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Institutional Environment and Finnish Foreign Direct Investments in Mexico

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LIST OF ABBREVIATIONS

CFM	Comisión Federal de Electricidad
FDI	Foreign Direct Investment
IMF	International Monetary Fund
MIGA	Multinational Investment Guarantee Agency
MNE	Multinational Enterprise
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Co-operation and Development
OLI	Ownership-Location-Internationalization
PEMEX	Petróleos Mexicanos
R&D	Research and Development
SE	Secretaría de Economía
TELMEX	Teléfonos Mexicanos
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added tax

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ABSTRACT

Due to globalization and competitiveness, developed economies are focusing their attention into investments in emerging economies such as Mexico. Mexico is an attractive location for investors due to its free trade agreements and the government´s openness to FDIs. The purpose of this study is to analyze the institutional environment in Mexico (mainly the formal and informal institutions) over Finnish Foreign Direct Investments. The current study uses a sample of three Finnish FDIs in Mexico, Kemira, FINPRO and an anonymous company. The empirical findings suggest that the culture, competition and bureaucracy in the host country play a fundamental role during investments. Spanish language was also found to be an essential asset for establishing investments in Mexico. The strongest impacts over the investments are high competition, bureaucracy, and legal systems. In spite of the weakness of the Mexican legal systems, Finnish firms have managed to adapt, understand the way of doing business. Location and natural resources were also found to be major factors for investing in Mexico. This work contributes to the better understanding of the institutional environment in a developing economy, nonetheless this study does not analyze the same company profiles.

KEYWORDS: Foreign Direct Investments, Institutional Distance, institutions, formal institutions, informal institutions, emerging economy

1. INTRODUCTION

This chapter presents an overview about the background of the research, followed by theoretical and empirical objectives of the study. Moreover, limitations and contributions of the study are presented. This chapter will help the reader to have a general overview of the Foreign Direct Investment world and the literature that will be implemented on this study.

1.1. Background of the study

The role of investments, especially foreign direct investment (FDI), has become an imperative for the economic growth and development of countries. During the last years, there has been a considerable change in developing countries and economies in transition; governments have become more opened towards FDI, they have been liberalizing and promoting foreign directing investments and playing a greater role in investment policies. They have recognized the importance of FDIs due to the contribution of capital, to the making of profitable investments and to the technical knowledge. Investments also allow the development of emerging and developing countries as it helps them exploit opportunities that perhaps they could have never been able to use if it had not been for the help of foreign direct investments.

The Organization for Economic Co-operation and Development (OECD, 1996:7) provides a definition for FDI: “an investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”)”. FDI has an impact on country’s trade balance. FDIs improve the standards and skills of labor, increase the transfer of technology and innovative ideas, and determine the development of the general business environment and structure.

These major changes and contributions can be clearly noticed throughout the last years. In 2010, for the first time, developing countries perceived more than half of global FDI flow. (UNCTAD, 2012). Accomplishing such high level of global FDI flows demonstrates the significant economic activities and strong execution of these countries for future FDIs.

In the last years, the inflows to developing countries have increased considerably. In 2011 FDI flows to Latin America and the Caribbean increased by 16 per cent to a record $217 billion. (UNCTAD, 2012). In 2014 FDI flows to Latin America and the Caribbean – excluding the Caribbean offshore financial centers – decreased by 14 per cent to $159 billion (UNCTAD, 2015).

Countries have begun to understand how beneficial FDIs are; therefore they have recognized they can influence the attraction of future investments by using appropriate FDI policies. Nowadays, the general policy trend towards investments is increasingly occurring in specific industries, particularly in services industries such as electricity, water and gas supply and transport and communication (UNCTAD, 2012.)

Institutional theory has emerged as a guide for research on strategies concerning investments in emerging economies. This theory provides a crucial framework to analyze determinants of FDIs in such economies. A significant aspect of emerging economies is that the institutions are not totally developed; hence restricting the firms' choice decision making. (Peng, 2003) According to Bénassy-Quéré et al (2007) there are various reasons why institutions in the host country are crucial for the attraction of investments. Investments tend to be more vulnerable as the uncertainty grows. This uncertainty might be due to the quality of the governance infrastructures, which may incur in additional costs. The government, policies, and legal systems also play a decisive role in the decision of investment as well as in the performance.

1.2. Objectives of the study

Institutional approaches have become influential among business studies. It is known that MNEs entering foreign markets have challenges regarding institutional environment, which might influence their decisions and strategies. Degree of influence of political and legal institutions, regulatory operations of business, trade barriers, tax levels, quality of legal and regulatory framework, political risk, and corruption level, among other factors, serve as an important determinant of a MNEs location choice (Kedia, et al. 2012: 187). MNEs will generally prefer to operate in a location where the risk of investment is low and in a country where institutions do not act as an obstacle.

As stated by Hansson, et al. (2009:5) Institutional distance is "the distance between institutions as perceived by one actor in relation to other actors in market networks and in relation to the institutional environments of the market networks". The more distant a host country is from its parent enterprise, the more regulatory, cultural and organizational the differences are. Differences between the host and home country increase the cost of entry, decrease operational benefits, and hamper the firm's ability to transfer core competencies to foreign markets (Tihanyi et al., 2005). Thus, organizations must develop managerial processes and strategies that suit the institutions, incurring in more managerial efforts, time and costs in order to diminish these differences as well as barriers or negative effects.

The main purpose of this study is *to examine the influence of the institutional environment (formal and informal) over Finnish investments in Mexico.*

The research sub goal of this study is:
"What are the effects of the institutional environment in the host country of FDI establishment?"

This study aims to provide better understanding of Finnish decision in regards to Foreign Direct Investment in Mexico as well as to understand the main institutional factors that affect their main decisions. Institutional theories are a major concern for MNEs entering new markets especially in developing countries. This study is to make an in-depth analysis on the role of Institutional environment for firms entering an emerging market, specifically in Mexico.

In order to achieve the main purpose of this study, the following theoretical and empirical sub-objectives are set:

Theoretical objectives:

1. To research formal and informal institutions and to understand their impact on Foreign Direct Investment.

2. To analyze the institutional environment of Mexico and FDI policies in order to understand their impact in Finnish Foreign Direct Investment.

Empirical objectives:

1. According to the theoretical framework, to examine the impact that Mexican institutional environment has over Finnish Foreign Direct Investments in Mexico.

2. To compare an emerging market´s institutional environment with the theoretical institutional framework.

The reason for studying Finnish FDIs in Mexico is the fact that Finland has a small domestic market, thus internationalization in emerging countries is an important strategy to expand a business. Emerging markets are becoming more and more important due to their size, market power, promising future and competitiveness. This study will help understand the decision-making, motives for FDI and performance of Finnish investments in Mexico. When comparing Finland and Mexico in statistics, Brazil will also be considered as it is the country with the highest FDI inflows in Latin America, thus its importance in this study. It is a good referral for the reader to understand that some companies may decide to choose to invest in Mexico in order to expand their business into South America.

The empirical part will be conducted by a qualitative study. The information will be gathered by interviewing Finnish executives working in a Finnish company operating in Mexico. The reason for this decision is because it is necessary to comprehend the situation of Finnish companies from the perspective of a Finnish outlook. If interviews were made to Mexican executives working in Finnish companies, the results of the study would not be coherent with the objectives of this study.

