INTERNATIONELLA HANDELSHÖGSKOLAN
HÖGSKOLAN I JÖNKÖPING

Utländska Direktinvesteringar

Svenska Företags Investeringar i Brasilien 1990-2005

Magisteruppsats inom Företagsekonomi

Författare: Ann Mårtensson
Cinna Kübek

Handledare: Urban Österlund

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Foreign Direct Investments

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Master thesis within Business Administration

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Sammanfattning

Bakgrund: Det är lättare att genomföra utländska direktinvesteringar idag än tidigare på grund av lägre kommunikationskostnader, förbättrad och ny informationsteknologi. 1990 öppnade Brasilien upp gränserna för den globala ekonomin och är idag en av världens tio största ekonomier, vidare är det en av de största mottagarna av utlandsinvesteringar. Det är många olika aspekter som bör övervägas vid en utlandsinvestering så som motiv, risker, etableringssätt och finansieringsalternativ.

Syfte: Syftet med denna uppsats är att beskriva svenska företagsetableringar i Brasilien mellan åren 1990-2005. Författarna avser att förklara de bakomliggande motiven till etableringen, hur företagen väljer att gå in på marknaden och om de upplevda riskerna med att vara verksam i Brasilien påverkar finansieringsbesluten.

Metod: Både en kvantitativ- och kvalitativ metod har använts för att svara på syftet med denna uppsats. Kvantitativ metod användes vid förstudien då ett standardiserat frågeformulär skickades till hela populationen via email. Detta genomfördes för att urskilja de företag som etablerades i Brasilien mellan åren 1990-2005. Vid utformning av frågeformulär samt genomförandet av telefonintervjuer användes en kombination av kvalitativ- och kvantitativ metod.

Slutsats: De vanligaste motiven till att investera i Brasilien är att expandera marknadsandelar och att följa redan existerande kunder. Majoriteten av företagen valde att etablera sig genom att bygga upp en ny produktion från början, en Greenfield investering. De risker som har haft störst påverkan på företagen vid etableringen är politisk risk och protektionism. Att finansiera investeringen inom koncernen har varit det huvudsakliga finansieringssättet då det är väldigt dyrt att låna i Brasilien. De risker som påverkar finansieringsbesluten är växlingsrisk, inflation och ränta.

Master Thesis in Business Administration

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Abstract

Background: Foreign direct investments are easier today then in the past owing to lower communication costs, improved and new information technology systems. In 1990, Brazil opened up for the global economy and is today one of the tenth largest economies in the world, furthermore one of the largest recipients of foreign direct investments. Many different aspects need to be taken into consideration when investing in a foreign country such as motives, risks, entry modes and financing alternatives.

Purpose: The purpose with this thesis is to describe Swedish corporations' establishment in Brazil, during 1990-2005. The authors aim to illustrate the motives behind the establishment, choice of entry mode, the perceived risks of operating in Brazil and if these risks affect the financing decisions.

Method: To answer the purpose of this thesis both quantitative- and qualitative methods have been applied. A quantitative method has been employed when performing the preliminary study, by sending a standardized questionnaire by email to the entire population to assemble those corporations who established in Brazil during 1990-2005. When designing the interview questionnaire and accomplishing the telephone interviews a combination of qualitative- and quantitative methods have been utilized.

Conclusion: The most common motives to invest in Brazil are expanding markets and following already existing customers. When deciding upon how to enter the market, the majority of the respondents choose to start up from the ground, a Greenfield investment. The risks which had the largest impact of the corporation during the establishment were the political risk and protectionism. Intercompany financing has been the main financing alternative, though it is very expensive to borrow in Brazil. The risks affecting the financing decisions are the exchange rate, inflation and the interest rate.

Thank You!

The authors' would like to express their gratitude to the respondents of the following corporations for taking their time to participate in an interview and making it possible for us to accomplish this thesis.

Autoliv

BT Industries

Camfil

Cejn

Cue Dee

Fagerdala

Kalmar Industries

Klippan-Safety

Nederman

Polykemi

Qliktech

Readsoft

Starsprings

Thule

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Ann Mårtensson *Cinna Kübek*

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1 Introduction

In this chapter the background will be presented to give the reader a deeper understanding concerning the chosen topic. Further, the problem discussion will result in the purpose with this thesis. Finally, the authors will present a disposition of the different chapters to give the reader a general view of the thesis.

1.1 Background

"The world gets more and more global which implies that manufacturing can be situated in São Paolo as well as for example Södertälje" stated by Johan Fager, Swedish Chamber of Commerce (Dotterbolag tror på Brasilien, 2005).

The word *globalization* barely existed two decades ago. Today it is a widely used expression which creates emotional and political debates and reactions. Globalization is here to stay; some people are convinced it will destroy the world while others think it will save the world. Globalization offers developing countries new openings such as, economic, political, social and cultural development but also new challenges (Kiggundu, 2002). However, it can also be thought of as a threat and be unwanted since the country may loose its economic independence (Granell, 2000; Johnson, 2005). To take part in globalization offers developing countries an opportunity to reduce poverty, increase wages and incomes and thereby adding wealth (Kiggundu, 2002).

Management of foreign direct investments (FDI) are easier today then in the past owing to lower communication costs in addition to improved and new information technology systems. FDIs have increased due to rapid growth and changes in the global investment patterns in the recent years (Chen, 2000; Ekström, 1998).The encouragement of enterprises to pursue international business is that many barriers are reduced or removed. Hence, deregulations on the currency and capital market in most countries have played an important role concerning this matter (Chen, 2000; Ekström, 1998; Fredriksson, 1994). In order for corporations to keep its competitiveness and to gain more market shares, boarders have to be crossed. Companies can do this in several ways: export, joint ventures, acquisitions and subsidiary are a few examples (Hollensen, 2004).

Sweden is a country with many multinational enterprises and small medium sized enterprises in diverse areas. However, it is a small open economy and therefore dependent upon the surrounding world (Fredriksson, 1994). Additionally, the Swedish market is not large enough, thus in order to accomplish growth it is of importance for Swedish corporations to invest outside the country. There are several reasons for investing abroad, for example cheaper production, more advanced technology, raw material and human resources (Eiteman, Stonehill & Moffet, 2004). However, one may think that the major reasons for Swedish companies to FDI are cheaper production and labour costs. It is also known that Eastern Europe and Asia are areas where Swedish corporations have been investing in for decades. Although there are other areas in the world where Swedish companies invest and see as new potential markets. Due to local regulations and tariffs export may be complicated and therefore companies take FDI into consideration.

A market that has not been studied much from a Swedish perspective is Latin America. Most of the Swedish multinational corporations have subsidiaries situated in many of the Latin American countries, for instance Ericsson, Volvo and Husqvarna (Fager, 2005). In 1990 Brazil opened up for the global economy, thus restructured regulations and import tariffs, which is the major reason for increased FDI in Brazil (Om Brasilien, 2006). During the period 1990-1998 Brazil was the second largest recipient of FDIs (Kiggundo, 2002). A study of the world's largest 500 multinational enterprises showed that 400 of them had invested in Brazil. FDI has grown from 19 percent in 1992 to 32.8 percent in 1996. One reason for this suddenly growth of FDIs in Brazil is due to their increased market participation. Most of the FDIs in this study were accomplished through mergers and acquisitions. In another survey 79 large foreign corporations who invested in Brazil during 1994-1998 were analyzed. These results were somewhat different compare to the other study. Mergers and acquisitions were only accomplished by 19 percent, 58 percent entered the market by building a new factory and development and modernization of existing plants consisted of 23 percent (Baer, 2001).

Today Brazil is the most important economy in Latin America and it is also one of the tenth largest economies in the world. The city São Paulo is Brazil's economical capital and Swedish corporations have as many employees here as in Gothenburg, hence it is seen as the most important Swedish industrial city (Fager, 2005). Sweden has been one of the tenth largest foreign investors in Brazil during 2000-2005 (Swedish industry in Brazil, 2005-2006). When a company invests in a developing foreign market many decisions concerning the environment have to be discussed. Hence, corporations have different motives and strategies to approach a new market. As companies invest in a foreign market there are several risks to take into consideration such as inflation, high interest rate and fluctuated currency. Often these risks are more severe in developing countries and have an impact on the financing strategy (Madura, 1998; Krugman & Obstfeld, 2003).

1.2 Problem discussion

Brazil has a huge middle class; 30 millions of its inhabitants have the same purchasing power or stronger compare to the Swedish population. Hence, this is a potential market for foreign corporations, especially concerning capital goods (Brazil - Country Report, 2005). As mentioned above Brazil is one of the tenth largest economies in the world and is also one of the largest recipients of FDI. Local manufacturing was prioritized in favour of importing and due to this politics some large Swedish companies established in Latin America early on (Swedfund – Latinamerika, 2006). Hence, the Brazilian politics have forced foreign corporations to direct invest instead of exporting to the country, due to the difficulties of pursuing business from afar in Brazil (Dotterbolag tror på Brasilien, 2006). The motives to invest in a developing country are often related to cheaper labour force and lower production costs. Brazil has had a rather turbulent last decade, with an unstable currency, high inflation and interest rate. According to Metzler (2006) Brazil had a hyperinflation of 7000 per cent in 1990. Therefore, one might wonder why companies pursue penetrating that market.

What are the main motives behind an investment decision in Brazil?

There are several different ways of how to invest in a foreign market; a company might establish a partnership with an already existing firm, establish a production or service facility from the ground or acquire an already existing company. There are diverse advantages and disadvantages which appear depending on the alternative the corporation chooses (Hollensen, 2004; Eiteman et al., 2004).

How do companies choose to enter the market?

A company investing abroad faces great opportunities; gaining market shares and increasing sales which in turn lead to greater profits. Although, it is also a great risk especially facing a developing country where politics are unstable and human conditions are diverse in the host country compared to the domestic country. The security aspect is still uncertain in Brazil, thus foreign companies may run into problems which they are not aware of. For instance, today Brazil has a high interest rate and tax-rate (Brazil - Country Report, 2005). Even though Brazil has tried to adjust to the market economy it is still very bureaucratic and corruption is an existing dilemma, which can lead to problems for the corporation.

Do Swedish companies still think of Brazil as an unstable country, if so, how do they deal with these uncertainties?

When a corporation has determined to invest in a foreign market major financing decisions have to be made. There are several different ways of how to raise capital for new investments. Further, many different factors have to be considered before choosing what alternative or alternatives to apply. Investing in a developing country might be riskier compare to an industrial country (Morrison, 2002).

Do perceived risks affect how to finance a foreign investment?

Do Swedish corporations use domestic, local or other financing sources for its investment?

The above discussion leads to the purpose of the thesis.

1.3 The Purpose

The purpose with this thesis is to describe Swedish corporations' establishment in Brazil, during 1990-2005. The authors aim to illustrate the motives behind the establishment, choice of entry mode, the perceived risks of operating in Brazil and if these risks affect the financing decisions.

1.4 Research approach

According to Lundahl and Skärvad (1999) there are five different types of studies one can apply when writing a thesis; *explorative-, descriptive-, explanatory-, diagnostic- and evaluating studies.* Which classification one decides to use depends on the purpose of the thesis. Patel and Davidson (2003) argue, when the intention is to describe a situation already occurred the research is of descriptive character. The purpose with the thesis is not to exploit new theories but to apply already existing theory and describe corporations' actions regarding a new investment abroad. Furthermore, the study's primary focus is Swedish corporations' establishment in Brazil. Thus, a description of the entry procedure will be formed. The authors have decided to firstly describe the motive to enter the Brazilian market. Moreover, different risks and entry modes will be developed. All this will result in how Swedish corporations finance the establishment and if the perceived risks had any influence on the financing decision.

To fulfil the purpose of this thesis a method that both can generalize and give a deeper comprehension will be utilized. When conducting a study one can apply quantitative- and/or qualitative methods. Thus, the type of study one will perform decides what method to apply (Lundahl & Skärvad, 1999). Often researcher applies either a quantitative or a qualitative method. However, whether the researcher uses qualitative or quantitative method can be difficult to decide. Svenning (2003) argues that one should use both methods to obtain the best description of the reality. Hence, both qualitative- and quantitative methods are applied for this study.

1.5 Literature selection

The information for this thesis has been gathered from various sources. The authors have used course literature and news papers to get a broad understanding concerning the chosen subject. Using this as a base the authors have developed a further and deeper understanding within the subject, through scientific articles from journals and more specific books. To find specific data concerning Brazil statistical data bases such as UNESCO Institute for Statistics, ILO Bureau of Statistics and United Nations Statistics division have been utilized. The theoretical materials have been collected from the library of the Jönköping University. In addition, Internet sources have been valuable for gathering of data.

Swedish trade council, Swedish chamber of Commerce in Brazil and Swedfund have provided the authors with useful data regarding Brazil and Swedish corporations operating in the country. The main search words (English & Swedish) used in the data gathering process are; Brazil, FDI, globalization, developing country, internationalization, utlandsinvesteringar, utvecklingsland, investeringsmotiv, entry mode, investment risk and financing.

1.6 Criticism of the literature

The literature used is mainly specialist literature about foreign direct investments, international finance and international business. The authors have tried to use as recent literature as possible to get reliable sources. Most books are based on the American and Great Britain business environment and culture, thus a lack in the theory can be that the environment differs among countries. Due to this and to increase the credibility the authors have utilized Swedish literature of relevance to endorse the applied literature. However, Swedish literature regarding the subject has been difficult to locate and therefore some of the employed American and Great Britain literature sources have been overused.

2 Frame of reference

In this chapter the authors will present relevant theory for the chosen subject. This chapter begins with an explanation of developing countries, further we will present motives for going abroad, different risks that may affect a foreign direct investment, options of how to enter a foreign market, and finally different financing alternatives.

2.1 Developing countries

Developing countries cannot be seen as a uniform set anymore due to being influenced differently by globalisation. Some countries have adjusted to the global market faster and more effectively than others. Thus, a list of features describing all developing countries do not exist (Kiggundu, 2002; Krugman & Obstfeld, 2003). However, one of the most common definitions of a developing country is income per capita. Commonly, countries with low incomes, lower-middle or upper-middle incomes are defined as developing countries (Todaro & Smith, 2006). Wide income range is not an indication that can be generalized; instead it can be of importance to divide developing countries into two groups, advanced developing countries and the least developed countries (Kiggundu, 2002; Todaro & Smith, 2006).

Despite the differences between developing countries most of them have the same problems and share a set of common goals (Todaro & Smith, 2006). Developing countries fundamental problem is poverty and that factor of production such as capital and labour skills often are limited (Krugman & Obstfeld, 2003). These problems have resulted in well-defined goals such as a reduction in poverty, inequality and unemployment. A minimum level of education, housing, health and food to every inhabitant should be a condition. As well as broadening of economic and social opportunities and a unified nation-state (Todaro & Smith, 2006). In order to achieve the economical structure of industrial countries many developing countries have changed its economies towards these countries, however the change is tough and therefore incomplete (Krugman & Obstfeld, 2003).

Even though there is no general definition of a developing country, some of the features described below can be seen as characteristics of a developing country. Developing countries have a history of *direct governmental control of the economy* and *high inflation*. Some examples of direct governmental control are constraints on international trade, direct control over international financial transactions and government ownership or control of large corporations. Even though there have been a decrease of governmental control, the extent of the decrease vary among the developing countries (Krugman & Obstfeld, 2003). Additionally the liberalization of domestic financial markets has contributed to a huge increase of *weak credit institutions*. It is hard for shareholders to control corporations' executives and receive the information regarding how the company's resources have been utilized. Thus, developing countries' financial markets do not accomplish a good performance concerning direct savings toward its most efficient investment users. This results in developing countries being prone to crisis (Krugman & Obstfeld, 2003; Todaro & Smith, 2006). Developing countries tend to have a *pegged exchange rate* owing to the governments fear of a floating exchange rate, since it might lead to huge volatility in the markets of the country's currency. Another reason is the desire to keep the inflation under control (Krugman & Obstfeld, 2003).

Furthermore, an important part of the economic sector for developing countries is agriculture commodities since it is a traditional industry (Kiggundu, 2002). Thus, developing countries tend to depend on *agriculture commodities,* as well as/or *natural resources* when it comes to exporting (Krugman & Obstfeld, 2003; Todaro & Smith, 2006). Corruption is familiar in most developing countries as a tool to evade government control, taxes and regulations. The practices of corruption often lead to poverty since underground economic activity have a tendency to tear down legal business. Consequently, there exist a strong negative relationship between corruption and GDP (annual real per capita) (Krugman & Obstfeld, 2003).

2.2 International business growth

It is difficult to verify the total international business performed over time, especially on a long-term historical basis. Even collection of data in current times concerning international business is difficult. Reasons for the problems of finding information about international business are less border controls on trade, especially in the European Union, and the knowledge of business being international or domestic. Whether business is international or domestic depends on where it is performed, within or across national boundaries. Since boundaries shift occasionally domestic transactions become international and vice verse. An example of this is the Soviet Union collapse in 1991, thus trade between Estonia and Russia changed from domestic to international (Daniels & Radebaugh, 1995; Buckley, 1990). Despite these and other problems, there is a general increase in international business according to Woods (2001). Factors affecting the rapid increase are many, for instance an expansion of technology and increased global competition (Zander, 2002).

