few observations. Replacing the hypotheses with propositions solved this problem. Propositions do not need to be tested in the same way as hypotheses. They can be used when conducting a study, which has the purpose to examine if there exist any indications of interaction between two or more variables.

6.3 Conclusions of the analyses

Our first proposition suggested that market-seekers mainly undertook horizontal FDI in the form of acquisition. This proposition received great support from the collected data. 82 percent of the market-seekers mainly undertook horizontal FDIs. Furthermore, 73 percent of the market-seekers undertook FDIs in the form of acquisition. For these reasons, the conclusion must be that proposition 1 is supported by the collected data.

Our second proposition suggested that resource-seekers mainly undertook vertical FDI in the form of green-field investments. As a result of the low response rate, none of the respondents were classified within this category. This proposition could therefore not be evaluated.

Our third proposition suggested that knowledge-seekers mainly undertook horizontal FDI in the form of acquisition. The two respondents that were classified as knowledge-seekers confirmed this proposition. From this it follows that the proposition is heading in the right direction but it would be unwise to assume that it
can be supported. A higher response rate would have made it easier to confirm or reject the proposition.

Our fourth proposition suggested that efficiency-seekers mainly undertook vertical FDI in the form of green-field investments. The collected data indicates that this proposition is incorrect and must therefore be rejected. The majority of the efficiency-seekers undertook horizontal FDI in the form of acquisition. It does not follow, however, that this is always the case. A higher response rate could just as well indicate that the proposition should be supported. For these reasons, it is impossible to draw reliable conclusions.

Our fifth proposition suggested that risk reduction-seekers mainly undertook horizontal FDI in the form of acquisition. The only company that was classified as a risk reduction-seeker contradicted this proposition. This respondent stated that his/her company undertook vertical FDIs in the form of green-field investments. It is impossible to draw any conclusions on the basis of one respondent. The proposition can therefore neither be supported nor rejected.

6.4 The contribution
The low response rate had its impact on this survey. It made it difficult to draw reliable conclusions and the hypotheses had to be changed to propositions. However, it does not follow that this survey failed to give its contribution to science. We are convinced that reliable conclusions can be drawn from this survey if a higher response rate can be achieved. This survey can therefore be used as a framework by other researchers. The questions in the survey are relevant and it is most likely that interaction between the variables can be found.

6.4.1 The subcontribution
Although it was not the main purpose of this dissertation to examine the distribution between the types, forms and objectives of FDIs, these were made obvious to us as the survey proceeded. It is clear that the majority (73.7 percent) of the respondents mainly undertook horizontal FDI. It is also clear that the majority (68.4 percent) of the respondents mainly undertook FDI in the form of acquisition. Furthermore, the
majority (57.9 percent) of the respondents was classified as market-seekers, which makes this the most common motive for undertaking FDIs.

6.5 Summary
The research received a low response rate. The clearest conclusion, considering these circumstances, is that market-seekers mainly undertake horizontal FDI in the form of acquisition. Horizontal FDI is the most common type of FDI among the respondents. FDI in the form of acquisition is the most common form of FDI among the respondents. Furthermore, the majority of the respondents were classified as market-seekers.

This survey can serve as a framework for other researchers that wish to examine this subject.
7 FURTHER RESEARCH

The seventh chapter presents suggestions to further research.

It would be very interesting to repeat this survey during another time of the year when companies are not occupied with annual reports and the like.

A suggestion for further research is to extend this survey by examining if there exists a relationship between the different objectives that have been examined here and specific industries. For example, one could examine if the companies within the car industry can be classified into a specific category, depending on this industry’s main objectives. Other industries could be examined in the same manner and thus this would map out the strategic objectives that characterizes different industries.
LIST OF REFERENCES

Literature


Ekström, J (1998), *Foreign Direct Investment by Large Swedish Firms*, Team Offset&Media


Newspaper

Dagens Industri

Dagens Industri Pocket 2003
APPENDIX A

The strategic objectives

*Market-seeking objectives*

- Get access to or establish the firm in a new global/regional market (EU, NAFTA, ASEAN, and so on)
- Strengthen the competitive position in an established global/regional market
- Sustain or strengthen the competitive position by establishing the firm closer to the customer
- Reduce transportation costs associated with exports
- Increase the degree of globalization or regionalization of the firm strategy