The theoretical part of this study has been gathered from books, literature and electronic databases provided by the library of the University of Vaasa. The electronic databases were EBSCO host (in its majority), ABI, and Science Direct.

1.3 Limitations of the study

The role of informal institutions is a topic that has been emerging during the last years, thus it has received limited attention. The scope of the study is limited to two countries, Finland and Mexico. Therefore only Mexican and Finnish interaction in investments will be analyzed. Consequently, a company's decision whether to invest in Mexico; will mainly be based on the Finnish companies' characteristics and motives for investing.

This study provides with a view on institutional environment from three different Finnish perspectives, thus a general conclusion about the effect of institutional environment cannot be reached. There is not any specific period of time in which the research is realized, nor there is a specific sector. The results will be examined from the perspective of different companies, all of them being from different industry sectors, different size of company and subsidiary age. The sample of the study will be small, thus a general assumption will not be able to make.

1.4 Contributions of the study

This investigation will provide new theoretical insight for Finnish MNEs willing to invest in Mexico. Mexico, a developing country, is an attractive for FDIs, but informal institutions play a decisive role as barriers for investors. This study will demonstrate how and to what extent Institutional Theory affects Finnish FDIs in Mexico. This study should expand the knowledge of the performance and strategies of FDI in Mexico. In addition this study might be useful as a guide for future investors in Mexico, to help them understand the factors influencing the flow of FDI. This research will clarify the role and influence of Institutional theories in order to achieve the best performance in spite of the constraints that might exist in the foreign country.

The findings of the study can also be beneficial for executives to identify the key factors to be taken into account when making strategic decisions concerning investment motives, management, integration, control, and decision making for establishment modes and ownership modes.

1.5 Definitions of key words

The following terminologies have been identified based on their importance for understanding the phenomenon of this study. The terms included are: Foreign Direct Investments, Institutional distance, institutions, formal institutions, informal institutions, emerging economy.

Table 1. Definitions of main concepts in the study

Key word	Definition	Source
Foreign Direct Investment	An investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise")".	OECD, 1996:7
Institutions	The humanly devised constraints that structure Human interaction.	North (1990: 3)
Institutional Distance	The construct that captures the differences between the institutional environments of two countries. The distance between institutions as perceived by one actor in relation to other actors in market networks and in relation to the institutional environments of the market networks.	Kostova (1999) Hansson, H. et al. (2009:5)
Formal Institutions	"Formal institution" refers to state bodies (courts, legislatures, bureaucracies) and state enforced rules (constitutions, laws, regulations)	Helmke and Levitsky (2003)
Informal institutions	"Informal institution" encompasses civic, religious, kinship, and other "societal" rules and organizations	Helmke and Levitsky (2003)
Emerging economy	Low-income, rapid growth countries using economic liberalization as their primary engine of growth"	Hoskisson et al., (2000: 249)

1.6 Literature Review

In this section, some of the most relevant and significant previous studies concerning Foreign Direct Investment and Institutional Theory will be presented in order to understand their nature as well as their relationship with FDIs. Studies and findings from the following authors will be presented throughout the research of this study. Dunning´s and North´s studies will be more deeply studied in this work.

Dunning (1993) Dunning's Eclectic Paradigm explains the internationalization of a company according to the ownership advantages (O), location (or country) specific advantages (L) and internalization (I).

North (1990) developed a framework for explaining how institutions and institutional changes affect the performance of economies. He discussed that institutions exist to structure the human interaction.

Scott, W. R. (1995) affirms that institutions are social structures composed of cultural-cognitive, normative and regulative elements that provide stability in society.

Peng (2003) made a study in which informal institutions and their interaction with formal institutions have an effect in organizations in emerging markets.

Helmke and Levitsky (2006) defined informal institutions as socially shared rules, usually unwritten, that are created, communicated and enforced outside officially sanctioned channels.

Hansson, H. et al. (2009) integrated the institutional theory with the internationalization process. They define institutional distance as *the distance between institutions as perceived by one actor in relation to other actors in market networks and in relation to the institutional environments of the market networks. (2009: 5).*

1.7 Structure of the study

The first chapter of the study –Introduction- starts with an examination about the background of the study. This review gives an overall of the study. The examination is then followed by the objective and research question. This chapter focuses on the key research concerns as well as on the limitations involved in the research. The important and contribution of this research is also addressed. This chapter continues with some clarification regarding the main concepts of the study and finally the most relevant studies with respect to the topic are shown.

The second chapter – Foreign Direct Investment- is the first of four theoretical chapters where an extensive review of FDI theory is analyzed. The focal point in relation to FDI will be establishment and ownership mode the motives, main motives and Eclectic Paradigm. This chapter aims to provide a general idea about how FDIs are created and implemented as well as to achievement of the theoretical objectives: To understand the main motives for Finnish firms entering the Mexican market.

The third chapter – Institutional Environment and FDI Establishment – discusses the institutional framework and the main types of institutions. This institutional view will provide the basic knowledge for the understanding of institutional distance, formal and informal institutions, among others concepts. This chapter will also analyze the impact that institutional environment has over FDI establishment. This chapter is crucial for the analysis of the empirical objectives.

The fourth chapter – Mexico as a target country for FDI- will focus mainly of the target country of the research study. The economic, political and cultural environment will be analyzed in order to understand the effects it has on FDI. Then, the management and performance of FDIs in Mexico will be assessed.

The fifth chapter – Empirical Research – will define the empirical study. This section will start by describing and explaining the data and process used in the study, such as sample characteristics, and allocation. Validity and reliability of the research will be stated in order to offer an unbiased approach. At the end, the results found in the empirical study will be analyzed and presented.

The final chapter –conclusions- will mainly discuss the theoretical framework together with the findings, to conclude the degree that institutional theory has over FDIs. Limitations regarding to the study will be presented as well as gap in the present study that will lead for the need to future research.

Table 2. Structure of the study

	1. INTRODUCTION • Background of the study • Objectives of the study • Limitations of the study • Contributions of the study • Definitions of key word • Previous studies concerning the subject • Structure of the study	
Theoretical Part	**2. FOREIGN DIRECT INVESTMENT** • FDI Establishment and ownership mode • Motives for foreign direct investment • Eclectic Paradigm Theory • FDI Impact and decision making	
	3. INSTITUTIONAL ENVIRONMENT AND FDI ESTABLISHMENT • Institutional Theory • Formal Institutions • Informal Institutions • Regulative institutions • Cognitive institutions • Normative institutions	***Theoretical objective:*** • To research formal and informal institutions and to understand their impact on Foreign Direct Investment. • To analyze the institutional environment of Mexico and FDI policies in order to understand their impact in Finnish Foreign Direct Investment.
Empirical Part	**4. MEXICO AS A TARGET COUNTRY FOR FDI** • Economic environment • Political and legal environment • Cultural environment	
	5. EMPIRICAL RESEARCH • Research method and process of the study • Validity and reliability • Findings of the study	***Empirical objective:*** • According to the theoretical framework, to examine the impact that Mexican institutional environment has over Finnish Foreign Direct Investments in Mexico. • To compare an emerging market´s institutional environment with the theoretical institutional framework.
	6. CONCLUSIONS • Summary • Future research	

2. FOREIGN DIRECT INVESTMENT

In this Chapter 2 “Foreign Direct Investment” will be explained deeply. The main motives for Foreign Direct Investment: Market, resource, efficiency and asset seeking will be analyzed, as well as the Eclectic Paradigm which clarifies the ownership, locational and internationalization advantages of an investment. And it will conclude with a short summery of the chapter.