2.2.1 The political & economical environment

Governments ought to lower barriers concerning movement of resources, goods and services since this make it easier for corporation to take advantage of international opportunities. The risky ness in international business is due to several aspects and one of these is that regulations may change at any time (Daniels & Radebaugh, 1995; Madura1998). Though, today most governments impose fewer restrictions on cross-boarder movements than before (Johnson & Turner, 2003; Madura, 1998). Reasons for lowering restrictions are many for instance inhabitants have a demand for better access to a variety of goods and services at lower prices. Furthermore, foreign competition entails more efficient domestic production and the hope to encourage other countries to decrease their barriers (Daniels & Radebaugh, 1995). Thus, in today's economical environment free trade is preferred and thereby international competition is increased. Although, countries will always have different opinions concerning trading terms. Some of the most important factors considering international business in the future are labour standards and environmental issues (Woods, 2001). Institutional arrangements make it easier to perform business internationally, since companies rely on institutions to support and facilitate international trade. Typical institutions that are helpful to corporations when performing international business are banks, insurance companies and postal services (Daniels & Radebaugh, 1995).

2.2.2 Expansion of technology

The technology that exists today has been developed only within the last century. Hence, the growth in global business is due to quicker transportation and easier communication, which enable control from a distance. Technology has a huge impact on international business which is depending on the demand for new products and services (Woods, 2001; Johnson & Turner, 2003). The number of international business transactions increase in relation to the demand which is rapidly growing. International business often engages great distance which implies increased operating costs and the control of a corporation's foreign operations become more difficult. Nevertheless, the enhanced communications speed up the connections and improve managers' capability to control foreign operations (Vahlne & Johanson, 2002). Thus, the revolution in communication technology has increased the interconnections, the time to send data between different continents have decreased to almost nothing (Parker, 2005, Woods, 2001; McDonald & Burton, 2002). Additionally, technology effects international business regarding the impact it has had on promoting methods. Radio, television and internet advertising have made international promotion easier (Woods, 2001).

2.3 Motives for corporations to operate internationally

The motives for going abroad could be of market, economic or strategic character, depending on which line of business the corporation is operating in and the environment surrounding them. New market opportunities could be discovered through investments and trade with other countries, *a market motive.* An *economic motive* is to increase profit due to higher revenues and lower costs. S*trategic motives* are when following the corporations' most important clients abroad or to enter a new market before the corporations competitor does (Shenkar & Luo, 2004). When entering a foreign market many corporations begin by selling or producing the product which is the best-seller in the home market (Woods, 2001). Further Woods (2001) argues, when entering a new market the corporation should focus on its core competence in order to succeed.

2.3.1 Profit & growth

Woods (2001) clarify that one motive to expand globally and seek new potential markets could be poor financial performance, dropping sales and profits. Corporation using this motive had probably not looked for new customers if profits had not decreased. Another motive going abroad is increasing costs. Increase short-term profit and growth are incentives for companies to start exporting. A corporation's position towards growth is influenced by past efforts. However, the attained profitability is generally different from the perceived profitability when planning to enter international markets. A company that has strong motivation to grow will actively work towards it and search for new possibilities to find means of fulfilling the ambitions of growth and profit. When considering profit motivation, tax benefits should also be considered since it permit companies to offer their products or services to a lower cost in foreign markets or to accumulate a higher profit (Hollensen, 2004).

2.3.2 Expand markets

For a corporation the most important goal is to maximize shareholder wealth. In order to succeed cash flow needs to be increased (Eiteman et al., 2004). The sales of a company depend on the consumers' interest in the product or service and the consumers' willingness and ability to purchase them (Daniels & Radebaugh, 1995). There are different strategies of how to accomplish this; either the corporation could expand in its home market or one could decide to penetrate a foreign market (Madura, 1998). As the number of people and their purchasing power are higher in the whole world than in a single country, a firm that work across the boarders may increase its sales. Additionally, the profit per unit of sales may even increase as sales increases. A prior reason for corporations' expansion international is increased sales. Several of the world's largest firms receive over half their sales from outside the domestic country (Daniels & Radebaugh, 1995). Often the corporation begins to export products to a particular country and over time opportunities regarding expanding markets are recognized (Madura, 1998). Thus, corporations export to foreign markets in order to gain market shares or start manufacturing in foreign markets to satisfy local consumption (Eiteman et al., 2004).

2.3.3 Acquire foreign resources

Reasons for investing abroad can be to extract raw material from markets where it can be found, production efficiency and knowledge (Eiteman et al., 2004, Daniels & Radebaugh, 1995). Manufactures and distributors search for products, services and components produced in foreign countries. Additionally, companies search for foreign capital and technologies, which can be applied at home in order to reduce its costs (Shenkar & Luo, 2004). Further, corporations seek knowledge to admission managerial expertise or technology (Eiteman et al., 2004). The benefits are that either the profit margin may be increased or the cost savings may be passed on to the consumers. These consumers will then purchase more products, hence profits increases through greater sales volume. Sometimes a firm buys abroad in order to acquire a service not readily available within its domestic country. This kind of strategy may enable a company to improve its product quality and/or to differentiate itself from its competitors. Both will potentially increase its market share and profits (Daniels & Radebaugh, 1995).

Companies may seek for markets where factors of productions are cheaper compare to its productivity. However, it can also be the other case around that corporations invest abroad to reach foreign production factors not because it is cheap but since it is better and more advanced (Shenkar & Luo, 2004). As corporations begin to advance into foreign markets and look at production opportunities this may start a domino effect. This implies that other companies may perceive foreign opportunities as well and invest abroad (Daniels & Radebaugh, 1995).

2.3.4 Managerial urge

The difference between only operating in the domestic market and going international depends on the attitude of the management. If the management has great visions for the corporation in the future, has knowledge about potential foreign markets and is risk averse, the chance of becoming global is larger (Woods, 2001). Managerial urge may exist as a motivation which reflects the desire, enthusiasm and drive of management towards international business. The desire to internationalize can be seen as an entrepreneurial motivation, for continuous growth and market expansion (Hollensen, 2004). Sometimes there is an external pressure from shareholders that the company should expand and operate abroad to receive higher returns. The management works in the best interest of the shareholders and if not fulfilling their request management could be replaced (Woods, 2001). The conclusion is that the managerial attitudes play a critical role in determining international business of the company (Hollensen, 2004).

2.3.5 Economies of scale

One reason of becoming global is if the corporation is seeking for economies of scale (Woods, 2001). Economies of scale appear when increasing the quantity produced, which in turn contributes to decreasing cost per unit. Economies of scale can arise in different divisions of the corporation; production and marketing are a few examples (Eiteman et al., 2004). International business activities usually enable the firm to increase its output. This increased production reduces the cost of production and make the company more competitive domestically as well as international. As a consequence corporations consider seeking market share as a primary objective. Hence, fixed costs such as administration costs, facilities, equipment, R&D and employees can be spread over more units (Hollensen, 2004).

2.3.6 Stakeholder pressures

A corporation might believe that it will lose domestic market shares to competitors which have benefited from economies of scale. Additionally, the foreign companies may fear that domestic competitors decide to focus on the domestic market and gain market shares. An incentive for corporations to internationalize is the knowledge about competitors or other firms that start to internationalize (Hollensen, 2004). According to Daniels and Radebaugh (1995) the reason for going abroad is the pressure that suppliers, competitors and customers of the domestic corporation become international. Further, Johanson, Blomstermo and Pahlberg (2002) point out the importance of being able to supply the customer's foreign subsidiary to maintain them as a key customer on the domestic market.

2.3.7 Diversify sources of sales & supplies

A small home market may push a company to international business activities, since the home market may be powerless to maintain economies of scale. A similar motivating effect is a saturated home market. A product may be at the declining stage of the product life cycle in the domestic country. Consequently the product is promoted abroad and this is often met with success since there are countries that are less developed or at the same level as the domestic country that desire the product or service (Hollensen, 2004; Johansson et al., 2002). To avoid swings in sales and profits corporations may seek out foreign markets and sources of supplies. The timing of the business cycles differs among countries and several corporations gain from this. Such as sales increase in a country which is expanding economically and decreases in one that is in recession. Furthermore, to obtain supplies of the same product or components from different countries, corporations might circumvent impact of shortage or price swings in countries (Daniels & Radebaugh, 1995).

2.3.8 The host government

One important factor behind why host government wants to attract foreign investments is the ability to gain access to modern technology, management expertise and skills. The host government may also benefit if local firms imitate multinational corporation's technologies or employ new people trained by the corporations and as a result increase its productivity. Host governments often try to control or influence the behaviour of the foreign corporation either directly through regulations or indirectly by affecting the environment the corporation operates in. Contribution of FDI could have the impact of both positive and/or negative effects for the host country. Development and growth are positive but the local economy could be affected negatively as well (Blomström, Kokko & Zejan, 2000).

Evaluation of advantages and disadvantages of FDI must be considered by each government. Some FDI will be more attractive than others for example if the corporation will employ local labour and produce products that are not substitutes of local products. If this is the case the foreign company will not be a competitor to local companies by reducing their sales. If the advantages outweigh the disadvantages FDI will be encouraged by the host government. Tax breaks on the income earned in the host country, low-interest loans and rent-free land are some incentives which the government can decide upon depending what benefit the FDI would contribute to its country (Madura, 1998). Shenkar and Luo (2004) state, many of those factors which may be appealing of FDI to the host government may be damaging to the domestic country. For example when large corporation move its production abroad many people loose their jobs in the domestic country but on the other hand this creates new job opportunities in the host country.

It is important for developing countries to attract capital from abroad in order to finance domestic investments. Many developing countries must borrow abroad to be able to accomplish productive investments. Due to this the country ends up having large debt to foreigners which may result in repayment problems. By attracting FDI the country receives capital and avoids indebtedness (Krugman & Obstfeld, 2003).

2.4 Risks with foreign investment

Before investing abroad management need to identify a competitive advantage that are transferable and dominant enough for the corporation. This is important in order to compensate for disadvantages that could arise when investing abroad such as increased agency costs, foreign exchange risks, uncertainty of inflation and political risks (Eiteman et al. 2004). To be able to look further into the risk for corporations going abroad the risk factor will be categorised into three groups, firm-specific risk, country-specific risk and global-specific risk.

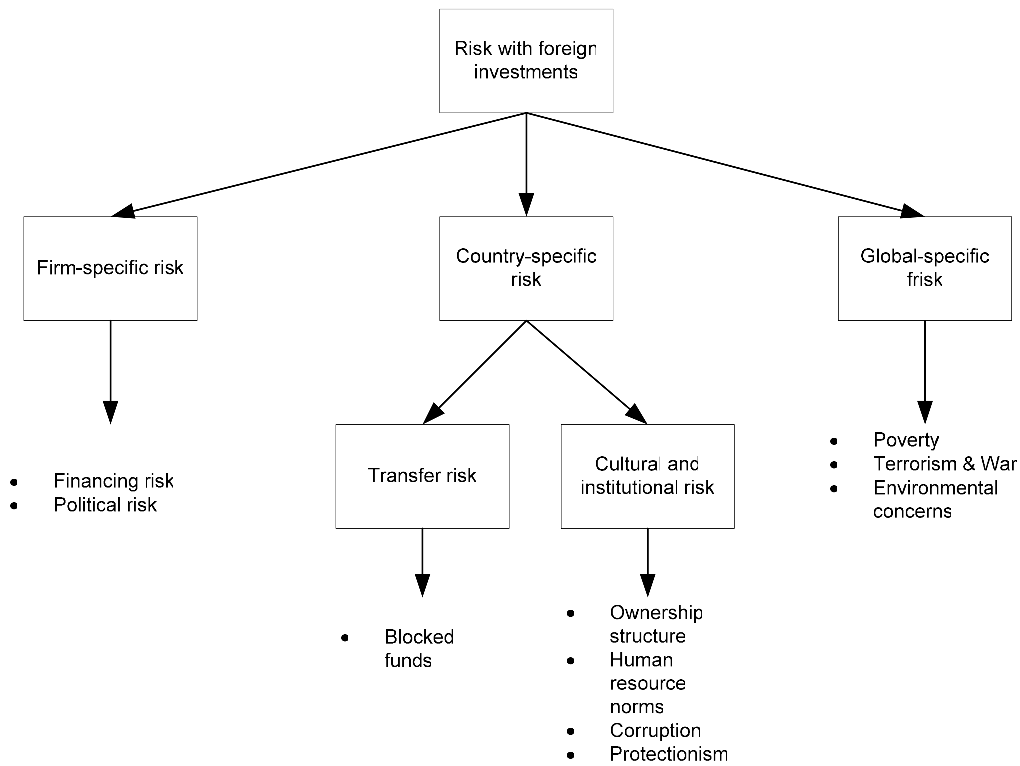


Figure 2-1 Classification of risk (Eiteman et al., 2004).

2.4.1 Firm-specific risk

Firm-specific risks are risks which affect the corporation at the business level. Hence, the corporation's activities may be in conflict with the host-country's goals and regulations. Firm-specific risk is divided into financing risk and political risk (Eiteman et al., 2004).

Financing risk

Operating in a foreign country involves different financing risks such as inflation and exchange rate changes. The corporation needs to consider how these may affect its business and find defensive strategies. Increasing prices in the economy due to inflation arise in almost every country. The value of financial assets decrease but on the other hand financial liabilities become more interesting since the debt will be reduced (Daniels & Radebaugh, 1995). Morrison (2002) argues that high inflation implies increasing costs due to a weak currency. Further, high inflation also has a tendency to increase interest rate which results in high costs as repaying debt. This contributes to foreign corporations seeking for other markets to invest in or other financing alternatives. The affect from high inflation on local products is reduced competitiveness in the international market, due to increased import and decreased export.

A currency-exchange risk would not occur if rates were fixed in relation to one another. Although today most currency rates are floating which cause regular variations in the currency value. If an exchange rate fluctuates there are three different exposures that could face the corporation; translation exposure, transaction exposure and economic exposure. *Translation exposure* occurs when the foreign-currency financial statement will be translated into the reporting currency of the parent company. Those accounts that are exposed depend on the exchange-rate. Since the exchange-rate varies corporations will either lose or gain from the translation. *Transaction exposure* arises when a corporation receives payments or makes payments in a foreign currency. The value of these transaction payments varies along with the exchange rate, and will therefore lead to either gains or losses for the company (Parker, 2005; Daniels & Radebaugh, 1995). *Economic exposure* takes place when the economic situations of nations vary over the lifetime of the corporation. The risk that actual cash flows and forecasted cash flows differ, as an outcome of movements in the exchange rate, may occur (Daniels & Radebaugh, 1995; Parker, 2005; Woods, 2001).

Political risk

The main political risk is if the host government and the corporation have a disagreement about the goal of operating in the selected country. Especially in relation with governmental interference to control exchange rates or access to foreign exchange, import tariffs, quotas and licensing (Woods, 2001). For a corporation to operate within a country, its legal and political environment is of great importance. Operating abroad involves the risk of not having control over regulations and constraints which is set by the government. Conflicts might arise concerning corporation's impact on economic development and foreign control of key industries, as well as impact on balance of payment of the host country. Furthermore, the use of domestic versus foreign executives and workers, exploiting national resources are areas where conflicts may arise. To reach success management could over bridge potential conflicts in the future by pre-negotiating the areas mentioned above (Eiteman et al., 2004).

2.4.2 Country-specific risk

A corporation needs to take into consideration the country risk that may arise when investing abroad (Madura, 1998). Country-specific risks affect the corporation not only at the business level but also at the country level. Transfer, cultural and institutional risks are the most important once (Eiteman et al., 2004).

Transfer risk

Transfer risk deals with obstruction of transfers of production factors, for instance capital control (Shenkar & Lou, 2004). A corporation's capability of transferring funds in and out of the country may be limited. When a government's foreign exchange decreases and there are no possibilities to borrow or attract new investments to acquire other funds, they might put limits on transfers of foreign exchange out of the country. This is recognized as *blocked funds*. There are different strategies for corporations to avoid blocked funds such as using fronting loans, creating unrelated exports and obtaining special dispensation (Eiteman et al., 2004).

Ownership structure

This is a risk concerning the current ownership structure and the ability of companies to change the structure. Some governments have restrictions about the ownership structure and these rules must be followed to have the opportunity of a FDI. The extreme case is forced divestment of assets as a consequence of host governmental decisions to nationalize or otherwise transfer ownership. Divestment may carry compensation but it is not certain and even if it does it is hardly ever compensation enough for the damage of the company (Shenkar & Luo, 2004). Milder ownership risks is when the ownership must be shared by local firms or citizens, referred to as joint venture. Though, the ownership risk has decreased during the last decade (Eiteman et al., 2004; Shenkar & Luo, 2004).

Human resource norms

Host governments are usually positive to FDI since they see it as employment opportunities (Shenkar & Lou, 2004). To ensure this employment opportunities countries often have regulations about employment for foreign corporations. For instance, the labour force needs to consist of a certain amount of local residents and not only foreign citizens. Due to labour laws and union contracts in the host country problems concerning firing employees arise. Therefore, the risk for the corporation is the difficulty to fire people in a recession. In addition this may lead to less employment during a boom (Eiteman et al., 2004). Cultural differences may also have an influence on employment in the foreign country, for instance gender discrimination and child labour. How to deal with employment issues in a proper way and still take the host country and business policy in to account could be seen as a risk factor if it differs from what corporations are used to (Gooderham & Nordhaug, 2003).