*Resource-seeking objectives*

- Get access to cheap input goods
- Secure the availability of input goods
- Avoid high transportation costs associated with import of inputs
- Get access to low cost of labour
- Raise the security of supply sources

*Knowledge-seeking objectives*

- Get access to technological expertise and knowledge in relation to product technology
- Get access to technological expertise and knowledge in relation to process technology
- Get access to competent top management team
- Get access to organizational skills
- Improve the competitive or strategic advantage by enhancing organizational skills
**Efficiency-seeking objectives**

- Acquire a global/regional production site
- Capture or enhance economies of scale in production, distribution, marketing, R&D, etc
- Concentrate the firm’s operations globally/regionally to a lower number of units with a higher degree of production and export
- Increase the degree of process specialisation
- Restructure the firm globally in order to take advantage of the comparative differences between countries in terms of cost and availability of labour, inputs, technology, etc

**Risk reduction-seeking objectives**

- Enhance the opportunity to counteract the moves of competitors
- Have a physical presence at the markets served by the competitors
- Allocate production resources close to the competitors in order to improve the possibility to keep up with the technological development
- Reduce or diversify the risk associated with long-term exchange rate fluctuations
- Reduce or diversify the risk associated with differences in market growth, demand, supply among national or regional markets
APPENDIX B

The questionnaire

1) What is your position in the company?

________________________

2) Which industry does your company operate in?

________________________

3) Please state the main type of FDI that the company has undertaken.

☐ Acquisition  ☐ Green-field  ☐ Other ____________

4) What type of FDI characterises your company?

☐ Horizontal  ☐ Vertical

How important are the following statements for your company when undertaking FDI?
Please, mark the most important statement in each one of the five cases.

5) The most common reason for undertaking FDI was to:

☐ Get access to cheap input goods
☐ Get access to technological expertise and knowledge in relation to product technology
☐ Get access to or establish the firm in a new global/regional market (EU, NAFTA, ASEAN, and so on)
☐ Enhance the opportunity to counteract the moves of competitors
☐ Acquire a global/regional production site

☐ Have a physical presence at the markets served by the competitors
☐ Capture or enhance economies of scale in production, distribution, marketing, R&D, etc
☐ Get access to technological expertise and knowledge in relation to process technology
☐ Secure the availability of input goods
☐ Strengthen the competitive position in an established global/regional market
☐ Get access to competent top management team
☐ Avoid high transportation costs associated with import of inputs
☐ Allocate production resources close to the competitors in order to improve the possibility to keep up with the technological development
☐ Sustain or strengthen the competitive position by establishing the firm closer to the customer
☐ Concentrate the firm’s operations globally/regionally to a lower number of units with a higher degree of production and export

☐ Get access to low cost of labour
☐ Increase the degree of process specialisation
☐ Reduce or diversify the risk associated with long-term exchange rate fluctuations
☐ Get access to organizational skills
☐ Reduce transportation costs associated with exports

☐ Improve the competitive or strategic advantage
☐ Increase the degree of globalization or regionalization of the firm strategy
☐ Reduce or diversify the risk associated with differences in market growth, demand, supply among national or regional markets
☐ Raise the security of supply sources
☐ Restructure the firm globally in order to take advantage of the comparative differences between countries in terms of cost and availability of labour, inputs, technology, etc

6) How well do you agree on following statements?

My company has the characteristics of being:

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<thead>
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<th>Characteristics</th>
<th>I fully agree</th>
<th>I do not agree at all</th>
</tr>
</thead>
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<td>☐ ☐ ☐ ☐ ☐</td>
<td></td>
</tr>
<tr>
<td>Efficiency-seeker</td>
<td>☐ ☐ ☐ ☐ ☐</td>
<td></td>
</tr>
<tr>
<td>Risk reduction-seeker</td>
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<td>Resource-seeker</td>
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Thank you for your participation!