2.1 FDIs and economy

There is a large compilation of research and theories regarding FDI that focus on motives for international expansion. In order to understand the process of firms expanding into developing countries, it is necessary to study how social factors influence the decision-making and performance of FDIs.

Formerly investments in developing countries were mainly driven by locational advantages, often related with natural resources. But, during the last decades foreign direct investment has been oriented to developing and emerging markets in order to enlarge demand, reduce production costs and to develop new technologies (Buckley, 1988).

FDIs play an important role in the development of developing countries. FDIs have an impact on the income, employment, prices, economic growth, and technology transfer of the host country. Despite some authors may argue that FDIs do not guarantee economic growth. (Trakman, 2010:5), there has been a vast research in the last years where FDI has been found to be an effective support for technology transfer and economic growth in developing countries. Lipsey (2002) concludes that there are positive effects, but there is not a consistent relationship between FDI stock and economic growth. Calvo and Robles (2003) studied the correlation between FDI and the growth rate of GDP. FDI is considered as one of the main channels of technology to developing countries (Borensztein et al., 1998). Borensztein considers FDI as a way to achieve technology spillovers, with huge contribution to the economic growth. Technology transfer is one of the most important channels through which foreign companies may impact positively in the economy of the host country. The reason is the high level of technology of developed MNEs, which is not usually available in developing countries. According to Bengoa M., and Sanchez, B. (2003: 531), FDI can affect not only the level of turnout per capita but also its rate of growth. It can be said that FDI impacts growth by increasing the country's productivity. In regards to technology, Findlay (1978) suggests that the capital in foreign-invested firms contributes to the technology improvement; as domestic firms have the opportunity to observe and understand the advanced technology implemented by foreign-invested firms, consequently increasing the domestic technology level grow. Afterward Wang (1990) carries on with Findlay's model and establishes a link between FDI and the growth of domestic human capital.

On the other hand, these studies contradict with some arguments from economics during the 1950s and1960s, where they stated that were harmful for the host countries, especially in Latin American. (Myrdal (1957) and Hirschman (1958)). But as shown above most empirical studies conclude that FDI is partly responsible for the productivity factor and growth in the host country.

Commonly developing countries lack the indispensable framework (infrastructure, liberalized market, economic and social stability, etc.) that is fundamental for the creation of innovations and improvements that will lead to the progress of the country. Thus, it is essential for them to benefit from the technology coming from abroad. This is an attractive opportunity for FDIs to take place as developing countries may be deficient or may be in need of new technology and resources, hence they will benefit the economic growth. Meanwhile FDIs also benefit the host country through spillovers. Walz (1997) suggests that the presence of foreign-invested firms in developing countries carries knowledge spillovers to the domestic R&D sector, consequently contributing to the economic growth. Moreover, positive spillovers occur when host governments implement policies aimed at increasing indigenous technological capabilities (Barclay, 2004). On the other hand there are several studies that demonstrate that there is no direct link with FDI and economic growth. (Germidis (1977), Haddad and Harrison (1993), Aitken and Harrison (1999)).

Overall, for FDI to promote long-term economic growth it must lead the country to adopt policies that are conducive to economic growth (such as encouraging human capital investments) or policies that facilitate technology transfer. (Zhiqiang, 2008:191). FDIs can benefit the progress of a country, but this progress will depend directly on specific factors, such as the host country, the nature and size of the investment, the entry mode, etc.

It is also necessary to mention that investors acquire new capabilities, skills, learn from the host country, all these factors will help them develop new capabilities in future investments as well as it will change the way a firm decides its ownership position when making new investments.

Table 3. Previous studies regarding FDI

Caves (1971, 1996)	Considers that the efforts made by various countries in attracting foreign direct investments are due to the potential positive effects that this would have on economy. FDI would increase productivity, technology transfer, managerial skills, knowhow, international production networks, reducing unemployment, and access to external markets.
Hymer (1976)	The firm’s decision to invest overseas is explained as a strategy to capitalize certain capabilities not shared by

	competitors in foreign countries
Dunning (1977 1981, 1988, 1993)	The propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country
Buckley (1988) **Buckley and Casson (1976, 1985)**	Internalization theory states that firms will gain in creating their own internal market such that transactions can be carried out at a lower cost within the firm.
Lipsey (2002)	Argues that FDI has been the most dependable source of foreign investment for developing countries
Benito (2005)	Studies foreign direct investment, the structure and behavior of multinational enterprises and their foreign subsidiaries, and foreign operation methods.

Firms can access foreign markets through licensing, exports, Greenfield investments, acquisitions, or strategic alliances. The establishment mode to be preferred is chosen entirely upon the characteristics of the company, type of the investment, location, the needs and resources.

A firm that decides to expand its business abroad has two distinct options of serving in foreign markets: exporting or producing locally (foreign direct investment). If the firm decides to produce locally, it can choose between building its own facility (Greenfield investment) or to acquire an existing firm (acquisition).

No matter what kind of establishment mode the company decides to establish, in general it can be said that foreign investors are influenced by the ease of their operations to be integrated abroad (globally), the profitability and the quality of the host country's environment, which is being studied and researched in this study.

2.2. Motives for foreign direct investment

FDI theories consider four types of motives for engaging in foreign operation. These motives are: market seeking, resource seeking, efficiency seeking, and the last motive asset seeking, which was introduced by Dunning in 1993, after several criticisms to the Eclectic Paradigm.

2.2.1 Market Seeking

Firms decide to engage foreign operations in order to accumulate assets in foreign markets. There are several factors that lead companies to seek for new markets. A strategic location is necessary to have a strong and close physical presence in the market, as well as to have a leading market compared to the competitors. Besides, production facilities that are closely located will avoid and reduce costs of supplying to distant areas. According to Dunning (1993:58) there are certain firms that invest in a specific country or region to supply goods to these markets or nearby countries. The reason is that from a near facility, production and transaction costs are minimized. So, in order to reduce costs the best option is to be located close to the manufacturing, supplying facilities, costumer's relationship, etc. One main reason for this is the tariffs or barriers imposed by the host country, which increase the cost of operations. By expanding their portfolio location, companies may strengthen existing markets as well as access to new markets. Companies increase their market share, market growth and accelerate the mobility of activities.

Another reason for market seeking is the need for adaptation to local needs. Firms need to become familiar to the local characteristics and procedures existing in the host country. As mentioned previously, there might be barriers such as government regulations, taxation laws, or trade blockades that may drive companies to relate their production facilities. Hence, an efficient environment with more openness to trade is likely to attract foreign firms.

2.2.2 Resource Seeking

Firms seeking for resources aim to access to particular resources in the host country that are not available in their home countries and at lower cost levels. According to Dunning (1993:57) firms invest abroad to acquire specific resources, by seeking cost advantages in the host-country, for example, through lower costs or by the availability of natural or raw materials.

Less developed economies are characterized by having cheaper labor cost, lower cost structures and often-valuable incentives for foreign investors. One of the main factors for engaging in resource-seeking investments is the minimizing of production costs as well as to become more profitable and competitive in the market. There are different types of resources: physical resources such as raw materials and agricultural products. Another type of resources is the unskilled or semi-skilled workers, which generally reduce the cost as the manpower is cheaper than in their home country. MNEs strategy with high labor costs is to make acquisitions in countries with lower labor costs in order to reduce costs. Together with this, companies need to acquire technical capabilities, marketing and management experience from the host country.