Corruption

Corruption is a problem all countries have experienced. Different countries have various tolerance and punishments when dealing with corruption. Due to globalization highly developed corruption is becoming more intolerant. Corruption affects globalization negatively by weakening the state through absence of public respect, keeping foreign capital away, a weak governance performance and disrespect for the public administration. It also contributes to poverty and market imperfections. Performing business in a corrupt country involves higher costs and risks since, for instance, corporations have to manage bribery

(Kiggundu, 2002; Parker, 2005). A dilemma which needs to be solved is if local competitors make use of bribery, should the corporation also utilize bribery as a strategy (Eiteman et al., 2004). In the most severe form corruption and bribery are so common that it may be impossible for foreign corporations to handle local companies and public authorities without becoming involved (Gooderham & Nordhaug, 2003).

Protectionism

An attempt by the national government to protect domestic producers from foreign competition is called protectionism. Some industries are more protected than others for instance defence, agriculture and infant industries (Eiteman et al., 2004). Protectionism is carried out through different trade restrictions; limiting or blocking of imports, tariffs and quotas (Kiggundu, 2002). *Tariff* is the most common one, which is a tax that the government charges on imported goods. This is done in order to increase earnings and/or to protect domestic corporations. *Quota* is an import restriction, meaning there are limitations to the amount of certain imported products (Kotler, Armstrong, Saunders & Wong, 2001). Protectionism is used to protect employment and domestic industries from competition, and give companies the opportunity to grow without foreign competition. People tend to buy what is cheapest so for examples high taxes on imported goods will reduce competition towards local produced goods (Kiggundu, 2002; McDonald & Burton, 2002; Shenkar & Luo, 2004).

2.4.3 Global-specific risks

Global-specific risks affect a corporation on the global level such as poverty and terrorism. It is hard for a company to protect oneself for these risks, thus it has to rely on the host government and its actions against global-specific risks (Eiteman et al., 2004).

Poverty

Often corporations establish subsidiaries in countries where income distribution is very unequal. Hence, a small part of the population is well-off, well-educated and have more political power. While the major part of the population is poor, thus lack education, political power and social and economic infrastructure (Parker, 2005; Eiteman et al., 2004). Corporations investing in a developing country may improve conditions more than local competitors by creating more jobs, offering higher salary and better benefits. On the other hand corporations may contribute to this diversity by only employing the top-class of the population (Eiteman et al., 2004). According to Kiggundu (2002) unskilled workers see themselves as losers because more advanced technology require higher qualifications for industrial jobs. In boom times unskilled workers tend to get employment but in recessions this category of workers is most affected by layoffs.

Terrorism & War

There is no general worldwide defence system against armed conflicts and still these have an increased influence on daily life and trade (Parker, 2005). Hence, corporations have to manage counterfeit, money laundry and piracy. The absence of defence systems against armed crimes deters business investments, especially in poor countries where crimes, corruption, terrorism and conflict are high (Parker, 2005). Foreign subsidiaries are particularly exposed by terrorism and war since they are symbols of their parent countries. Corporations have to depend on governments to fight terrorism since insurance hedging and diversification are not strong enough to prevent terrorism (Eiteman et al., 2004).

Environmental concerns

Exporting environmental problems to other less developed countries is something corporations often are accused off. Many corporations decide to FDI in countries with fewer regulations concerning environmental issues such as pollution. To solve environmental problems local government need to enforce stricter legislation and controls (Eiteman et al., 2004). As every country implements its own environmental constraints there are different restrictions for companies in different countries. Some countries even enforce more restrictions on foreign subsidiaries. These restrictions lead to additional costs for corporations, such as building codes, pollution controls and disposal of production waste materials (Madura, 1998).

2.5 How to enter a foreign market

When a corporation has decided to enter a foreign market, the next step is to come to a decision concerning entry approach (Kotler et al., 2001). How to enter a foreign market depends on the risk a corporation is willing to take. Exporting is less risky compare to FDI. According to Johansson et al. (2002) the knowledge and experience of a market affect which entry mode to use. Further, Woods (2001) states different factors which a corporation need to take into consideration before choosing how to enter a new foreign market:

- Attitude to risk
- Access to capital
- Current resources and resource requirements
- Management ambition
- Opportunities available
- Requirements in terms of level of control

The most important thing is not whether a company chooses to go forward with exporting or FDI, but to be able to fulfil its goal (Woods, 2001).

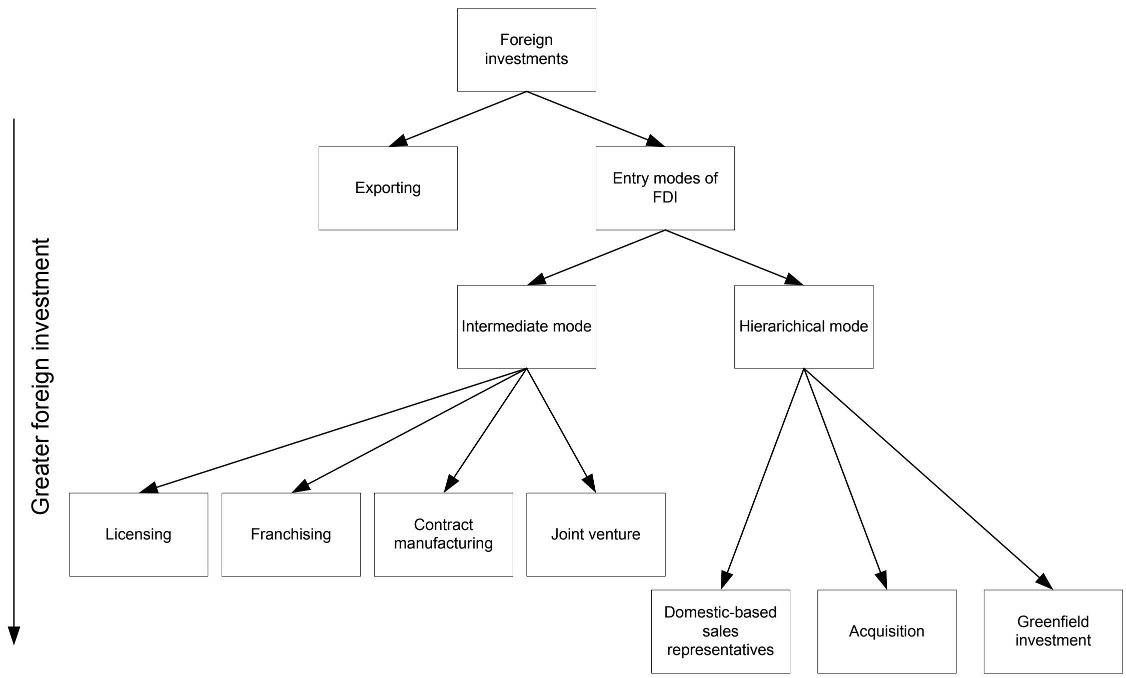


Figure 2-2 Foreign investments (Eiteman et al., 2004).

2.5.1 Export mode

The first step in an internationalisation process is often through export, which is the easiest way for the corporation to enter a foreign market (Onkvist & Shaw, 2004). The corporation operate from its home market instead of being established in the target market, which is a relatively low-risk process (Shenkar & Luo, 2004). It is particularly small firms that use export to begin business abroad. The reason is that the firm does not have to build up locations for production and marketing outside the domestic country. A consequence of this is that the firm does not need to invest money abroad (Onkvist & Shaw, 2004). Woods (2001) on the other hand points out that exporting is important also to larger corporations and not only to smaller firms.

There are many different reasons to why a corporation decide to export. Daniels and Radebaugh (1995) mention avoiding uncertainty, the higher risk that could appear in foreign markets and diversification strategy. Diversification strategy implies exporting to several different markets simultaneously. Thus, avoidance of great losses or profits since booms and recessions often occur at different times. According to Bradley (2002), the purpose of export is to expand business into other countries and save production costs as a result of increasing sales. Osland, Taylor and Zou (2001) mention that one reason is to be competitive in markets with substitutable products as customers get very price sensitive in those markets. Hence, the company has to offer low prices to reach that category of customers. This can be accomplished if the products are manufactured on few places to obtain economies of scale. Export is a trade-off between costs, control and risk, thus the firm ought to consider these factors before entering a foreign market. The more money a corporation is willing to invest into the export business the higher are the risks for the company. However, the corporation will also acquire higher control and get more knowledge about the target country (Hollensen, 2004).

2.5.2 Foreign Direct Investment

FDI gives the corporation better control over its facilities and goods in the target market and it is the last step of an internationalisation process. It is also easier to gain access to opportunities that might have been neglected if only exporting. Thus, FDI entail a greater risk than exporting (Shenkar & Luo, 2004). Bradley (2002) points out; FDI is the most intense form of international commitment. The motives for FDI are many and can be separated into four groups; *operating efficiency, risk reduction, market development and government policy*. Operating efficiency concerns economies of scale, access to raw materials and the cost of production. A corporation can diversify the risk by FDI, thus investing in different markets. Market development is an important issue for companies and by FDI they get product differentiation, market growth and a more competitive position. The last motive concerns government policy such as go around trade barriers, quotas and restrictions (Hollensen, 2004).

Bradley (2002) and Ghauri and Buckley (2002) on the other hand discusses other motives for FDI. Firstly, *market seeking* implies; getting closer to potential customers and the importance concerning regional and local promotional activities. Furthermore, *resource seeking* is to gain complementary resources and *efficiency seeking* concerns deregulation of markets, reduced costs such as tax breaks, an improved competitiveness and co-operation among firms. The last reason is *strategic asset seeking,* which include exchange of localized tacit knowledge, access to different culture and market areas, different consumer demands and preferences. All these types can be seen as positive factors and in most cases the benefits compensate the costs when it comes to FDI. In addition FDI provides the company with a more effective marketing and greater control (Hollensen, 2004).

If a corporation consider to direct invest in a foreign country there are five factors that have an important impact on the decision; market size, market proximity, size of firm, existing international experience and competition. The size of the foreign market is expected to have a positive effect on the inflow of FDI and corporations lean toward investments in larger markets to compensate for the risk in direct investment. Proximity of a business and its market has the impact of lowering the costs of managing foreign subsidiaries which also have a positive effect on the inflow of FDI. The size of the firm and its existing international experience has an impact when deciding to FDI; both of them make it easier to handle risk involved with investing abroad (Bradley, 2002).

The management's motives for FDI are to get better access to raw materials or intermediate products. An additional motive is that the company wants to assemble the final product in the local foreign markets. This form of investment is selected as a substitute to exporting, four reasons for that is; the ability to serve the market, closer to competitors, regulations and government policies and that other entry modes are unattractive (Bradley, 2002). Onkvist and Shaw (2004) have found that FDIs total inflows are higher in countries where the quality of institutions is lower. Hence, if a company have a high share of FDI compare to a country's total capital inflows that may reflect institutional weakness instead of strengths.

2.5.3 Intermediate Entry Modes

Sometimes the corporation may find it undesirable or impossible to supply all foreign markets with domestic production. Therefore the entry strategy has to be more specific (Hollensen, 2004). Hollensen (2004) characterises intermediate entry modes into licensing, franchising, contract manufacturing and joint venture.

Licensing

Root (1994) defines licensing as; transfer of intangible property rights between the domestic and the foreign company in return for royalty's and\or other compensation. Advantages of this strategy are lower political risks than with classic investment, and circumvention of import barriers which limit the quantity or increase the expenditure of exports to the target market (Woods, 2001). Licensing is especially useful for service companies but also for manufacturing companies. Disadvantages with licensing are the need to possess a trademark, technology or to already be well-known, the licensor's lack of control over the market plan and the program in the target country. Other drawbacks are the risk to generate a competitor in a third market and the absolute size of income from a licensing arrangement is lower in comparison to that from exporting to or investing in the target country (Root, 1994). Licensing is a method to apply which does not demand heavy investment but still gives a chance to profit from foreign markets (Eiteman et al., 2004).

Franchising

Franchising can be seen as a type of licensing where a corporation (franchisor) licenses a business system as well as other property rights to an independent business or person (franchisee) (Onkvist & Shaw, 2004). The difference between licensing and franchising is that the latter requires longer commitments, includes more privileges and capital. In return the franchisor receives royalty payment based on sales (Shenkar & Luo, 2004). According to Woods (2001) franchising, when entering a new market, is commonly used within retailing and service industry. In order to protect the image of the business the franchisor keeps control of the quality on the products and service offered by the franchisee (Shenkar & Luo, 2004). Advantages with this entry mode are a standardized process of marketing with a distinctive image and a low political risk, a rapid extension into a foreign market with low capital expenditures. On the other side the lack of control over franchisee's operations, restrictions forced by the government and the probable creation of competition must be seen as drawbacks (Onkvist & Shaw, 2004; Bradley, 2002).

Contract Manufacturing

Contract manufacturing can be seen as cross between licensing and direct investment (Bradley, 2002). The difference between licensing and contract manufacturing is that the corporation who offers the contract will still in be in charge of marketing, service and support. Contract manufacturing is less risky and the costs are lower but one problem that occurs is the difficulty of keeping close quality controls over widespread distant locations (Woods, 2001). An international corporation utilizes merchandise from independent manufacturers in the target country, and subsequently markets those products in various marketplaces (Bradley, 2002). According to Onkvist and Shaw (2004) contract manufacturing is to manufacture operations in a host country for the purpose of exporting from that company's home country to others countries. The reason for this is to gain access to raw materials or to take advantage of lower labour costs, hence to make the corporation's product more price competitive.

Joint Venture

When two or more independent corporations create a third separate firm to perform a productive economic activity it is called a joint venture (Woods, 2001). This agreement means shared ownership and control of the business. There could be either political or economical motives behind a joint venture agreement (Kotler et al., 2001). A foreign company may join a local firm that possess all the knowledge and expertise one needs concerning the foreign market. This lowers the risk compared if entering a new market with limited knowledge of the target market. On the other hand the two corporations may start up a new business together. Joint ownership is cost saving since sharing the costs with a partner will decrease capital needed for the investment. A corporation is able to form several agreements, joint ventures, in different markets for the same cost as starting a new single venture (Woods, 2001). In some host countries joint ownership is the requirement to enter that market (Kotler et al., 2001).

A joint venture may be considered a mode of inter-firm cooperation positioned between the extremes of complete vertical integration of business activities within one firm. The opposite case occurs where stages of production and distribution are owned by separate companies which contract with each other through conventional markets mechanisms (Bradley, 2002). Joint venture can be distinguished as domestic joint venture which seeks collusive practices and access to the technological know-how of others. International joint ventures are usually motivated by the desire of at least one of the partners for international expansion especially into complicated markets (Bradley, 2002). Drawbacks with this kind of collaboration are the difficulties to coordinate together, loss of control, flexibility and confidentiality (Bradley, 2002; Hollensen, 2004).

2.5.4 Hierarchical modes

The entry strategy where the company owns and controls the foreign entry mode by 100 per cent and decentralise its activities to the foreign market is called the hierarchical mode. The control level and the value chain functions which are applied on the subsidiary depend on the distribution of the responsibility and the competence between the head office and the subsidiary. The hierarchical modes require maximum investments, although it gives the corporation more control and a greater ability to influence on the foreign market (Hollensen, 2004). A subsidiary arise either by setting it up from the ground or by taking over an already existing firm. A wholly-owned subsidiary increases the closeness to the market, flexibility and control over the corporation (Shenkar & Luo, 2004). A foreign subsidiary requires high initial capital investment and is risky. Furthermore, the company lose its flexibility and can get taxation problems (Hollensen, 2004).

Domestic-based sales representatives

A domestic-based sales representative gives the company a better control of sales actions compared with independent intermediaries. Furthermore, it provides the corporation with a closer contact and proves a higher commitment to the customer. Another positive aspect with domestic-based sales representatives is that the investments in the foreign country are not as large as compared with FDI. However, the disadvantage with having a domestic-based sales representative are the travel expenses and travel time. This mode is usually used in industrial markets with a few large customers. Thus, the order size should make up for the travel expenses (Hollensen, 2004).

Acquisition

When a domestic company acquire a foreign established company and receives full ownership and control it is called acquisition (Shenkar & Luo, 2004). Acquisition is a strategy when a company wants to enter a foreign market quickly and still maintain maximum control. This mode gives geographical, product and financial diversification. Moreover, the corporation gains expertise, supply of raw materials and acquire specific assets such as management, technology and distribution channels (Onkvist & Shaw, 2004; Root, 1994). Furthermore, the corporation obtains an instant market share without any increase in capacity (Bradley, 2002; Root, 1994). The strategy behind an acquisition is the possibility to reduce unit costs and the prospect to create a better marketing and distribution arrangement (Bradley, 2002). Entering a foreign market by acquisition provides the company with established resources, such as knowledge about the market, quick access to support, an existing network and an established reputation (Bradley, 2002: Hollensen, 2004: Root, 1994).

Acquisitions are an expensive and risky entry mode. It provides the corporation with various problems, for instance finding an appropriate company, determining a fair price, problems in communication and coordination between the acquired firm and the acquirer. There are also problems owing to the language, geographical and cultural distance (Onkvist & Shaw, 2004; Hollensen, 2004). Bradley (2002) argues that an acquisition between two corporations is more successful if the cultural distance between the countries is large. Host and home government policies can generate problems. Host governments generally prefer new venture before acquisition, since acquisition will not give the country new employments (Onkvist & Shaw, 2004; Root, 1994).

Greenfield investment

When a corporation is constructing a new production or service facility from the ground it is called Greenfield investment (Shenkar & Luo, 2004). Woods (2001) points out that a Greenfield investment is a slower process compare to acquisition when entering a new market. The costs and risks are also higher than acquisition. One advantage when setting up a new plant is that core technology, manufacturing and marketing processes will be protected. On the other hand it takes longer time to generate cash-flow (Shenkar & Luo, 2004). Further Daniels and Radebaugh (1995) state, if the corporation is in need of local financing it may be easier to obtain when start-up from the beginning. Another reason to build a new facility is that the corporation has full control over the investment (Kotler et al., 2001).

2.6 How to finance foreign investments

There are many optional sources of finance for a foreign investment. However, the selection of the sources of funds should minimize the cost of external funds after adjusting for foreign exchange risk. Furthermore, the corporation have to choose internal sources with the aim of minimizing worldwide taxes and political risk (Eiteman, et. al., 2004). It is of great importance that the corporation choose the appropriate method of long-term financing, since it is the *"core"* finance. If one selects the wrong method to finance an investment it may take years to repair. For example, too much borrowing implies decreasing profits the next years to come, since interests has to be paid every year, irrespective to if the company gains or losses money (Neale & McElroy, 2004). Further the authors explain that there are four key factors to consider when deciding upon financing:

Risk - implies the uncertainty in the environment surrounding the corporation. A corporation with high level of fixed costs which has to be repaid regardless of the corporations' performance may be sensitive to fluctuations in the economy. High risk investments should be financed with equity rather than debt.

Ownership and control – in order to remain control and ownership of the company sometimes borrowing would be preferred over new issue of shares. The advantage of going public on the stock market is quick access to new capital but on the other hand the corporation have to give up some of the control of the company.

Duration - means that one needs to consider the investments durability before deciding on the financing. If the investment is not profitable for the next years to come it should be financed with equity.

Debt capacity – implies that corporations with little or no borrowing will have it relatively easy to raise new capital. Estimated cash-flows and gains combined with offered security are also of great importance when deciding upon financing.

The sources of external financing for a foreign investment are borrowing from sources in or outside the domestic country. The lender's knowledge and confidence in the parent company reflect the obtained dept for the company (Eiteman, et. al., 2004). According to Neale and McElroy (2004) there are three different choices a corporation faces when deciding on how to finance a new investment, equity (retained profits), issuing new shares or debt financing. Further Pike and Neale (2003) point out, it is important to consider the amount of capital needed and the best combination of different financing alternatives for a new investment. In reality corporations normally use both equity and debt financing when raising new capital (Morrison, 2002).

2.6.1 Intercompany Financing

Generally foreign investment is financed through intercompany financing from the parent company or sister subsidiaries, especially initially (Eiteman et al., 2004; Shenkar & Lou, 2004). This can be done by different funds generated internally such as retained earnings, depreciation and non-cash charges and permitting the subsidiary to maintain a higher level of retained earnings. The financing assists from the parent company are attained in the form of equity, loans within the corporation, borrowing with a parent guarantee and trade credit. The last way is to organize trade credits from sister subsidiaries (Shenkar & Lou, 2004; McDonald & Burton, 2002).

When the operational and financial capabilities have been established the ability to generate internal financing is significant for the subsidiary's future growth. In general, the parent company is required to provide equity, however the corporation tries to keep this down to reduce the risk of invested capital (Eiteman et al., 2004). Sometimes parent loans are preferable to parent equity financing since repayments of loans may give faster remittal compare to future dividends. Additionally, interest on loans reduces the tax rate and loan provided or received by the parent or a sister subsidiary are removed on consolidation. Long-term intercompany loans can be used to decrease the subsidiary's dependence on external banks and short-term intercompany loans can be used to stabilize the working capital structure (Shenkar & Lou, 2004). When a corporation is using equity financing it is important to be aware of the opportunity cost that arise, dividends to shareholders. If the new investment is not successful and the dividends will be left out shareholder wealth will be destroyed (Neale & McElroy, 2004).

2.6.2 Issuing new shares

One way of raising more capital is to enter the stock market. Stock exchanges exist both national and internationally. A corporation investing abroad may seek international investors. Hence, the corporation should apply for "listing" on a foreign stock market (Morrison, 2002). When a large amount of capital is needed it may be easier to issue new shares on the stock market in the United States compare to a smaller local stock market (Madura, 1998).

When a corporation decides to issue new securities it can either sell it as a public issue or a private issue (Ross, Westerfield & Jaffe, 2005; Shenkar & Lou, 2004). Considering the public issue there are two approaches, the company can sell to all investors interested, a general cash offer, or only to the existing shareholders, a rights offer (Ross et al., 2005). Stock listings and stock issue can be done in both the target market and less liquid markets (Eiteman et al., 2004). It can also take the form of cross-listing shares abroad (Shenkar & Lou, 2004). A company should select one or more stock markets on which to cross-list its shares. The decision on where to go depends on the corporation's motives and the willingness of the host stock market to accept the company (Eiteman et al., 2004).In order to spread the risk of decreasing price of the shares one can issue shares on many different markets simultaneously (Madura, 1998).

2.6.3 Debt financing

A preferable form of foreign subsidiary financing is debt, though in the early phase the access to local debt is limited. Additional, the foreign subsidiary's record of confirmed operational capability and dept service capability, affect the acquirement of dept in the host country (Eiteman et al., 2004). The international dept markets offer borrowers with various financing instruments. These financing instruments differ by source of funding, maturity, pricing structure and subordination or connection to other dept and equity instruments. A corporation want to attain a diversification in their financing, thus domestic founds are often joined with host country funds and international dept markets. The three major categories of international dept founding are bank loans and syndications, Euronote market and international bond market (Eiteman, et. al., 2004). According to Neale and McElroy (2004) long-term debt can be divided into either non-traded debt or debt that can be purchased and sold. Non-traded debt is a contract between a corporation and a financial institution, which involves an interest- and repayment plan.

2.6.4 Local Currency financing

According to Daniels and Radebaugh (1995) countries have different practices regarding giving credits to foreign corporations. In some countries the host government prefer the foreign corporation to bring hard currency from abroad into the host country. Therefore the host government rejects them from entering the local credit markets. In other countries it may be easier for a foreign corporation compare to a local company to receive credit in the host country, because the access to hard currency. There are different motives for borrowing in foreign markets such as exchange rate expectations or low interest rate. Exchange rate expectations refer to expected depreciation of foreign currency. If this is the case, borrowing in foreign currency and then translate it into the home currency will be cheaper than borrowing in the domestic country. If a country has fairly low interest rate borrowing will become relatively cheap (Madura, 1998).

Local financing in the host country is preferable in concern with lowering the overall cost of capital and decreasing the financial risk. The alternatives when financing in the host country are bank loans and non-bank sources (Shenkar & Lou, 2004). It generally is time-consuming and persistence is needed to get access to local financing and developing a local market credit profile. Local currency dept is valuable for corporations that have substantial cash inflows in the host country's currency. Hence, dept acquired in a host country prevents a foreign exchange financial hedge, to match currency outflows with currency inflows (Eiteman et al., 2004). Non-bank sources contain commercial paper, local bond and equity markets and parallel loans with a foreign corporation. When corporations in different countries swap funds with each other it is called parallel loan (Shenkar & Lou, 2004).

2.7 Summary

The first part of the frame of reference gives a brief description of developing countries to achieve a deeper understanding of the chosen country, which the thesis is based on. Further, the authors have applied relevant theory to describe the different parts that need to be taken into consideration and which affects a corporation when foreign direct invest. Different motives behind a foreign direct investment decision are presented, such as expand markets, competitive pressure and profit and growth. There are several diverse risks affecting a corporation on different levels when going abroad, firm-specific, country-specific and global-specific risks. Furthermore, various entry modes, for instance joint venture, acquisition and Greenfield, need to be considered when entering a new market. Finally, the corporation have to decide upon how the foreign investment should be financed. From the theory presented in the frame of reference the authors have designed a questionnaire which have been the foundation when accomplishing the empirical part. The questionnaire consists of four different parts; motives, risks, entry mode and financing.

3 Methodology

In this chapter the authors aim to describe the method approach applied to conduct the study. Further, the authors will explain the approach to select an appropriate sample and give a description regarding the interview process and the design of the questionnaire. Finally, the validity and reliability of the thesis will be discussed.

3.1 Methodology approach

A quantitative method is characterized by objectivity and generalization. The process involves gathering of data and statistical tests are applied to analyze the data (Collis & Hussey, 2003; Jensen, 2002). The foundation in a quantitative approach is based on cold figures, such as numbers and statistical tests. Thus, the numbers give a summarization and are a way to interpret a large amount of collected data. The quality of the research is influenced by the effectiveness in data processing, analysis and interpretation. All the information need to be gathered before the analyzing process can begin (Svenning, 2003; Jensen, 2002). When gathering information regarding Swedish corporations operating in Brazil the authors applied a quantitative method to perform a preliminary study. The authors emailed a standardized questionnaire to the entire population to assemble those corporations who established in Brazil during 1990-2005. Through this survey the authors were able to find a new population fitting the criteria's of the research. In a quantitative research the information is collected from a representative sample of the population and this sample is supposed to give the same response as the entire population would have done (Jensen, 2002). Thus, it gives the opportunity to generalize the data from a sample to the population (Hollensen, 2004). However, cold figures do not explain in details or why the result turned out the way it did but instead gives an answer to "how many" (Svenning, 2003).

The aim with a qualitative research is to provide a thoroughly and interpreted understanding of the participants. This kind of study involves a small sample, a close contact between the participants and the researcher as well as detailed and informative data (Ritchie & Lewis, 2003). Thus, to get a deeper understanding the authors want to get a close contact with the participants of the study. A qualitative research focuses on words rather than on numbers, which correspond to how this study is performed. A qualitative method focuses on deep investigation in order to present a broad and detailed view of the problem (Hollensen, 2004; Daymon, 2002; Zikmund, 2002). Problems with this approach are that the interviewer needs to handle the interaction with the respondent in a qualified way. Thus, the respondent needs to feel comfortable and willing to put feelings into the answers of the questions. Qualitative investigations are an approach to study things in their natural environments. Hence, an attempt to make sense and interpret occurrence in terms of the meanings people brings to them, to observe how the respondents act in their routine behaviour and interactions (Denzin & Lincoln, 1994; Daymon, 2002). A great part of the research deals with understanding decisions taken by the corporations regarding motives and strategies when establishing in a foreign country. Therefore a technique that gives a clear picture of the process and still focus on the facts is preferable. When using qualitative research the researcher gets an initial and qualitative understanding of the underlying reasons and motives.

In this study the quantitative approach was utilized to generalize the respondents' opinions regarding the establishment process in Brazil to the entire population, whereas the qualitative method was used to give an understanding to why the respondents entered the Brazilian market as they did. Hence, both a quantitative- and a qualitative method were applied when formulating the interview guide. Further, the questionnaire involves both open-ended questions and fixed alternative questions. To get a deeper understanding of the subject the authors conducted telephone interviews to be able to develop the respondents' answers further.

3.2 The selected sample

In order to accomplish this study the authors needed to locate Swedish corporations operating in Brazil. Information concerning all Swedish companies today operating in Brazil was provided by the Swedish trade council in Brazil. The information contained a documentation of 170 Swedish companies, together with their Brazilian name, email, telephone number and homepage. However, the information regarding the companies was not up to date. Hence, some companies were not Swedish any longer and some contact data had been changed. Additionally, the information did not say in what year the company was established in Brazil. Since the aim of the study was to investigate companies established in Brazil during 1990-2005, the authors first had to narrow down the total population of companies to the once established during those years. The authors started by sending email to all companies in Brazil with an email address asking for the establishing year and the name of the parent company in Sweden. A week after the first email had been send the authors reminded the once that had not yet answered. Some of the companies had undeliverable email addresses or no contact data. Thus, to increase the reliability of the study the authors tried to find new contact data for these corporations using the Internet. The answer frequency from the total emails send were rewarding, 51 of 170 answered the email and 27 of the 170 email addresses were undeliverable and could therefore not be reached. Thus, the remaining corporations did not answer the email.

From this preliminary study 17 companies met the criteria for the thesis, still having a Swedish parent company and established in Brazil after 1990. Since this was a fairly low result the authors made a further attempt to find more companies for the study. An additional investigation of the companies on the received list, which had an undeliverable email or did not answer although could easily be referred to a Swedish parent company, were accomplished. By using the Internet and the companies' homepage, more companies met the criteria and were added to the population. Finally the total amounts of corporations meting the criteria were 30 and became the new population for the study. Concluding, information regarding 53 per cent from the population in the preliminary study was found. From the population, meting the criteria, a sample of 15 companies was selected by using a probability sampling. Out of these 15 corporations only 14 were used for the study as the authors found out during the interview that one respondent did not fit the criteria of the study.

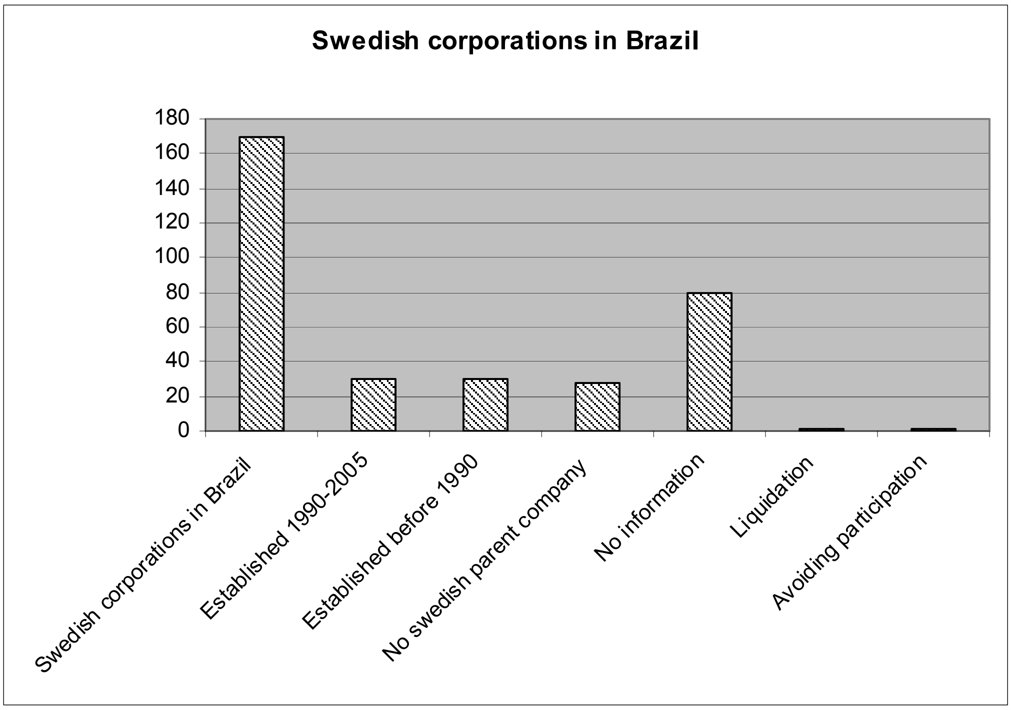


Figure 3-1 Swedish corporations in Brazil.

Further, to gather the information needed and to get as accurate information as possible the person at the parent company possessing the most knowledge regarding the business in Brazil were contacted by phone to arrange a time for an interview. The respondents' position at the company has varied and some examples are; area sales manager, financial director CEO and managing director. Moreover, the interview questionnaire was send to the respondents in advance to give them the ability to be as prepared as possible. As one of the respondents demanded anonymity for the corporation the authors decided to keep all corporations confidential. This decision was made in order to have the opportunity of a more outspoken communications between the respondents and the authors.

3.3 Design of the Interview questionnaire

An interview questionnaire must be related to the research problem as well as being accurate, valid and reliable. To reach this there is different design alternatives to take into consideration. Firstly, the questions can be phrased to give open-ended response or have fixed alternatives (Zikmund, 2002; Brace, 2004). For this study a mixture between open-ended responses and fixed alternatives are applied, with a focus on open-ended alternatives. The fixed alternative questions are used to generalize respondents while the open-ended response questions give a deeper understanding in the subject. According to Zikmund (2002) email and telephone questions should be conversational and less complex, owing to the lack of visual support and observation of non-verbal behaviour. Hence, this is another reason for using a mixture of fixed alternatives and open-ended response questions.

The sequence of the questions is important when constructing a questionnaire; to start with warm-up questions and begins with simpler questions to proceed with more complex questions. Additionally, general questions should be asked before more specific once. When using fixed alternative questions the number of categories must be considered, should there be a balanced or unbalanced scale. Moreover, should there be a no comment choice or should the respondent be forced to give an answer (Zikmund, 2002; Brace, 2004). The authors of this thesis have decided to use both an unbalanced- and balanced scale of fixed alternatives because different questions require different alternatives. Furthermore, the respondent are given the choice of no comment since the authors believe that this choice will give a more accurate answer. An interview questionnaire can be pre-tested in the aim to investigate whether some questions are problematic to understand and whether the choice of words are appropriate (Zikmund, 2002; Brace, 2004). The pre-test of the questionnaire was conducted together with the tutor of this thesis. To test the questionnaire further one company was chosen for a pre-interview. After taken all this into consideration the final questionnaire was generated, which is presented in appendix 1 and 2.