2.2.3 Efficiency Seeking

Dunning (1993) states that efficiency seeking FDI takes place when firms "take advantage of differences in the availability and costs of traditional factor endowments in different countries"; or "take advantage of the economies of scale and scope and of differences in consumer tastes and supply capabilities" (Dunning, 1993: 60). This assumption explains the reason why companies share production activities in both developed and developing countries. Developed economies offer higher value capital, and technology, whereas developing countries are characterized by their low labor costs and natural resources. The major benefits derived from utilizing efficiency-seeking FDIs are especially those of economies of scale and scope, which come from product and geographical concentration and from process specialization. The motivation of efficiency seeking operations is to concentrate their production, distribution and marketing activities among geographically dispersed operations.

2.2.4 Asset seeking

Despite of the large number of studies related to FDIs there is not one absolute theory to be “true”. But, Dunning’s theory (1993) has become the most common study regarding the determinants of FDI. The eclectic paradigm has remained a dominant analytical framework used to test economic theories of the foreign direct investment (FDI). According to Margardt (2007) Dunning´s eclectic paradigm is one of the most beneficial approaches to explain the process of internationalization and international production.

Conforming to Dunning (1993) there is a group of MNEs that operate in FDI usually by acquiring the assets of foreign corporations and to promote their long-term strategic objectives – especially that improving their international competiveness.

The motives for strategic assets seeking investment is less to exploit specific cost or marketing advantages over the competition than increasing the acquiring firm´s existing portfolio of assets, which will empower their competitive position or vice versa, weaken the position of their competitors. The strategic asset’s objective is to capitalize the benefits and capabilities of the ownership. When investing, the majority of companies expect the project will bring some benefits to the organization such as lowering the transaction costs, developing R & D and better risk spread. (Dunning 1993)

2.3 Eclectic Paradigm Theory

The Eclectic Paradigm (previously called Eclectic Theory and developed by Dunning (1977) is a combination of various theories on FDI, where the motives of international production are presented, thus becoming a good foundation for the understanding of FDI flows. It is the most common research tool for analyzing the determinants of FDI. According to Dunning, international production is the result of a process influenced by ownership advantages, internalization and localization advantages.

The intention of the Eclectic paradigm was to "offer a holistic framework by which it was possible to identify and evaluate the significant factors influencing both the initial act of foreign production by enterprises and the growth of such production" (Dunning 1988). This framework intends to explain why firms undertake international production, where the most suitable production place would be and how and why multinationals could earn superior profits in the host countries. Thus, it is stipulated that there are three essential factors that must be present for a FDI to take place. These factors are ownership (firm-specific) advantages (O), internalization advantages (I) and location-specific advantages (L). The presence of these factors need to be satisfied at the same time, otherwise the absence of any factor will interrupt the investment.

Principally the OLI framework can provide an understanding of international production and behavior of firms in explaining the rationale behind international production and organizational activities. Subsequently, if a firm does not possess internationalization advantages nor location-specific advantages, the firm will be in a more advantageous position by contracting (licensing) its expansion. Moreover, if a firm possesses all essential factors but lacks advantages for locating in a particular country, it would not be profitable to establish a subsidiary abroad. Then, in accordance with this schema only those firms possessing ownership, internalization and location-specific advantages may be more liable to expand to a foreign market through foreign direct investment.

Despite the acceptance of the theory, this paradigm has been revised and gone through several changes over time due to several critiques and suggestions. It was first presented

in 1976. Until 1988, Dunning was dealing only with international production. According to Pedersen "the downside is that OLI is assumed to explain just about anything by merely adding an extended set of variables" (Pedersen. K. p. 12). One of the criticisms has been the broad and loose structure and whether the three advantages are independent and if they are necessary for an investment.
Another criticism is regarding the ownership advantages due to the lack of attention for behavioral variables. There is also criticism for the absence of latitude for managerial discretion in the decisions (Johansson and Vahlne 1990). Managerial strategies play a decisive role as they provide tools through which firms respond and control to the market, and technological and social political environment. As a result of these criticisms, an improved version was proposed by Dunning (1993), where the asset-seeking factor was incorporated. Lately, there have been several changes made to the paradigm.

2.3.1 Ownership advantages

Ownership advantage (O) claims that firms seeking to engage in FDI activities must possess ownership assets, which can be tangible or intangible. These assets will then provide a competitive advantage over the rest of the firms. Hence, the greater the competitive advantage of the investing firms, the more likely they are to engage or increase their foreign productions (Dunning,1993). The paradigm distinguishes two ownership advantages: asset advantages (Oa) and transaction cost minimizing advantages (Ot). (Dunning, 1983a,). The most common Oa advantages are the possession of firm-specific technology, patents, management knowledge, manpower, capital and product differentiation through brands names or advertising (Dunning 1980).

The Ot advantages correspond to the ability of firms to capture transactional benefits from the common administration of interrelated assets located in several countries. These advantages develop from the firm's ability to co-ordinate multiple and geographically dispersed valued added activities and to capture the profits of risk diversification' (Dunning 1993a:80). Ot advantages mainly evolve from firm size, product diversity, learning experience and synergistic economies in production, purchasing, marketing, research and development, finance and transportation. Thus these advantages are related to the benefits of economies of scale and scope and to those of specialization in differentiated products (Dunning 1993).Firms are able to develop and increase their production stability, their opportunities to take advantage of geographical differences and their ability to reduce risks. Moreover, firms can generate new ownership advantages. These advantages can be externally created by acquiring a domestic or foreign company, to such degree that new resources will give additional O advantages.

2.3.2 Locational advantages

Location- specific advantages refer to those factors that determine the particular location of an activity. They also help increase the capability of firm to engage in a foreign production. The ownership advantages should be used in combination with the location advantages of the host country to maximize production benefits. There are several numbers of location-specific advantages that have a powerful effect on the tendency of firms to engage in foreign production and the location of a particular activity. The most frequently locational advantages are market size and growth, factor endowments, sources of supply, transportation costs, trade barriers and physical distance. (Ekström, 1998), (Caves 1996).

Locational advantages are related to several factors in economic, cultural, legal, political and/or institutional environments across locations. (Dunning, 1988). These advantages include not only factor endowments but also a number of locational advantages derived from spatial (or structural) market failures, such as restrictions on trade, and from transactional market failures (Dunning 1988). Thus market failures will have an association with transfer costs across borders, such as tariffs and non-tariff trade barriers, which may create advantages or disadvantages for operating in a particular location. Hence, these locational factors might affect the costs and/or revenues of the firms depending on the location of production. They can either favor the home country or the country location of the production. Firms can also operationalize their ownership advantages in their foreign locations by internalizing them.

It is necessary to mention, that despite the close relationship that exists between ownership and location advantages the location decision can be dependent on ownership advantages in order to acquire new ownership advantages by establishing production in specific locations. Or production locations might influence the ownership advantages associated to the location factors, for example multiple geographical operations, production flexibility, diversification and firm-level economies of scale and scope. (Dunning 1993).