3.4 The Interview

To conduct a research which gives a solution to the purpose of this thesis, personal interviews and an email questionnaire were considered. Owing to the lack of response from email questionnaires in comparison with personal interviews the second alternative was chosen. Another reason for this decision is that personal interviews obtain a depth in the research. The goal of performing personal interviews is to ensure good quality and get in-depth answers (Brewerton, 2001). An interview can be either face-to-face or a telephone interview. The advantages with a face-to-face interview in relation to a telephone interview are the abilities to observe the respondent's non-verbal behaviour and how the respondent reacts to the questions. On the other hand the drawbacks are that these interviews are time-consuming both for the respondent and the interviewer. Thus, the advantages of a telephone interview in comparison to a personal interview are the time needed. Additionally, it is an easy contact method and there are no face-to-face problems which can affect the answers. However, telephone interviews have lack of visual support and of the opportunity to observe the client (Zikmund, 2002). Since the corporations in the selected sample are situated all over Sweden it would be too time-consuming for the authors to visit them all. Thus, telephone interviews were used in order to gather information for the study. The advantages with face-to-face interviews were not relevant in this case since the interview questionnaire was structured in a way which did not request an observation of non-verbal behaviour. Furthermore, the lack of visual support in a telephone interview should not influence the respondent's answers. For the prospect to receive as truthfully answers as possible the interview questionnaire was send to the respondent in advance. This gave the respondent the possibility to think through and look up answers. In addition the interviews were recorded and notes were taken during and after the interviews, in order to ensure accurate results. All interviews were conducted in Swedish and then translated literally into English by the authors.

3.5 Credibility

The results from a study should be reliable, which imply that the measuring should give the same result if two different people conduct a survey using the same method. Many factors affect the credibility of the survey for example how the questionnaire is designed or the environment where the interview is taking place.

3.5.1 Reliability

Reliability is related to the credibility of the survey (Svenning, 2003; Muijs, 2004). If a research have reliability the measurements are free from random errors, thus if the result is internal consistent and if several measurement gives the same answer (Zikmund, 2002). To avoid interview bias one of the authors have performed all the interviews while the other one have been present, listening to the interviews and taken notes. The respondents may have understood the questions differently and some of the questions may have been mixed up with each other, which may have lead to some bias. Even if all the interviews were recorded, misunderstandings might have occurred. Furthermore, when the interviews were translated into English misinterpretations could have arisen. Albeit the questionnaire was pre-tested, the authors believe that another structure and some different phrasing would have been preferable. However, this has not created any larger problems in the empirical part; the main opinions have been stated according to the authors. To increase the reliability the authors kept the corporations confidential, in order to make the respondents feel more relaxed and to give them the opportunity to be more outspoken and not be afraid of stating their true opinions.

3.5.2 Validity

Validity is concerned with the ability to measure what is expected to be measured. The absence of systematic faults composes a valid survey (Lundahl & Skärvad, 1999; Muijs, 2004). Hence, validity is when empirical findings correspond to theory (Svenning, 2003). Validity consists of *content validity, criterion validity* and *construct validity* and all three of these must be fulfilled to state that a research is valid. Content validity reflects if what was intended to be measured is measured. While criterion validity refers to if the instrument used predicts the outcomes that are theoretically expected, thus compare different measurements with what is theoretically expected. The last one, construct validity, is more complex, the internal structure of the instrument measuring the true concept, the ability to provide empirical evidence (Muijs, 2004; Zikmund, 2002). To increase the validity of the study the authors tried to accomplish telephone interviews with the person at each corporation who posses the most knowledge about the Brazilian business establishment. Thus, this would get the most correct information which increases the credibility of the thesis. A few of the respondents have not been the most appropriate person to perform the interview with. However, since the questionnaire was send to the respondents in advance all of them have had the opportunity to locate the information needed. Furthermore, the once that have not been able to give proper answers have afterwards returned with accurate answers.

4 Empirical findings

This chapter begins with a brief background and description of Brazil which is the country the thesis is based upon. Further, the authors will present the empirical findings that have been conducted through telephone interviews with 14 different respondents.

4.1 Facts about Brazil

Brazil is Latin Americas largest country and it is also the fifth largest country in the world (Deloitte Touch Tohmatsu International, 1997). The population consists of approximately 186 million people in 2006. In 2004, GDP per capita was 3 225 US Dollar (United Nations, 2006).

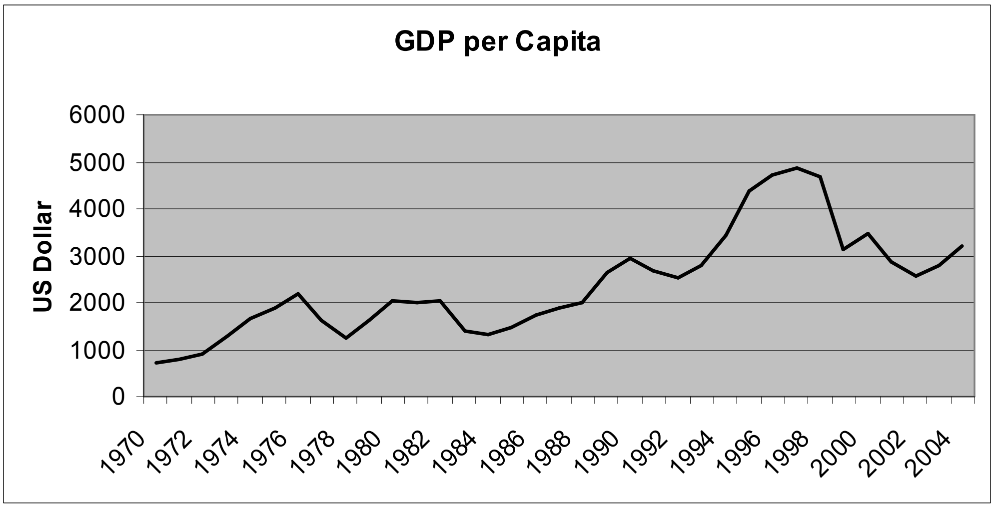


Figure 4-1 GDP per capita in US Dollar (United Nations, 2006).

Brazil is the world's leading coffee producer and the country is rich of natural resources (Baer, 2001). The country used to be an agricultural society but due to industrial development there have been a radically change in Brazil's economical structure. Strong economic growth has been the history of Brazil. Brazil's economic growth rate was one of the tenth highest in the world between the 1930s and the 1980s (Ferraz, Rush & Miles, 1992). The government requires that at least two-thirds of the workforce is local citizens in order to protect job opportunities (Ernst & Young, 1998). Today Brazil is a modern industrial country, its labour force is well educated and compared to other developing countries still relatively cheap (Fager, 2005). The earnings per month is visualised in the graph below, in 2002 the average earnings per month for a Brazilian citizen was around 900 real and 300 US Dollar. Thus, the Brazilian currency has weakened in relation to the US Dollar, therefore the decrease in earnings per month in US Dollar.

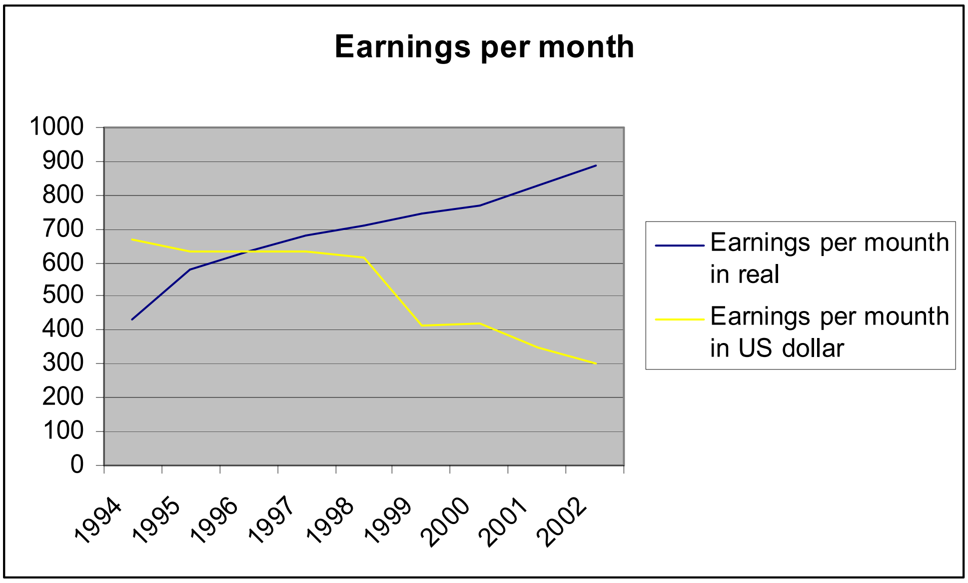


Figure 4-2 Earnings per month (Laborsta, 2006)

Brazil was a military dictatorship during the 1970s and did not have a presidential election between 1960 and 1989 (Deloitte Touch Tohmatsu International, 1997). During the 1980s Brazil suffered from high inflation rates, low growth and debt crisis which led to decreased capital inflow (Baer, 2001). Democratic rights were restored by a new constitution in 1988, which implied changes in the economical, financial and tax system. Brazil has historically been a closed economy in order to support local manufacturing. In 1990 the government decided to privatize state-owned corporations in order to get debt-crises and deficits under control (Deloitte Touch Tohmatsu International, 1997).

It was not until 1990 Brazil opened up its borders and became an open economy (Doing Business in Brazil, 1998). Due to high inflation and large budget deficits a new economic reform program, *Plano Real*, was introduced in 1994. Its main function was to reduce inflation and to stabilize the economy. The program has been successful keeping inflation relatively stable and the Brazilian trade balance is better then ever (Deloitte Touch Tohmatsu International, 1997; Swedish trade council, 2006). The Brazilian currency, *the real,* was introduced simultaneously with Plano real and was in the beginning pegged to the US dollar (Deloitte Touch Tohmatsu International, 1997).

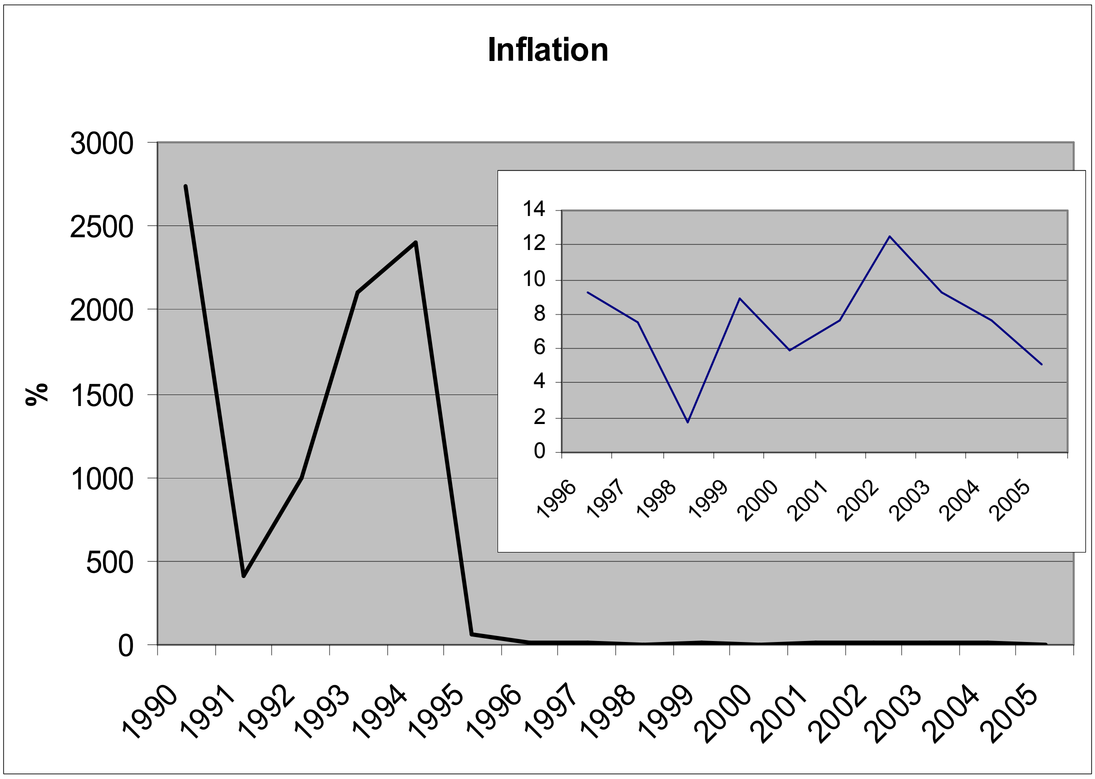


Figure 4-3 Inflation rate in Brazil 1990-2005 (Baer, 2001; Swedish trade council, 2006).

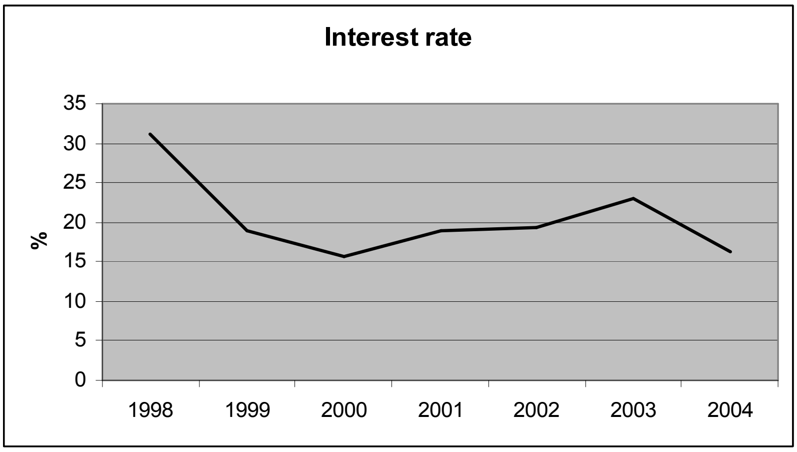


Figure 4-4 Interest rate in Brazil 1998-2005 (Swedish trade council, 2006).

In 1999 Brazil had a crisis with large debt problems and speculations against the real which led to increased interest rate, as can be seen in figure 4.4. The countries foreign exchange reserves began to run short and the International Monetary Fund helped Brazil defend the real by creating a stabilization fund of $40 billion. It was not a successful plan thus Brazil had to devalue the real and since then it has been floating (Krugman & Obstfeld, 2003).

The country became a member of MERCOSUL, "the common market of the south", during the 1990s. MERCOSUL is an organization that works to improve international trade. Hence, for Latin America to become free-trade area regional trade barriers and investment restrictions were withdrawn to make international trade easier. Another contribution to the quickly attractiveness of Brazil were changes in the legislation regarding foreign investments. After these transformations FDI increased rapidly and has since then been an important part of the Brazilian economy (Baer, 2001; OECD, 2001). According to The Economist Intelligence Unit (2000) corporations commonly search for dollar financing when needing long-term capital. This because there is a limited amount of the *real* and the high interest rate makes it expensive to borrow in Brazil. Still, if corporations want local credits, long-term financing for foreign as well as local corporations functional in Brazil is provided by the national Bank for Economic and Social Development.

Swedish trade council and the Swedish chamber of commerce in Brazil provide Swedish corporations with information regarding the business environment and culture in the country. These organisations have a broad network and posses' deep knowledge concerning regulations, laws and financing among other things (Swedish Trade Council, 2006; Fager, 2005).

4.2 Disposition of the empirical findings

After this brief presentation of Brazil the chapter will continue by focusing on the results from the conducted telephone interviews. Firstly, the motives for entering the Brazilian market will be described. After this the different risks regarding establishing in the market and how the respondents perceived them are presented. Further, the diverse entry modes among the respondents and how the investment has been financed are stated. The chapter will end with the Brazilian crises in 1999 and how it affected the businesses.

4.3 Motives for going abroad

The motives to enter the Brazilian market have varied among the interviewed corporations. According to three of the respondents, the motive to invest in Brazil is due to Brazil being the largest market in Latin America and it is therefore a way to enter the whole Latin American market. Whereas two respondents argue that Brazil is the largest and densely populated country in Latin America with a huge purchasing power. Additionally one of these respondents states that Brazil is the most developed economy and resembles the western countries when it comes down to performing business. Another respondent argues, it is a growing market and entering the market was owing to already having personal contact with people in Brazil. Four of the 14 corporations' motive was to follow its already existing customers, hence a customer driven motive. Whereas another pointed out that the motive to enter the Brazilian market was to get closer to the customer and to have a globally positioning. For one corporation the motive was the difficulties in finding a distributor willing to invest that much money needed for starting up sales in Brazil. Furthermore, one of the 14 corporation's motive was to grow as a company and expand its markets shares. The last motive that has been mentioned by one respondent is a spontaneous establishment.

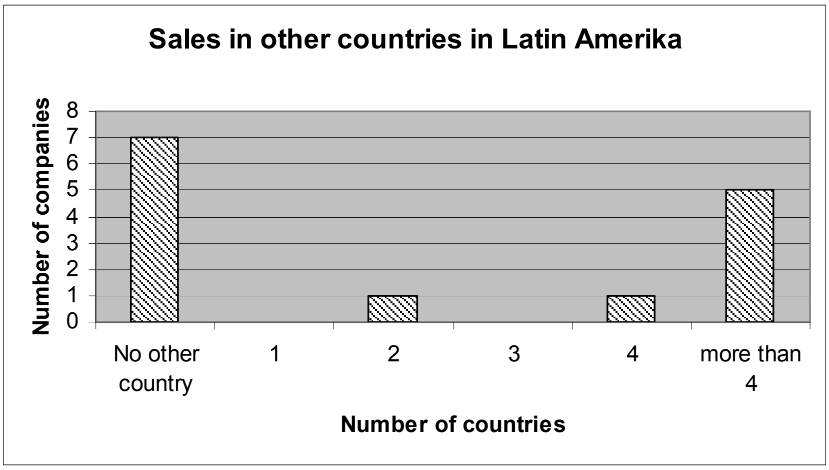


Figure 4-5 Sales in other countries in Latin America

Some of the corporations perform business with other countries in Latin America which is visualised in figure 4.5. Most of the interviewed corporations are only located in Brazil. Out of these seven, four entered the market with the motive to follow already existing customers. One of the seven's motives was the growing market and personal contact in Brazil whereas one respondent stated that its motive was the huge purchasing power. Another respondent pointed out the opportunity to reach the whole continent although the corporation established in Brazil 2005 and has not been able to enter any other Latin American markets. For two of the corporations performing business in more than four countries, the motive to establish in Brazil was to reach the whole Latin American market. While another of these respondents see it as the largest country which has a developed economy similar to the western. The respondent that entered the Brazilian market spontaneous and the one by expanding its market shares are also located in more than four of the Latin American countries.

4.4 Risks with foreign investments

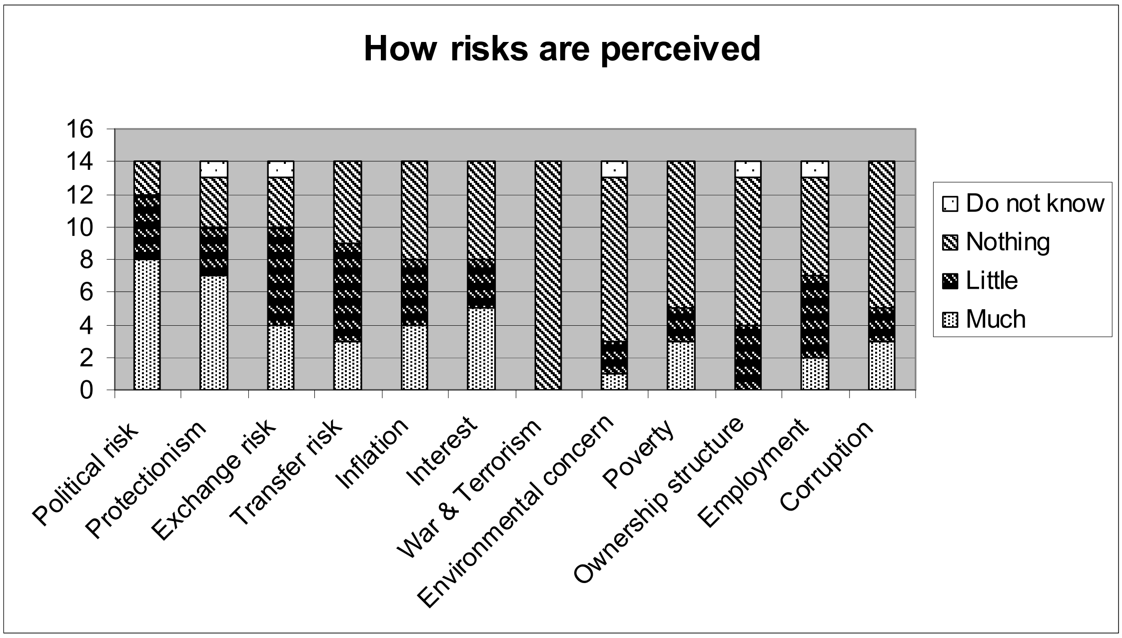


Figure 4-6 Risks with foreign investments in Brazil

There are several different risks a corporation needs to take into consideration when investing abroad. The different risks when entering a foreign market is visualize in figure 4.6. Moreover, it describes how the respondents have perceived the risks when entering the Brazilian market. Chapter 4.4.1 – 4.4.9 gives a deeper explanation of the graph above.

4.4.1 The political risk & protectionism

The main risks in this study are the political risk and protectionism. Twelve respondents agree that the political risk have affected its business while nine of those are of the opinion that the influence is large. Thus the bureaucracy, the Brazilian laws and regulations, are problematic and complicated. To circumvent these problems one of the respondents has hired two Brazilian inhabitants with experience of running a business in the country. Further, the corporation cooperates with a good solicitor's office. Between 1995-1999 one of the respondents explained that the political risk was especially intricate to manage. Only one of the respondents admitted that the corporation was not aware of and prepared for how complicated it would be to invest in Brazil. One problem mentioned was the interference by the Central bank regarding repayments of loan between the subsidiary and the parent company. The corporation can not handle this issue internally since all payments have to be registered at the Central bank. Another problem brought up were taxes, both local and regional. According to one of the respondents the corporation had to add 30-40 per cent to their prices due to these extra costs.

The protectionism is one strong reason to start production in Brazil, thus to gain access to the Brazilian market. Ten respondents are of the opinion that protectionism affects foreign corporations whereas seven agree of a large impact. The government is very protective of local firms and have large customs duty for imported goods. However, sales within Latin America are almost like in the European Union, free of duty. The size of the customs duty is depending on if Brazil has a surplus or deficit in the currency reserve. One of the respondents gave an example of protectionism; *"it is not a problem to import new machines to utilize* *in production, however there is a restriction of importing second hand machines if similar machines can be purchased from a local firm".*

4.4.2 Exchange risk & transfer risk

According to eleven of the respondents the exchange risks affects the business while five of those are of the opinion that the exchange rate has a large impact. Historically Brazil had problems with high inflation and a very volatile currency, states one respondent. Additionally, a problematic issue is if the delivery time is extended together with a changing value of the real. Thus, the marginal for the corporation may change due to different exchange rates when placing an order and at delivery. One respondent argues, when the real is strong sales increases although when the real is weak the sales decreases. Further, the inventory has to be constantly updated as a result of large changes in the currency. Two of the respondents are by estimations and judgements calculating with this exchange risk. One of these corporations has calculated with a 40 per cent margin irrespective of the exchange rate. Whereas, two of the respondents are avoiding the real since it is too volatile. Instead all their sales are in US dollar and internal business between the subsidiary and the parent company is in SEK. On the other hand, one of the respondents which trade in real has gained from the exchange rate during the last four years since the real has strengthened in relation to the SEK.

Transfer risk is a well-known problem and eight respondents express its influence of the corporation. According to one respondent the transfer risk is large since the Central bank has strict regulations regarding movement of capital. The bank can delay a deposition, up to 30 days, from the parent company in order to gain from the exchange rate.

4.4.3 Inflation & interest rate

The inflation has always been high in Brazil and nine respondents clarify that it has an influence on the corporation and its business. According to one of the respondents the corporation has taken the inflation under serious consideration when planning the business. Another one of the respondents states that Brazil always has had high inflation but lately it has been manageable. While the other respondents made no further comments concerning the inflation.

Eight of the respondents state that the interest rate is influencing the corporation whereas six respondents are of the opinion that the interest rate is not affecting its business at all. The respondent which takes the inflation under serious consideration is also considering the interest rate since it highly affects its business. Further, one respondent states, the corporation is very much aware of these problems; however the corporation have a domestic sales representative in Brazil and is therefore not affected. Only one respondent argues that the interest rate has a large influence on its business but due to strengthening in the real the last years it has been positive and the corporation has gained from it. According to one of the respondents a major risk investing in Brazil is the financial risk, especially during 1995-1999, since then the real has stabilized. Moreover, another respondent explains how expensive it is to borrow in Brazil due to the high the interest rate which is almost 60 per cent per year.

4.4.4 War, terrorism & environmental concerns

All of the respondents agree upon that war and terrorism are not an issue affecting the corporation today, since Brazil is not in war. According to ten of the respondents the environmental risk is not affecting their corporation owing to; no production in the country, a very clean manufacturing or no utilization of chemicals. Only two of the respondents are affected by the environmental risk whereas one of them is strongly affected. The company which is strongly affected manufacture products of environmental concerns.

4.4.5 Poverty

Ten respondents are of the opinion that poverty is not a risk affecting the establishment, while five of the respondents believe it has an influence. One of the respondents argues that poverty is expensive since the corporation needs to have guards day and night, as poverty adds to increased criminality. Another one of the respondents explains that the corporation's products, software, are a substitute for low-paid employees. Hence, poverty influences its business since the cost for employees is almost the same as purchasing their product which reduces the workforce. Another corporation state that poverty has a large impact on its business since their products is depending on higher living conditions. The corporation's main businesses are products which improve the environment and since poverty is rather large in Brazil the inhabitants' main interests are not of environmental concerns. According to one corporation Brazil consists of both rich and poor people, hence it is a huge market. Furthermore, the corporation is not affected by the poverty although it has a responsibility towards its employees. Hence, it has an obligation to provide them with lunch, bus tickets and health controls. All these requirements are to improve the working climate in Brazil. According to one respondent the poverty does not influence its business but they are aware of its existence.

4.4.6 Ownership structure & human resource norms

According to all the respondents, ownership structure is not a risk with a large impact on its business. Two of the corporations clarify not being affected of risks regarding ownership structure since the corporation is wholly-owned. Four of the respondents state that it has little influence, thus one of those have it under control by using check-ups concerning the regulations.

Regarding terms of employment the opinions were somewhat diverse; seven respondents agree upon its influence and the other seven believes it is not a risk. One respondent state, regulations concerning employment is not a problem and it is unproblematic to let go of people during a recession. While another respondent points out that the employees have a powerful position. Brazil is a lawless country and during a lay-off of employees the corporation has to pay a large amount of money. The corporation does not have any power against the employees and the justice. The business risk is more difficult to form an opinion about when the business is established in a country with a different culture and far from the domestic country. Further, another respondents stress the importance of knowing the culture, the local market and how the market is developing.

4.4.7 Corruption

Ten respondents are of the opinion that corruption does not affect the corporation. Four of those are aware of its existence but it is not affecting its business. According to three of the respondents corruption has a large impact on its business. Further, one respondent gives a deeper explanation regarding goods being kept in customs for no reason, which contributes to increased costs. However, these costs are not visualized in the balance sheet and are seen as invisible costs. One corporation is well aware of the corruption problem and is therefore calculating with it. Only one respondent states not being aware of if corruption is affecting the corporation.

4.4.8 Other perceived risks

Other risks mentioned by the respondents are criminality, logistic and the business risk. Twelve respondents point out criminality as a large problem which contributes to increasing costs. To protect the corporation most of the respondents have guards day and night, watch-dogs and fences around the industry area. Safety for the employees is the number one priority for some of the respondents. One respondent explain that all its employees have been exposed to armed robbery which in turn is affecting the corporation's behaviour in the country. Furthermore, their receptionist has a shotgun in her desk drawer just in case. Some of the corporations are located outside São Paulo to reduce the risky ness of being exposed to criminality. It is problematic to insure the business against burglary and the police force does not possess a great deal of power. This generates great costs when burglary and crimes occurs. According to one respondent, corporations do not have any legal protection in Brazil; criminals, the authority and the police are all attacking businesses from different angles.

Moreover, one respondent points out that there could be a great improvement of logistics since a functional road system is an important part of their business. Thus, the Brazilian road system is beneath contempt. According to one respondent the business risk, the corporation's competitiveness to be successive in selling their products and achieve its aim, is the greatest risk.

4.4.9 Governmental risks

The majority of the respondents are of the opinion that the government has not interfered with its business. According to one respondent the new government, Lula, is positive to new foreign investments. In addition, the economy has been stabilized and the real is strong. However, Brazil is a country with extensive regulation; the bureaucracy and the administration are very extensive. It is time-demanding to start up a new business since a lot of paper work has to be completed. Some of the respondents had difficulties with both the government and other authorities when performing business in the country. Hence, Brazil has very complex tax legislation, for example every state has its own value added tax. This makes it very complicated when the corporation is performing business and transporting goods between the Brazilian states. According to one respondent the paper work is very time consuming if the corporation does not take part in bribery to speed up the work.

4.5 How to enter a foreign market

Most of the corporations, eleven of 14, exported to Brazil before establishing in the country, while three did not export before the establishment. There are different ways to enter a market, as the authors discussed in the frame of reference. From the selected sample most of the corporations entered the market through a Greenfield investment. Another common entry mode is joint venture, which four corporations applied when establishing in Brazil.

One corporation has started up a domestic-based sales representative and one a franchising partnership. Figure 4.7 visualizes the different entry modes by the corporations.

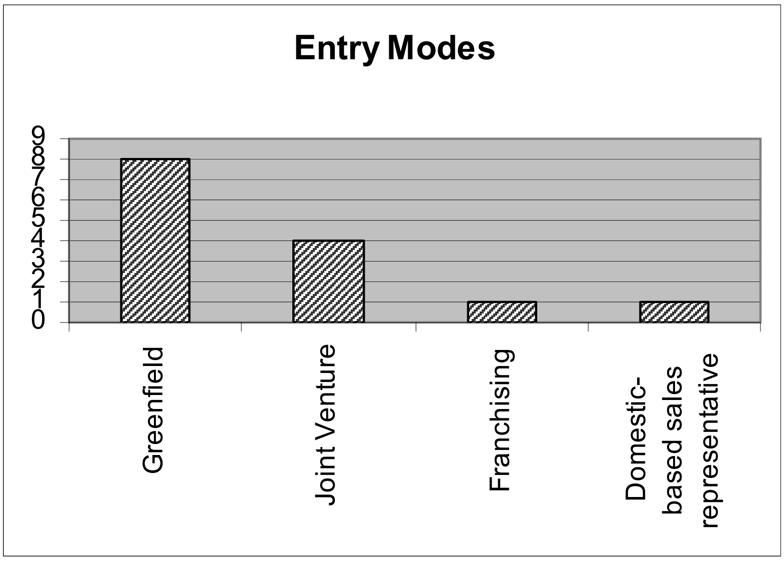


Figure 4-7 Entry Modes

For further information, the authors asked attendant questions regarding changes in the entry mode throughout time. The majority, eight of the companies, have not changed its entry mode. Hence, six corporations have, for different reasons, changed its ownership structure. Three of them are today wholly-owned by the parent company, two of them started as a joint-venture, whereas one of them had an 80-20 per cent ownership structure. The third one started its business in Brazil by using a distributor and is today a wholly-owned subsidiary. Moreover, two corporations have closed down its business but are re-considering setting it up again. One of these two companies was wholly-owned by the parent company in the start up. Since the investment did not become profitable it was sold to the employees as a franchising agreement. Although, the corporation still have a shell corporation left in Brazil. The other corporation which closed down its business started up as a joint venture together with their former distributor. Due to political instability and devaluations, the joint venture had to close down in 2003, and the same distributor took over the sales. Moreover, the corporation with a domestic-based sales representative has adjusted, thus today it also has a bonded warehouse since the delivery time from Sweden is too time-consuming.

Figure 4-8 Satisfaction with entry mode

Even though six of the companies have changed its entry mode, the majority, eleven of 14, are satisfied with how to enter the market. One respondent is very satisfied while two respondents are dissatisfied with its market entrance. One of the corporations being dissatisfied entered as a joint venture, (80%-20%), however the partnership did not work out and today it is a wholly-owned subsidiary. Further, the other corporation did also start up as a joint venture (50%-50%). The reason for them being dissatisfied is the lack of full control over the business, but on the other hand it is a good method when entering a new market since it reduces the investment.

To sum up the establishing process the authors asked if the corporations would have entered the market in the same way today or if they would have done something differently. Ten respondents argue the entering approach being the same today. Although, one of them stated that the corporation would have liquidated earlier on. Whereas one argued, under the same circumstances the entry process would have been managed in the same way, although with today's circumstances the entrance would have been performed differently. Four of the respondents, whereas three of these are joint ventures, pointed out; with today's knowledge the entering process would have been different. The respondent, starting up with a 50-50 per cent joint venture, argues that the corporation would have entered as a wholly-owned subsidiary or entered the joint venture with a smaller part than 50 per cent. While the other two joint ventures would have started up as a wholly-owned subsidiary. According to one of them, this is due to an easier control over the investment and the return of a wholly-owned subsidiary. Although, the other respondent argues having control over a wholly-owned subsidiary is problematic owing to the long distance between the host country and home country. One of the companies which entered as a wholly-owned subsidiary points out, when looking back the parent company should have managed the new establishment in Brazil instead of the Chilean subsidiary. The Chilean corporation lost sales due to the investment in Brazil; consequently the main goal of the parent company was neglected.