2.3.3 Internalization advantages

The internalization factor (I) explains the firm’s propensity to internalize cross-border structural or endemic imperfections in the intermediate goods market (Dunning and Lundan, 2008).Internalization advantages exist when the costs from the O advantages are higher if they are transferred across borders within a firm's own organization, rather than if they are sold in the external market (Dunning,1993). Thus, O and I advantages are closely associated with each other. Furthermore, firms internalizing their ownership advantages in foreign locations may also create or acquire new O advantages within this process and expand the advantages of internalizing. According to the OLI paradigm firms internalize to utilize market failures, but they also internalize in order economize on transaction costs and to capitalize on the O advantages.

2.4 FDI, an important form of capital flow

FDI has an impact on a country's trade balance. It increases the transfer of technology, improves the standards and skills of labor and innovative ideas and determines the development of the general business environment and structure.FDI has become the most important form of capital flows to developing countries and it is the fastest growing component of capital flows. Development in emerging countries is also associated with a more open economy and a higher level of FDI. They serve as an engine of growth by supplying new capital, transferring technology and managerial know-how, marketing skills, organizational efficiency and focus on profits.

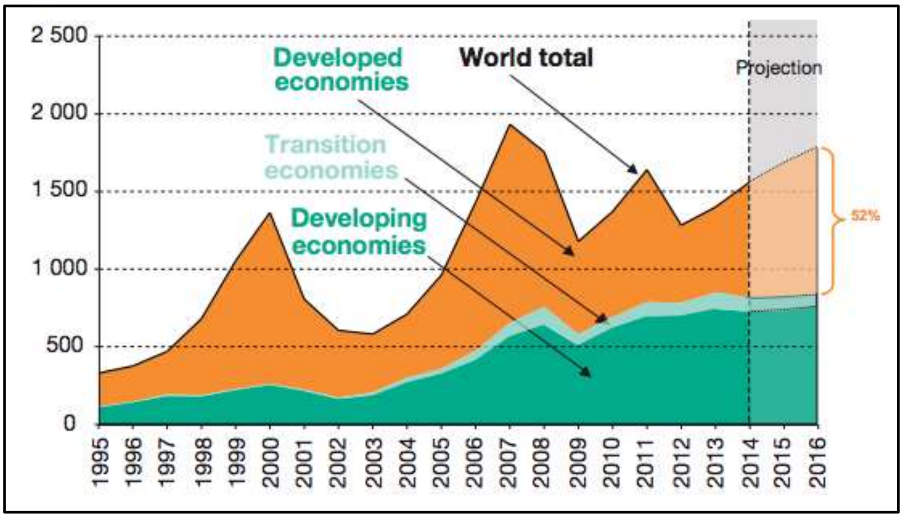

Figure 1. FDI inflows, global and by group of economies, 1995–2012 (Billions of dollars) (UNCTAD (2014)

FDI flows to developing economies proved to be much more resilient than flows to developed countries, recording their second highest level – even though they declined slightly (by 4 per cent) to $703 billion in 2012. They accounted for a record 52 per cent of global FDI inflows, exceeding flows to developed economies for the first time ever, by $142 billion. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: 9 of the 20 largest recipients were developing countries. (UNCTAD, 2013)

Foreign direct investment (FDI) overview, selected years

(Millions of dollars and percentages)

FDI flows	2005-2007 (Pre-crisis annual average)	2011	2012	2013	2014	as a percentage of gross fixed capital formation 2005-2007 (Pre-crisis annual average)	2012	2013	2014
Mexico									
Inward	**26 012**	**23 376**	**18 951**	**44 627**	**22 795**	**12.4**	**7.2**	**16.8**	**8.4**
Outward	***6 830***	***12 636***	***22 470***	***13 138***	***5 201***	***3.3***	***8.5***	***4.9***	***1.9***
Memorandum									
Argentina									
Inward	5 759	10 840	15 324	11 301	6 612	10.9	14.7	10.7	7.1
Outward	*1 751*	*1 488*	*1 055*	*1 097*	*2 117*	*3.3*	*1.0*	*1.0*	*2.3*
Brazil									
Inward	22 824	66 660	65 272	63 996	62 495	11.5	13.4	12.8	13.3
Outward	*12 595*	*- 1 029*	*- 2 821*	*- 3 495*	*- 3 540*	*6.3*	*- 0.6*	*- 0.7*	*- 0.8*
Central America									
Inward	31 753	31 998	28 004	55 399	33 416	13.7	9.3	18.0	10.7
Outward	*6 923*	*12 897*	*22 922*	*13 922*	*5 929*	*3.0*	*7.6*	*4.5*	*1.9*
Latin America and the Caribbean *									
Inward	88 473	163 868	178 049	186 151	159 405	13.7	14.6	15.1	13.5
Outward	*27 932*	*36 490*	*43 847*	*28 466*	*23 326*	*4.3*	*3.6*	*2.3*	*2.0*
Developing economies *									
Inward	420 866	639 135	639 022	670 790	681 387	11.7	7.8	7.6	7.4
Outward	*193 977*	*357 570*	*357 249*	*380 784*	*468 148*	*5.4*	*4.4*	*4.3*	*5.2*
World *									
Inward	1 397 430	1 563 749	1 402 887	1 467 233	1 228 263	11.4	7.9	8.0	6.5
Outward	*1 423 430*	*1 587 448*	*1 283 675*	*1 305 910*	*1 354 046*	*11.6*	*7.3*	*7.1*	*7.2*

Figure 2. Foreign direct investment (FDI) overview (UNCTAD, 2015)

The previous figure shows the inward and outward FDI flows occurred between 2005-2014 in Mexico, Argentina, Brazil, Central America, Developing economies and in the world. It clearly shows in the case of Mexico how inward flows are much higher that outward flows, except for 2013. This is a positive sign for inward investment flows. It can also be seen that Brazilian flows are higher than in Mexico, being Brazil the first country in Latin America with the highest FDI inflows.

Table 4. Market Classification: Developed and Emerging markets (MSCI)

MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX		
DEVELOPED MARKETS			**EMERGING MARKETS**		
Americas	**Europe & Middle East**	**Pacific**	**Americas**	**Europe, Middle East & Afica**	**Asia**
Canada United States	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom	Australia Hong Kong Japan New Zealand Singapore	Brazil Chile Colombia Mexico Peru	Czech Rep. Egypt Greece Hungary Poland Qatar Russia South Africa Turkey United Arab Emirates	China India Indonesia Korea Malaysia Philippines Taiwan Thailand

The following figure shows the top host economies for FDI inflows. From the top 10, Brazil ranks number 7, while Mexico ranks number 10. Therefore, Brazil is host economy with the highest inward flows in Latin America. Brazil remained the region´s leading FDI target with flows amounting to $62 billion, only down 2 per cent. (UNCTAD 2015)

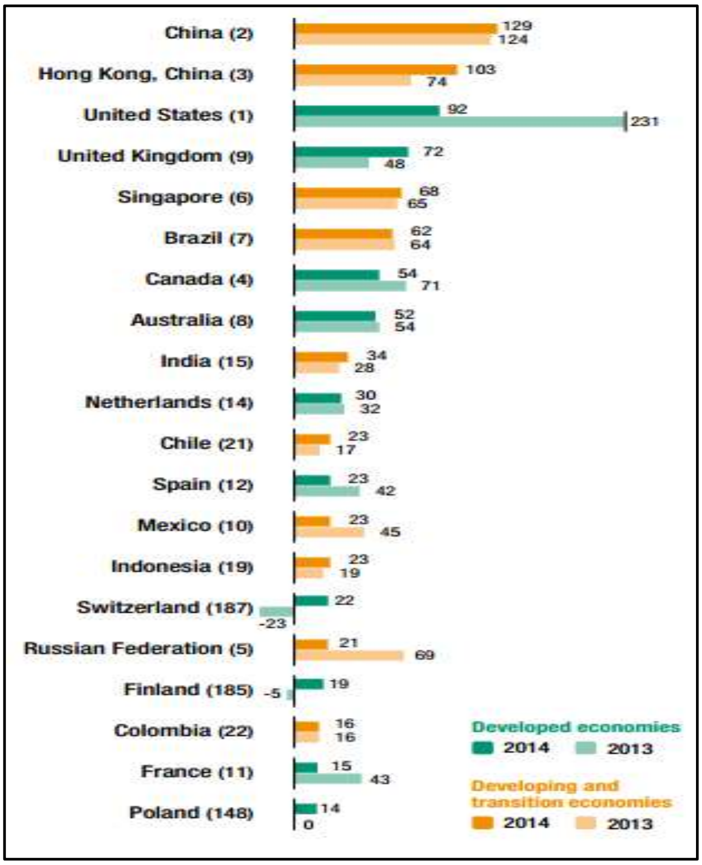

Figure 3. FDI inflows: top 20 host economies, 2013 and 2014 (Billions of dollars) (UNCTAD 2015)

FDI intensifies the firm value and performance when investments are made by entities with superior internal resources and capabilities. Firm value depends on the quality of decision-making by the board of directors. At the same time, when expanding their companies, managers should take into account market uncertainty and competitive pressures (Chang and Rhee, 2011). When making decision in regards to future investments, top executives and managers must have a common interest and perspective in order to enforce their strategy and make sure the acquisition planning and performance will be satisfactory.

A firm first must know what it is looking for in an acquisition or project. Having a full and open analysis of these criteria allows for a better debate and consensus to arrive to a decision. Applying these criteria will increase the likelihood of selecting the best establishment, the best location and the best components for a productive investment. Rather than one that will just make an acquisition for the purpose of doing a deal. According to Mintzberg et al. (1976) any decision-making process in three major phases: identification of an idea, its development, and selection that includes the authorization given for that idea.

During the investment decision process, investment opportunities will be identified as well as the risk profile for the investment. During this phase FDI main macro-elements such as the political risk of the host country, the country's overall demand for the product or service (based on the market size and the national income) have to be researched and analyzed. Also at this stage, the company makes the first contacts with partners or agents from abroad.

This phase of investigation and data collection is perhaps the most important stage of this decision process because this information is key to the decision (King, 1975). Information about the economic, political and market environment, as well as prospective partnerships, is important in order to examine whether a project fits the corporate strategy for expansion and to estimate future demand for the company's products. Risk analysis is an important element in making any strategic investment decision. Political risk is also a key determinant of undertaking any FDI investment.

Successful acquirers know what they are looking for and know how to implement their planning carefully. Their deep screening of the whole acquisition process, strategic and financial criteria, and business and cultural environment, helps them make a thorough assessment for the best decision making. It is fundamental to understand the synergies between all actors in the investment phases, planning, implementation and performance. The more unified actors are the more focused they can be in realizing their objectives.

When managing the dealings, partners enter to a world of different mindsets, perspectives and ideologies, especially when the cultural distance of the countries is high. It is fundamental that organizations create and develop managerial practices, which will help and ease the establishment, and management and performance of the investment as well as to establish methods that suit the institutional environments where the investments are being made.

Institutional differences that are encountered between the investor and host country affect the transfer of knowledge and practices internally and externally as well as their legitimacy. Thus all these aspects must be studied carefully when creating business strategies in order to minimize the risk of transactions costs and fail. (Meyer, 2001). The more difference the company has with the host economy, the more difficult the adaption will be. In order to reduce the effects of distance and cultural and environmental distance, multinationals can develop some familiarity with the local environment through a process of acculturation (Shenkar, 2001). But before getting involved in the cultural context, they must do a thorough research regarding the market where they will operate. Planning before investing must be carefully executed as institutional settings may influence to some extent the internal processes and cross-cultural practices and operations which will be implemented. All these must be totally allocated with the location in order to minimize costs and improve productivity.

According to Henisz (2002), companies that have already experienced the process of local adjustment in similar cultural environment, are expected to create more easily capabilities that will smooth the process of acculturation. Therefore, for companies investing in a known or similar environment will be encountered with fewer obstacles during the implementation and management of the investment.

2.5. SUMMARY

As discussed FDI theories posit four types of motives for firms to engage in FDI. Market seeking investment may be undertaken to sustain or protect existing markets or gain bigger size of market and market growth or customers have set up foreign producing facilities and therefore firms have to follow them to overseas. Other market seeking motives is that the production and transaction costs are less than supplying it from a distance.

The investing firm needs ownership advantages; specific assets to obtain a competitive advantage over local competitors. They include property rights and intangible assets; named Oa advantages, as well as advantages arising from common governance, named Ot advantages. Oa advantages include advantages due to abilities that facilitate the generation of new assets, especially knowledge.

Developing countries are increasing their economies due to the rising FDI. The impact of FDIs in the outward country as well as on the host country, especially host developing countries, helps improve the economic development. For the countries of origin, the main questions are concerning the exports of capital, technology and other resources that can bring benefits to the firm.For the host developing countries of FDI, the main issues refer to what extent such FDI improves the capital and other resources available for development, and whether the benefits and costs of such will have a positive or negative impact. Analysis and exploring the whole process and benefits of how FDI affect the countries of origin and the host country is a complex task where there are many factors involved for the decision making, since the characteristics of FDI vary across countries and industries.

FDI involves long-term business-to business relationships, the basis for which is ownership and the control and division of assets. FDI has important benefits for the wellbeing of a country, from creating opportunities for financial inflows, creation of employment, and the transfer of fixed assets, technology and know-how to the domestic market.

3. INSTITUTIONAL ENVIRONMENT AND FDI ESTABLISHMENT

This chapter three “Institutional Environment and FDI establishment” presents a broad understanding of the different types of institutions existing in our societies and the role these institutions play in the FDI establishment. Due to effect institutions have in the reasons and motives for countries selecting a specific location, the relationship between international expansion of firms and the institutional environment of host countries will be researched throughout this chapter. The objectives of this chapter are to research formal and informal institutions and to understand their impact on Foreign Direct Investment and to analyze the institutional environment of Mexico and FDI policies in order to understand their impact in Finnish Foreign Direct Investment.

3.1 Institutions

Whether a multinational firm is looking for expansion abroad or its looking for new or existing resources, the firms will always encounter similar or different institutional environments which might affect their planning, performance, and management depending on several factors such as previous experience, the understanding of the host country`s legal, political, cultural system, among others. According to Joskow (2008), we can classify institutions as being legal, political, economic and social institutions but classification on the degree of formality is the simplest, as there are two distinct groups: formal and informal institutions. This is the most common and widely used definition of institutions, which is attributed to Douglas North. He defines institutions as formal and informal rules of the game, and their enforcement characteristics (North, 1990). This is the reason why this study focuses only in formal and informal institutions.

There is also another equally important definition for institutions by Ostrom (1990):”Institutions” can be defined as the sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided, and what payoffs will be assigned to individuals dependent on their actions.