4.6 How to finance foreign investments

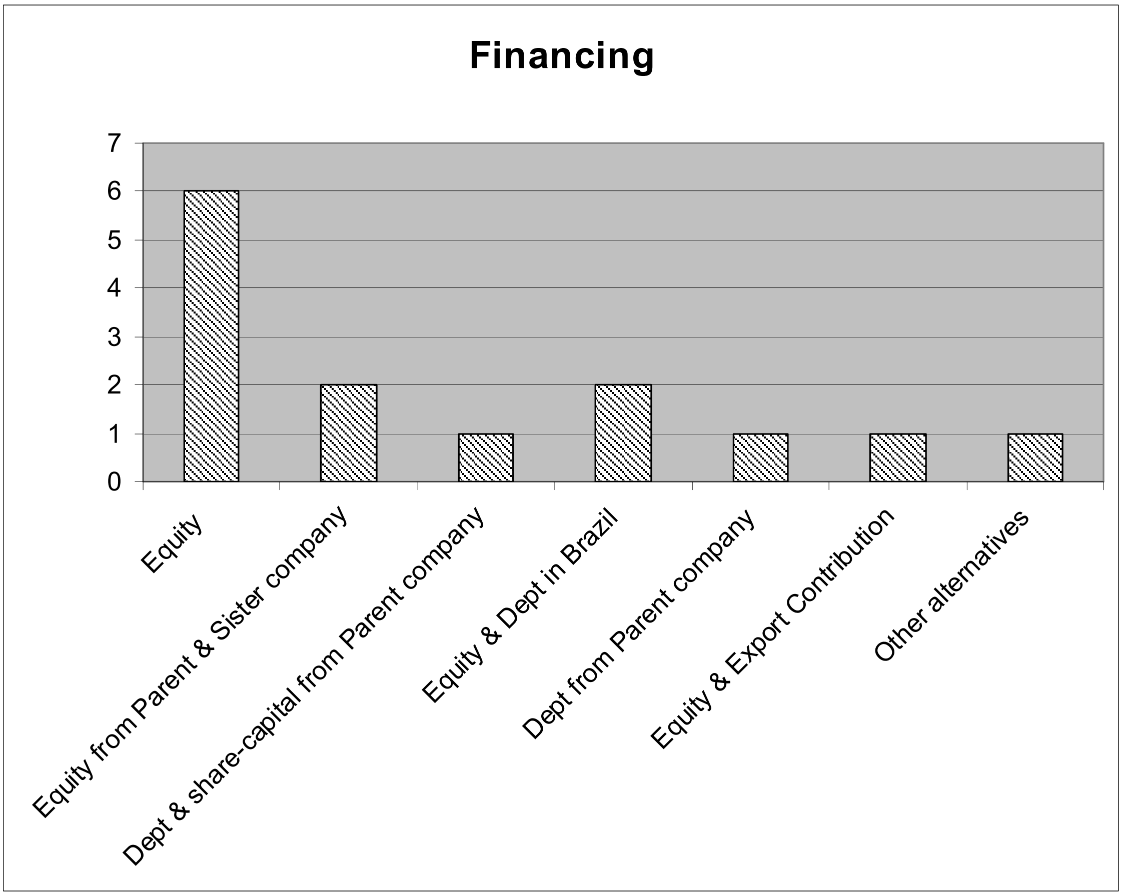


Figure 4-9 Financing alternatives

Figure 4.9 visualizes different financing alternatives the respondents have used when investing in Brazil. The most common way has been intercompany financing, however it has been structured differently. Financing the whole investment through equity from the parent company in Sweden was the general approach; six respondents applied this financing alternative. Furthermore, two corporations have financed its investment through equity from the parent company and sister companies located in a third country. Other intercompany financing alternatives are dept from the parent company applied by one corporation, whereas the combination of dept and share capital from the parent company was used by another corporation. Thus, intercompany financing are used by ten of the respondents. Other alternatives are the combination of equity from the parent company and dept in Brazil, which two corporations have applied, and equity from the parent company together with an export contribution from the Nordic countries. The last financing alternative in figure 4.6 "other alternatives" is a subsidy to the franchiser. Thus, the franchiser stands for the main investment and the Swedish corporation gives the franchiser discounts on their products in order for the franchiser to be able to build up the business.

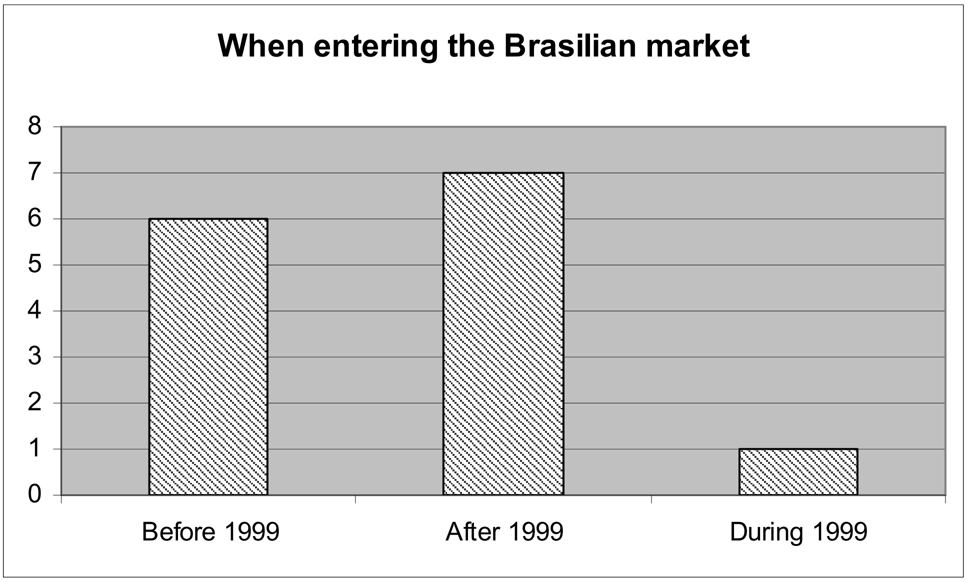
Dept in Brazil has not been a general financing approach; two of 14 have applied this financing alternative. One of these corporations had 70 per cent in Brazilian dept and the remaining was financed by equity from the parent company. The reason for borrowing in Brazil despite the high interest rate is, according to the respondent, the high exchange risk. Thus, the corporation is rather exposed to a high interest rate than cooping with the exchange risk. On the other hand, the other corporation borrowed a very small amount in

Brazil because of the high interest rate. In both cases it was the subsidiary in Brazil that borrowed. According to the respondent, borrowing the major part of its financing, the process was very time consuming. As the subsidiary did not have any value to leave as security, the parent company had to give guarantees to the bank. While the other respondent pointed out that outstanding debt from the customers had been given as security. Furthermore, the respondent financing the investment mainly through dept argued that the interest rate varied between loans. If the loan is used to purchase locally produced equipment, the interest rate is lower. On the other hand the interest rate for loans regarding other expenses is higher.

None of the corporations have changed its way of financing, although according to three respondents the business in Brazil is today self-financed. Eight respondents clarify that their perceived risks, when establishing in Brazil, had no impact on the financing decision. However, the insecurity in the Brazilian currency has influenced the financing decision, according to two respondents. Additionally, the high interest-rate together with the problem to receive a loan has influenced the financing alternative. Nevertheless one respondent argues that even though the interest-rate is high, it is better to borrow in Brazil to avoid the exchange risk. Whereas, due to the Brazilian interest rate and inflation two respondents state this being the reason for not borrowing in the country. Furthermore, one respondent recommends avoiding local financing due to all bureaucracy and protectionism. Thus, this has been the reason for this corporation using intercompany financing.

The majority of the respondents, ten of 14, argue that inflation had no impact on its financing decision. The inflation affects the interest rate, which is very high in Brazil, thus in that sense the inflation level has influenced the financing according to three of the respondents. One of the corporations points out that the Brazilian inflation level affects its pricing, since the Brazilian company purchase from the parent company in Sweden. Because of this the corporation has to constantly adjust their pricelist due to changes in the inflation, thus there is no stable pricelist.

4.7 Successful investment?



c

Figure 4-10 When entering the Brazilian market

The Brazilian crisis in 1999 affected the respondents differently. Three businesses had a decline during the crises; however after the crises two of those points out the business being profitable and the other state the return being moderate. Another respondent points out, the business was profitable before the crises but the crises affected the corporation negatively and the ownership structure changed from being a joint venture to a distributor. The after-affects from the crises made another corporation closing down its business. According to the last respondent the crises had a positive affect, as their line of business was privatized and the demand for the corporation's products increased. However, the competition increased after the crises and together with the high criminality it resulted in liquidating the business.

The corporation which established during the crises is today profitable. However, during the crises it was difficult selling products and instead the corporation was focusing on educating people, establishing distributors and building up the organization. All corporations established in Brazil after 1999 are of the opinion that the crises had no affect on them. Three respondents point out the business being profitable today and two respondents state their business reaching break-even. According to one respondent the business in Brazil is not profitable. However it has been profitable indirectly since the corporation signed a contract with a large customer, the deal would not have been closed if the corporation had not established in Brazil. The last respondent did not response to this question.

5 Analysis

In this chapter the authors will present an analysis, thus distinguish similarities and dissimilarities between the theoretical framework and the empirical findings. Furthermore, the authors will discuss their own opinions regarding the findings.

5.1 Motives for going abroad

Theoretically there are several different motives for going abroad. However, the motives to enter the Brazilian market have not varied that much among the respondents. According to Hollensen (2004) a small home market can be a motive for going international. From the authors' point of view, Sweden can be seen as a rather small market. However, none of the respondents in this study have mentioned this or that that home market is saturated as being a main motive.

Since Brazil consists of 186 million people it is the largest market in Latin America and an important economy. Thus, the most common motive among the respondents has been that Brazil is the largest market in Latin America. Hence, according to Madura (1998) one strategy of expanding its business and increasing sales is to penetrate a new market. The authors believe investing in Brazil can be seen as an entrance gate to the whole of Latin America. The Brazilian government advocate local manufacturing in favour of importing which makes it easier for corporations to perform business if established in the country. The countries in Latin America are members of MERCOSUL; hence there is no customs duty between the countries. Therefore it is cost saving and facilitates sales to the other countries as well. Another common motive to invest in Brazil was following the existing customer which corresponds to Daniels and Radebaugh (1995); corporations are forced to follow its customers in order not to lose them as clients. In these cases the corporation invests in Brazil not because of the market seize or to expand its markets to gain market shares but the main reason is to keep its already existing customer. One conclusion the authors have drawn from this is; the corporations which had customer driven motive is only established in Brazil and do not consider Latin America as an essential market. These corporations would probably not have expanded to Brazil if it had not been because of the customer and its' demands. While the corporations, expanding its business as a motive, are established in several countries in Latin America and see this continent as a great opportunity. According to Eiteman et al. (2004) it is important to manufacture in the foreign country to facilitate the relationship with its customers. Hence, the motive for one respondent's establishment in Brazil was to get closer to its customers.

5.2 Risks with foreign investments

5.2.1 The political-, governmental risk, protectionism & transfer risk

According to Woods (2001) the main political risk is if the host government and the corporation are having conflicts regarding the goal of operating in the country. Among the respondents this has not been a problem. Instead the majority of the respondents are of the opinion that the governmental regulations and laws, as Eiteman et al. (2004) points out, have appeared to be the main risk of operating in Brazil. Additionally, the bureaucracy and the administration in Brazil have turned out to be very problematic and complicated. Thus, even though the country opened up its boarder 1990 to facilitate trade and changes in the legislations regarding foreign investments were carried out; it is still complicated and time demanding to start up a new business in Brazil. Several of the respondents have been positioned in Brazil during the start-up of the new business. According to the authors the corporation might avoid problems, concerning Brazilian regulations and administration procedures during the start-up, by hiring local management with experience and knowledge. Only one of the respondents pointed out, by hiring Brazilian citizens the corporation circumvent these difficulties. In addition to the government other authorities are also making it problematic to perform business. Thus, as the theory states the risk is not having control over regulations and constraints. In Brazil the tax legalisation is complicated, different states having different value added taxes is one example. This can be problematic for Swedish corporations not used to this procedure. The authors question if all the regulations and administrations are that more complicated than in other countries, thus when living in a country the problem entering it is not of the citizens' awareness.

Another large risk among the respondents appeared to be the protectionism. As Eiteman et al. (2004) argue protectionism protect the local producers from foreign competition. According to the majority of the respondents the Brazilian government is very protective of the domestic industries by adding large taxes, as Kiggundo (2002) mention as tariffs, on imported goods. Swedish corporations have chosen to start-up a subsidiary in Brazil, one of the reasons for this is the protectionism of the country. Hence, domestic manufacturing is in favour of importing by the government. The authors believe this is the cause to maintain the local workforce and increase the living-standards of the population, which is one stage to adjust to the industrial countries.

Something that additionally confirms the problems of operating in Brazil is the transfer risk which is supported by Shenkar and Lou (2004). Thus, it has been affecting the interviewed corporations to a small extent since the Central bank has regulations concerning movement of capital. The government want to maintain foreign capital when the currency reserve is low according to Eiteman et al. (2004). However, this has not been confirmed in this study, on the other hand one respondent stated that the Central bank is holding on to depositions is order to gain from the exchange rate.

5.2.2 Ownership structure & human resource norms

As Shenkar and Lou (2004) state, ownership risk has decreased during the last decades which also appear to be the case in Brazil. It seems like restrictions concerning ownership structure in Brazil are not a large problem since the respondents in this study is not affected by this risk. Some governments have regulations regarding ownership structure before FDI is permitted. Since the majority of the corporations have entered the market as a wholly-owned subsidiary this has not been a risk for the respondents of this study.

The theory states that foreign corporations can be forced to employ local citizens and in Brazil at least two thirds of the workforce needs to be local citizens, though seven respondents point out this being a risk affecting the corporation. The problematic concerning human resource norms arise when it comes to let go off employees. According to Eiteman et al. (2004) labour laws and unions in the host country affect the corporation, especially firing people during a recession. However the respondents have not seen this as a problem, instead they argue how expensive it can be when firing employees since employees in Brazil have a powerful position against the corporation. According to Gooderham and Nordhaug (2003) culture differences affect employment in the foreign country as well as other business processes. As one respondent stress, knowing the culture is not only important when it comes to employment; corporations also need to know that the culture is penetrating the whole corporation. The authors point out, when establishing in a developing country the corporation may face culture differences which affect its actions and decision making. Corporations need to be aware of that culture differences do not need to be a problem instead the corporation can take advantage of them to perform successful business.

5.2.3 Poverty, criminality, corruption & environmental concerns

Parker (2005) argues that many corporations establish subsidiaries in countries with an unequal income distribution. This corresponds to Brazil where the income distribution is very unequal. Since Brazil has a large middle-class with great purchasing power, corporations can have low-paid employees and at the same time produce expensive products and services. The majority of the respondents do not see poverty as a risk for the establishment in Brazil. However, poverty causes criminality which is expensive for the corporation. As a consequence of poverty being large in Brazil the criminality is a large problem. However, the respondents do not see this as a risk when investing in Brazil, the corporations are aware of its existence and its increased costs due to protections of the employees and the business. One of the respondent's products is a substitute to low-paid employees and therefore poverty is seen as a risk in losing sales for this corporation. Whereas one corporation's business concerns the environment and therefore poverty is seen as a large risk since its profits and sales are depending on the citizens' interest in the environment.

Since there are no war and terrorism in Brazil at the moment these are not seen as risks according to the respondents. Instead criminality is a large problem and as mentioned above it leads to increased costs. Additionally, the police do not have the power to fight the criminality, as one of the respondent states; the police and authority are also attacking the business. As Parker (2005) argues there are problems regarding absence of defence system in poor countries with high corruption and armed crimes. Among the majority of the respondents corruption is not perceived as a large risk when establishing in Brazil. Thus, the poor defence system depends of the high criminality. On the other hand those few corporations that do perceive corruption as a risk are calculating with it, and as Kiggundu (2002) points out, corruption involve higher costs and risks. Even though corruption is not seen as a risk, the authors believe that bribery occurs to speed up the work and facilitate the business' processes among Swedish corporations. For Swedish corporations, bribery is not discussed in the open and therefore this could be the reason why so many of the respondents just mention the awareness of corruption. Stated in the theory the tolerance and punishment of corruption differ among countries, hence Brazil must be seen as a tolerant country regarding this subject.

Only one respondent points out the environment as a major risk since the corporation's products are of environmental concern. Hence, the corporation's sales are depending on the Brazilian citizens and its awareness of the environment. Their products are affecting the environment positively; nevertheless as poverty is large in Brazil the inhabitants are more concerned of getting through the day than caring about the environment.

5.3 How to enter the market

How to enter a foreign country depends on the risk a corporation is willing to take and exporting is less risky comparing to FDI according to Woods (2001). Thus, Onkvist and Shaw (2004) state, corporations generally begins to export to foreign countries before establishing. This is confirmed by the empirical findings, as almost all of the respondents exported before investing in Brazil. Even though Greenfield is a larger investment it has been the major entry mode and according to the theory and respondents it is due to full control over the business and production in the country. The difficulties regarding the regulations of importing are circumvented when producing in Brazil. One negative aspect when starting up a Greenfield investment is according to Shenkar and Lou (2004) that it takes longer time to generate cash flow compared to other investment alternatives. This has also been confirmed by some of the respondents, a corporation has to be prepared, that before the investment becomes profitable it takes approximately three years.