It has been demonstrated that the quality of institutions is an important determinant for FDI, especially for less-developed countries. Poor quality of institutions, and poor infrastructure increases the costs of doing business and consequently diminishes the FDI activity and performance in the market. It is known that firms' performance suffer when they fail to adapt to foreign environments. Therefore the need for understanding the host´s environment. Institutional theories are controversial due to the difficulty of having accurate measurements of institutions. The complexity of the MNE environment is reflected in the multiple domains of the institutional environment and in the multiplicity of institutional environments faced by MNEs' (Kostova and Zaheer, 1999: 70).

Even though institutions play a prominent role in the location decisions of foreign investors, research on FDI has typically being emphasized in the market, for example labor costs, market size, and growth, rather than other institutional factors. According to Meyer (2001), there is a limited theoretical and empirical research applying an institutional framework in developing countries. From this, the importance and relevance of a more deeply study in institutions, especially in developing countries, to understand their impact and effect on FDIs.

A country's institutional environment is the set of political, economic, social and legal assets that establish a basis for production and exchange. Institutions are driving forces in a society that create human interactions, providing and implementing rules and mechanisms (North, 1990). By implementing rules and mechanisms they control possible outcomes in the society, and they also allow economic transactions to take place in an orderly manner. For external agents such as investors, consumers, entrepreneurs, etc., efficiency of institutions is decisive, as they can know that the decisions they take and the contracts they make will be protected by law, and enforced.

Institutions play a fundamental role for investments. Stable, reliable and capable institutional frameworks will allow any country to have a better economic maturity and larger growth of markets. Good governance of institutions can provide economic stability. Social institutions influence managerial actions through a variety of processes, previous research and theory often begins with the assumption that institutions fit neatly into a typology, with each type having a unique process of affecting outcomes. As stated by Meyer (2001) and Peng (2003) multinationals have to adjust to the institutional environment of each country where they operate, and the more the foreign environment contrasts with the multinational's home, the more challenging it is to adapt to the host country. Institutional differences affect investor's internal transfer of knowledge and practices, thus influencing on business strategies (Meyer, 2001).

The concept of "distance", between operations across countries is determinant for explaining business strategies, operations and perhaps some obstacles that might appear when investing abroad. In previous years, Johanson and Vahlne (1977:24) have defined psychic distance as the "sum of factors preventing the flow of information from and to the market". These definitions included differences in language, education, business procedures, culture and industrial development. But later on Hofstede (2005) introduced a concept for national culture, measurable into four dimensions, (Power Distance; Individualism/Collectivism; Uncertainty Avoidance; Masculinity/Feminity), which became the basis of his definition of culture for each country.

Institutional distance is defined as the difference/similarity between the regulative, cognitive, and normative institutions of two countries. (Kostova, 1996). The larger the institutional distance is, the more difficult for a MNE to establish legitimacy in the host country (Kostova and Zaheer, 1999) and to transfer strategic organizational practices from the parent firm to the foreign subsidiary (Kostova, 1999). The adaption of entry strategies, organizational forms, and internal procedures to manage these differences have to be set (Kostova and Roth, 2002).

Lately, institutional distance and environment has been researched more deeply as it mainly concerns companies that operate in emerging countries due to the difference of regulatory or legal systems that can be less efficient or with more bureaucracy, market transactions and ideological and different ways of doing business, which can slow or even inhibit international affairs. All these aspects will be a factor of challenge for countries wanting to establish their premises in developing countries, whereas for a developing country it might be easier as it will not struggle with bureaucratic systems or inefficiencies. On the contrary, it might be expected that the more distant a company is from the host country the more differences in culture, regulations, and organizational practices. Therefore, the more difficulties and obstacles the company will have to deal with. This will also be affected by previous investments that the company might have already had in the same or similar host country.

As mentioned earlier, a nation's institutional environment is the set of political, economic, social, and legal conventions that establish a certain basis for production and exchange (Oxley, 1999). And according to Scott, institutions are "social structures that involve more strongly held rules supported by more enriched resources" (Scott, 2001). The main similarity between Oxley and Scott is that Institutions are a set of social elements created and developed as social structures, by individuals who are part of a society. Each group of people, it could be either a country, a small town, a school, government institution is a set of structures which humans create, develop and organize for their own social structure.

In theory, all institutions are considered to be legitimate processes and structures in institutional environments. When we speak about legitimacy we refer to a process or structure that is legal because it meets the specific requirements of the law. Shortly we will explain the reasons and consequences of institutions not being completely legitimate. Legitimacy can only be reached when institutions are guided by institutionalized standards, rules, and requirements, which are the main characteristics of institutional environments. Rules, standards and requirements are built into the society and are put into action by individual actors present in the institutional environment.

According to Bevan, Estrin, and Meyer (2004) institutions play a prominent role in the location decisions of foreign investors. Prior to making an investment abroad, investors have to research regarding the new location, such as labor costs, market size, growth, political barriers, legal systems, etc. Institutions as said previously, make up the constraints and incentive system of a society, providing rules and mechanisms, which will later on help and/or limit the options for future investments in specific locations, and affect predictable incomes. The whole panorama of institutions must be studied and analyzed deeply and carefully during the planning of the investment, as the nation's profile definitely will affect on the managerial actions and the way of doing business in a particular location and industry to enter.

The major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction (North, 1990:6) . North defines institutions as "the humanly devised constraints that structure human interaction" (1990: 3), which include formal rules (laws, regulations) and informal constraints (customs, norms, cultures). Scholars across different perspectives have defined institutions depending on their disciplines. For example, to operationalize institutional distance, international economics researchers have been interested in differences in formal institutions (Williamson, 2000). By contrast, those taking a more sociological approach are inclined for the regulative, normative, and cognitive components of institutions Therefrom the necessity to expand over the differences between formal and informal institutions. The main differences between these institutions will be presented promptly. Having international experience can lower a firm's liability of foreignness (Hymer, 1976) by developing the outlook regarding its institutional knowledge, culture, language and characteristics that compose the local environment. Preceding international experience in the host country will help to create new and strategies that will improve the management and performance of the company.

It has been found that the decrease in the liability of foreignness has particular performance benefits. Li (1995) and Delios and Beamish (2001) have found a positive relationship between experience and survival. Experience with previous investments and similar environments, will provide knowledge that will be useful for future projects as it provides resources by which the company's competences can be adapted to the new environment.

3.2. Formal Institutions

According to the Oxford Dictionary, the word “formal” means: “Having a conventionally recognized form, structure, or set of rules”. Therefore, formal institutions are the set of institutions, which are legally introduced, established and enforced by the government. The structure and operations of the institutions are based on state institutions (courts, legislatures, bureaucracies) and state rules (laws, constitutions, regulations), which are transmitted and supervised, by the state. (Helmke and Levitsky, 2006)

Changes in the country’s legislation, or changes in the ruling party, can have a great impact on a country’s economical and institutional environment, which will have an effect in the investor’s perception regarding the country. Thus, the importance of political institutions that govern the country. Governments with transparent and reliable information and management, will provide confidence to potential investors as they know their money will be invested into profitable ventures and that their decision making will be respected and executed as informed.