One reason behind a joint venture agreement is of economical character according to the theory, which corresponds to the respondents applying this entry mode. Although, the majority of them argue that today the corporation would not enter as a joint venture owing to the lack of control, as stated in the theory, a wholly-owned subsidiary would be preferred. The authors believe that the reason for starting up as a joint venture was not only the cost sharing but also the partner's knowledge and experience in Brazil. However, this turned out to be negative for the corporations which led to one closing down and the other three becoming wholly-owned subsidiaries.

The corporation using franchising in this study agree with Bradley (2002), franchising being an entry mode to use when a company want a rapid extension into a foreign market with as a low-cost investment. According to the theory a domestic-based representatives is usually applied when there is a small amount of large customers on the foreign market, which corresponds to the respondent's statement. Moreover, this entry mode shall provide the corporation with closer contact and commitment to the customer however the respondent utilizing this entry mode pointed out that it is problematic to provide technical support. Since the technical division is located in Sweden it is both time-consuming and expensive to provide high-quality service for the customer. The authors argue, the reason for Swedish domestic-sales representatives not being frequently applied in Brazil may depend on sales division being the only division located in Brazil. Hence, all the other divisions, such as support, marketing, R&D, are supervised from Sweden which results in corporations not being able to offer the complete solution in Brazil. When a corporation cannot offer a complete solution the existing customers may desert the corporation and it may be difficult to sign contracts with new customers, thus the sales decrease.

5.4 Financing alternatives

Diverse financing alternatives have been applied to fund investments in Brazil. Among the risks mentioned in the frame of reference, the only risks affecting the financing decisions are inflation, interest rate and exchange rate according to the respondents. However, these risks have affected the financing decision differentially.

The majority of the respondents state that inflation has an impact on its business, although not on its financing decisions. The authors find it hard to believe that corporations investing in a country with historically high inflation do not take this into consideration when determine its financing approach. According to Morrison (2002), high inflation implies increasing costs due to a weak currency. This corresponds to how the situation has been in Brazil, with many years of hyperinflation and a weak currency. However, one of the respondents' points out that the real has strengthened against the SEK and the corporation has gained positively from this. Further, Morrison (2002) points out that high inflation increase the interest rate which results in high costs repaying debt, thus corporations seek other financing alternatives. This has been confirmed in the study, the respondents have avoided local debt owing to the high interest rate. Hence, intercompany financing have been the major finance alternative for the respondents. This depends among other things, the expensiveness of borrowing in Brazil and the corporation's possession of capital. Additionally, several of the respondents perceive the investment in Brazil as small compare to the rest of the corporation. Furthermore Neale and McElroy (2004) argue that equity should be applied if not knowing when the investment will become profitable. When financing a new investment intercompany financing is generally applied initially according to Shenkar and Luo (2004) and this is confirmed by the study where all the respondents used, more or less, intercompany financing in the start-up. More surprisingly one respondent preferred local debt, with a high interest rate, since the exchange rate has been rather volatile. Madura (1998) mention exchange rate depreciation or low interest rate as motives for borrowing in the host country. Although, these motives do not correspond to the respondent's reason for borrowing in the country.

According to the respondents the exchange rate is the most perceived financial risk. Brazil has since the crises in 1999 had a floating currency, which according to Daniels and Radebaugh (1995) cause regular variations in the currency value. When an exchange rate is fluctuating the corporation faces different exposures. To avoid what Parker (2005) mention as transactions exposure one respondent trade only in US dollar. Whereas another respondent state that all internal business between the parent corporation and the subsidiary is in SEK to circumvent the translation exposure. The majority of the respondents trade with the Brazilian currency, the real, and take no precautionary actions regarding fluctuations in the currency. However, two of the respondents are calculating with changes in the exchange rate by performing estimations and judgements which results in a constantly updated price-list.

Daniel and Radebaugh (1995) state, the government in some countries want to attract foreign currency by refusing foreign investors to borrow at the local market. This can not be confirmed in this study, thus the Brazilian government do not have any restrictions concerning corporations borrowing in the country. On the other hand, the government may advocate foreign investors borrowing in the country, by giving them better agreements compare to local corporations. This can not be confirmed by the study, thus the authors' conclusion is that the Brazilian government do not make it easier or more difficult for foreign corporations to borrow in the country. However, it is problematic and administrative to take up loans in Brazil because of the regulations set by the Central Bank. Furthermore, none of the respondents have argued them being treated differentially in comparison to local businesses. The authors argue that the reason for foreign investments being financed within the corporation instead of debt is because it takes nearly three years before the investment becomes profitable. Thus, borrowing would prolong the time before the investment becomes profitable. As Neale and McElroy (2004) state, if borrowing profits will decrease due to interest rate and amortization. Moreover, why borrow if the parent company possesses capital.

6 Conclusion

In this chapter the conclusions drawn from the study will be presented. A presentation of how Swedish corporations have completed their investment in Brazil and furthermore, the purpose will be answered.

The purpose with this thesis is to describe Swedish corporations' establishment in Brazil, during 1990-2005. The authors aim to illustrate the motives behind the establishment, choice of entry mode, the perceived risks of operating in Brazil and if these risks affect the financing decisions. The authors have fulfilled its purpose by answering the following questions.

> *What are the main motives behind an investment decision in Brazil?*

Motives to invest in Brazil among the respondents were not too varying. Instead the result indicates that expanding market and customer driven motive are the most common ones. Expanding markets and gaining market shares are important to be well known globally and to increase profits. On the other hand, customer relations are the key to the survival and success for a company. Thus, sometimes a corporation need to be open minded in order to keep important customers in addition to closeness to the customer since this may be profitable in the end.

> *How do companies choose to enter the market?*

When deciding upon how to enter the market, the majority of the respondents choose to start up from the ground, hence as a Greenfield. This is most certain due to that the corporation wants to have full control over the investment and be able to offer complete solutions to the customers. Additionally it facilitates decision-making concerning the foreign investment when required. The majority of the corporations who entered the market as a joint venture have today become wholly-owned, which might be the cause of avoiding culture differences. Thus, the authors argue in order to become successful when investing in Brazil one should build up the business from ground since this gives a comprehensive picture of the investment.

> *Do Swedish companies still think of Brazil as an unstable country, if so, how do they deal with these uncertainties?*

The risks which have had the largest impact when investing in Brazil turned out to be the political risk and protectionism. The government is very protective of the domestic corporations. Hence, regulations and administration when foreign direct invest in a developing country, such as Brazil, has turned out to be very problematic. To facilitate this Swedish corporations' can turn to the Swedish trade council and the Swedish chamber of commerce in Brazil to receive valuable information. In this study only one respondent was not prepared for all the bureaucracy in the country. This however is a positive sign that most corporation try to be as well-prepared as possible before going through with the investment.

Even though Brazil has a large purchasing power the majority of the inhabitants are poor which contributes to high criminality. Criminality brings diverse problematic issues for the corporation which need to be solved. However, the corporations do not perceive this as a risk when entering Brazil instead when operating they take precautionary actions against it. Moreover, one risk the authors believed would have higher impact was corruption, since Brazil used to be a dictatorship and is still a developing country. Although, the result from this study indicates that Swedish corporations has little involvement in bribery. Obviously bribery occurs to speed up and circumvent bureaucracy, the police and other authorities, but the corporations avoid it to the very last.

Do perceived risks affect how to finance a foreign investment?

Do Swedish corporations use domestic, local or other financing sources for its investment?

Intercompany financing has been the main financing alternative. The authors argue this is due to avoid the high interest rate and the volatile inflation, though it is very expensive to borrow in Brazil. Exchange rate, inflation and the interest rate are the risks affecting the financing decisions. Different precautions have been taken by the companies to evade these risks. To circumvent the fluctuating exchange rate some of the corporations trade in US dollar and SEK.

The authors believe that since Brazil is one of the largest economies in the world it is a market with great potentials. Whether the corporation accomplish a preliminary study to gain knowledge regarding the country, could make the difference of becoming successful. The reason for investing in Brazil is not the capability of acquiring cheap production factors instead it is to attain the Brazilian market. When a corporation enter one country in Latin America it opens up the gates for the whole continent.

7 Final remarks

This chapter presents the authors criticism of the study and the procedure of gathering and presenting the material. The authors will also provide suggestions for corporations who consider investing in Brazil. Further, throughout the study problems, thoughts and concerns regarding the subject have arisen. This has resulted in suggestions for further studies.

7.1 Criticism of the study

After the interviews have been conducted the authors are of the opinion that the questionnaire could have been developed further to give deeper answers and more understanding regarding the subject. On the other hand, conducting an interview with a more detailed questionnaire would have been more time-consuming and the respondents may not have participated if the interview had taken longer than 20 minutes. Even if it is less time-demanding to participate in a telephone interview face-to-face interviews may have been preferable since it develops a better dialog and better opportunity for attendant questions. Additionally, the authors could have used another questionnaire then the respondents with attendant questions, to be able to develop the answers further. Another approach could have been to email a standardized questionnaire to more corporations, letting the respondents mark the answers the in questionnaire. This might have given more participants and a wider base to generalize the study; however no deeper answers to why the respondent gave the specific response would have been presented.

Furthermore, the authors considered it important not to leave out any details from the interviews and therefore the presentation of the empirical findings and the analysis are rather heavy to read. Different attempts to structure the material have been applied. Though, the authors are of the opinion that the structure used gives the reader a comprehension for the subject.

7.2 Suggestions when investing in Brazil

The authors' suggestions for Swedish corporations considering investing in Brazil are as follows:

When entering the Brazilian market export is a good first step to take, in order for the corporation to gain knowledge regarding the market. If considering establishing in Brazil the corporation should proceed with a Greenfield foundation to gain full control of the investment.

To succeed when entering the Brazilian market; a close contact with the Swedish trade council, the Swedish chamber of commerce, other Swedish firms operating in the country as well as locals to gain valuable information is important.

The corporations should be well prepared for the bureaucracy (regulations and administration) in Brazil, which is very time-consuming. The main risks of operating in Brazil are the political risk and the protectionism.

Criminality in Brazil is very high and precautionary actions need to be taken to handle this. One might also want to consider where to locate the business since the criminality is higher in certain areas.

Intercompany financing is preferable if possible since borrowing in Brazil is expensive.

7.3 Suggestions for further studies

During the work process with this thesis the authors have had many thoughts and concerns regarding further investigations within the subject:

Performing a study with more corporations, would it give the same analysis and conclusion as this one, or would it reveal even more differences or similarities between the companies.

Perform a specific research on one of the different fields that has been covered in this thesis, for example look into the problematic concerning the bureaucracy or the tax system in Brazil. During the interviews the authors realized that there are different and complicated tax systems in different parts of Brazil, this is of great importance for the companies.

An investigation of the working laws and the social system since this is under development in Brazil and the whole of Latin America.

Many of the Swedish companies in Brazil have subsidiaries in other continents as well, thus a comparison between the investments in for example Brazil and China would be of interest.

In this thesis companies established after 1990 have been investigated, thus a research of companies entering Brazil early on, before the economy opened up and became more stable would be of interest.

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Appendix 1, Questionnarie Swedish

1. Vilket årtal etablerade ni er i Brasilien?
2. Hur stor är omsättningen för dotterbolag respektive moderföretag?
3. Vilken bransch arbetar ni inom?
4. Är ni etablerade i något annat land i Latin Amerika? I så fall vilket?
5. Vilka var motiven till att investera i Brasilien?
6. Teoretiskt sett finns det olika risker som påverkar ett företags utlandsetablering. Till hur stor del har dessa risker nedan påverkar er?

	Mycket	Lite	Inget	Vet ej
Växlingskurs risk	☐	☐	☐	☐
Politisk risk (Lagar & Regler)	☐	☐	☐	☐
Transferrisk	☐	☐	☐	☐
Regler angående ägarstrukturen	☐	☐	☐	☐
Regler angående anställningar i Brasilien	☐	☐	☐	☐
Korruption	☐	☐	☐	☐
Protektionism	☐	☐	☐	☐
Fattigdom	☐	☐	☐	☐
Krig och terrorism	☐	☐	☐	☐
Miljö intresse (utsläppskvot etc.)	☐	☐	☐	☐
Inflation	☐	☐	☐	☐
Räntan	☐	☐	☐	☐

7. Har ni upplevt några risker utöver dessa vid er etablering i Brasilien? Och i så fall vilka, hur stor påverkan har dessa haft för företaget?

8. Har ni stött på svårigheter från den Brasilianska regeringen i samband med etableringen eller under tiden, i så fall vad?

9. Exporterade ert företag till Brasilien innan ni etablerade er i landet?

10. Hur etablerade ni er i Brasilien?

11. Har ni förändrat ert etableringssätt med tiden? I så fall till vad?

12. Är ni nöjda med ert sätt att etablera er?

Mycket nöjd	Nöjd	Missnöjd	Mycket missnöjd	Vet ej
☐	☐	☐	☐	☐

13. Med facit i hand om ni hade etablerat er verksamhet i Brasilien idag hade ni gått tillväga på samma sätt som då eller hade ni gjort något annorlunda?

14. Hur valde ni att finansiera er etablering i Brasilien? Ange i procent uppdelning av de följande alternativen.
    Eget kapital finansiering

    Aktie finansiering

    Lån finansiering

15. Inom vilka länders gränser valde ni att finansiera er? Ange i procent uppdelning av de följande alternativen.
    Sverige

    Brasilien

    Annat land

    Den internationella marknaden

16. Lån:
    a) Om lån förekommit, vem var det som lånade vid etableringen, moderbolaget eller dotterbolaget?

    b) Om ni har lånat i Brasilien, uppstod det några svårigheter?

17. Vilka av de följande finansieringssätt har ni använt er av vid etableringen i Brasilien?

    Moderbolags finansiering

    Systerbolags finansiering

    Aktie finansiering via Sverige

    Aktie finansiering via Brasilien

    Aktie finansiering via annat land

    Lån i Sverige

    Lån i Brasilien

    Lån via internationella banker/marknader

    Annat och i så fall vad

18. Har ert finansieringssätt förändrats sedan etableringen?

19. Har de upplevda riskerna med att etablera sig i Brasilien påverkat finansieringssättet och i så fall hur?

20. Har den brasilianska inflationsnivån påverkat ert val av finansieringssätt eller förändring av finansieringssätt?

21. Om ni etablerade er innan 1998, hur har den brasilianska krisen 1998-1999 påverkat verksamheten?

22. Har investeringen varit lönsam?

Tack för er medverkan!

Appendix 2, Questionnarie English

1. In what year did your company establish in Brazil?

2. What is the turnover for the subsidiary and the parent company?

3. In which branch do the company work in?

4. Are you established in any country in Latin America? If that is the case, which country/countries?

5. Which were the motives to invest in Brazil?

6. Theoretically there are different risks that affect a company's foreign establishment. To which extent have the following risks affected you?

	A lot	Little	Nothing	Do not know
Currency-exchange risk	☐	☐	☐	☐
Political risk (Laws & Rules)	☐	☐	☐	☐
Transfer risk	☐	☐	☐	☐
Ownership structure	☐	☐	☐	☐
Human resource norms	☐	☐	☐	☐
Corruption	☐	☐	☐	☐
Protectionism	☐	☐	☐	☐
Poverty	☐	☐	☐	☐
War & terrorism	☐	☐	☐	☐
Environmental concerns	☐	☐	☐	☐
Inflation	☐	☐	☐	☐
Interest	☐	☐	☐	☐

7. During your establishment in Brazil did you discovered any risks besides these? If that is the case, which and to which extent did they affect your company?

8. Have you discovered any problems from the Brazilian government during the establishment or afterwards and in that case what?

9. Did the company export to Brazil before it established in the country?

10. How did the company establish in Brazil?

11. Have you changed the entry mode during time? If that is the case, to what?

12. Are the company satisfied with the way it entered the market?

Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied	Do not know
☐	☐	☐	☐	☐

13. When looking back would you have entered the market in the same way today as you did back then or would you do anything different?

14. How did you choose to finance the establishment in Brazil? Give the share of the following alternatives in per cent.
    Intercompany financing

    Issuing new shares

    Debt financing

15. Inside which country's boarders did you chose to finance? Give the share of the following alternatives in per cent.
    Sweden

    Brazil

    Third country

    The international market

16. Debt:
    a) If debt has been used, how borrowed at the establishment, the parent company or the subsidiary?

    b) If you have borrowed in Brazil, where there any difficulties that arose?

17. Which of the following financial alternatives did you use at the establishment in Brazil?

    Parent company financing

    Sister company financing

    Issuing new shares in Sweden

    Issuing new shares in Brazil

    Issuing new shares in third country

    Dept in Sweden

    Dept in Brazil

    Dept at international banks/markets

    Something ells and in that case what

18. Have your financing approach changed since the establishment?

19. Have the risks with entering Brazil affected the financing approach and if that is the case, how?

20. Have the level of the inflation in Brazil affected the financing chose or changed the financing approach?

21. If you established in Brazil before 1998, have the Brazil crises between 1998-1999 affected the company?

22. Have the investment been profitable?

Thanks for your cooperation!