Political distance refers to differences in governmental and political institutions (Perkins, 2009). Political and governmental institutions are an important factor when investing, especially in developing country. These institutions may reduce transaction costs by improving the security of property rights and contracts. However, governments can also be ineffective in these tasks and, in some cases may even be the main threat to the application of property rights and contracts. It is important for firms to understand in advance how the political environment will affect their operations and strategies and to what extent the transaction costs might be affected. The greater the political distance foreign firms face, the more difficult it becomes for them to anticipate changes in the host country and to operate effectively (Gaur and Lu, 2007).

The political risk is the risk that is correlated with a country’s politicians and their decisions regarding the governance of a country. For instance, politician’s attitude to investments will affect the decision of future investors and strategies.

Changes in government policy and/or political institutions could also affect investment behavior of multinationals. Political risk influences decisions regarding investment projects and location decisions. Political risk is related to the risk that a sovereign host government will unexpectedly change “the rules of the game” under which businesses operate. (Busse and Hefeker, 2007: 399) The political risk is also linked to the quality of political institutions and the quality of the bureaucracy is also associated with the institutional strength of the country. In addition, ensuring laws and orders and reducing corruption levels are important factors for high-quality institutions. They will constitute a crucial unit for the assessment of “good governance” (Kaufmann et al., 1999).

Political risk is an important factor when deciding on investing abroad, as the coefficient suggests that countries a higher political risk attract less FDIs. (Jun and Singh, 1996). In the same matter, Gastanaga et al. (1998), have found that there exists a link between several political variables and FDIs. Lower corruption and nationalization risk levels and a good administration of contracts are associated to a higher number of FDIs.The political risk of a country comprises several elements such as government stability, socio-economic conditions, military role in politics and the quality of law and rules that exist in the existing country. All these components are linked to the quality of political institutions; consequently, all these institutions constitute a complete assessment of good governance (Kaufmann et al., 1999).

The degree of formality in the institutions can be seen in their strength such as impartial and transparent legal system, which will tend to protect and attract a higher number of FDIs as it provides a sense of trust and confidentiality to the investor.

In the following figure we can find the most important motives that drive FDI into developing countries. According to the Multilateral Investment Guarantee Agency (MIGA), macroeconomic instability and political risk are the most important constraints to FDI in developing economies. This graphic shows the huge importance and effect that political risk has over the decision for investing abroad.

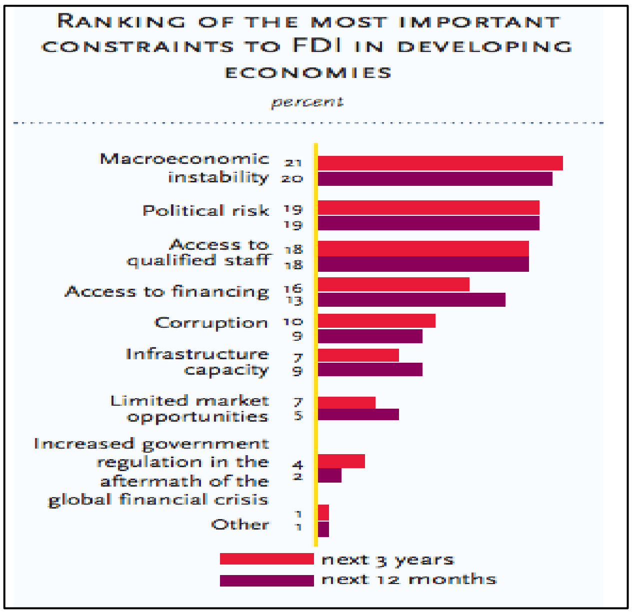

Figure 4. Ranking of the most important constraints to FDI in developing economies (MIGA- World Investment and Political Risk 2013)

3.3. Informal Institutions

The role of informal institutions is quite significant in both developed and developing nations but in developing countries institutions play a major they are a behavioral regularity based on socially-shared rules, usually unwritten, that are created, communicated, and enforced outside of officially-sanctioned channels (Helmke and Levitsky, 2003).

Informal institutions are sometimes misinterpreted with weak institutions or informal organizations. For this reason, it is necessary to mention that an informal institution does not mean a weak institution or that there is weakness in a formal institution. Nor that informal institution is a synonym of informal organizations. Institutions are the underlying rules of the game while organizations such as family farms are agents of institutional change (North 1990).

After having set these misunderstandings it is also fundamental to explain why informal institutions exist. When formal institutions are incomplete or institutions are not competent enough to achieve their tasks or to set rules for behaviors in a society, then informal rules are created due to these inefficiencies. Consequently for some societies, such as some developing countries, informal institutions have become a strategy for achieving the resolutions, which are not possible to achieve through formal institutions. Informal institutions are made up when formal institutions are ineffective in practice and because they lack power and credibility, despite of their legal existence. Or in some cases it is simply impossible to change the formal rules due to lack of power or because it is less costly than creating or modifying formal institutions.

To comprehend the reasons of informal institutions might be understood through the history, economic, political and cultural environment of a country, but the origins are often unclear as it is a complex process which involves many actors and the rules evolve and change constantly. Thus, the type and degree of informal institutions in a country may ease or interrupt activities by the increment or decrease of transaction costs because time, resources and information is costly. (North, 1990).

Informal institutions play an important role in the management and performance of economic activities by means of processes of trust, business networks and reputations. Individuals will be more likely to work and to share information with people close to them and to whom they trust. Therefore, high existing relationships of trust will help reduce the transactions costs of the business but on the other hand lack of trust, poor institutions and corruption can bring additional costs (Wei, 2000).Even though formal institutions should in theory have more weight due to their legal legitimacy, in some developing countries, informal institutions play a higher role than the formal ones, this due to the weakness of the regulations, poor legal systems and poor execution of laws in the society.

Informal institutions as mentioned earlier can inhibit the inflow of FDIs, therefore governments create strategies and incentives to attract multinationals. For example in developing countries a popular tax incentive is a reduction in the corporate income tax rate, through tax holidays (Morriset, 2003). The economic freedom and open markets toward investment have made change many countries towards globalization. As stated by Scott (1995), institutional environments are comprised by three types of institutions (called “pillars”). These "pillars" are: regulative, normative and cognitive. These three pillars provide "related but distinguishable bases of legitimacy" (Scott, 1995: 47).

In the international arena, these three pillars, influence on the plans of actions, management and operations multinationals develop in a host country where rules, norms and cognitive frames differ from the home country. Multinationals must be consistent with the local environment in order to survive and succeed in the host context, therefore multinationals adapt to local institutions and to organizational structures.

3.4. Regulative pillar

This regulative pillar concerns laws and other rules that influence business strategies and operations. According to Scott (1995), this pillar consists of rules and regulations and the extent to which these rules are monitored and enforced. Regulatory processes influence the ability on how rules and sanctions are established, all this with the aim of improving a behavior. Thus institutions in a country are created to force and regularize actions and behaviors.

The Economic Freedom Index, incorporates some aspects of regulation to measure the Economic Freedom that exists in each country. This index published by the Heritage Foundation includes:

- Rule of law (property rights, freedom from corruption);
- Limited Government (fiscal freedom, government spending);
- Regulatory Efficiency (business freedom, labor freedom, monetary freedom);
- Open Markets (trade freedom, investment freedom, and financial freedom).

According to Kostova (1997, p. 180) the regulative component of a country's institutional characteristics as those ‘‘existing laws and rules in a particular national environment that promote certain types of behaviors and restrict others.’’ These laws can restrict the process of doing business through excessive bureaucracies, unclear and arbitrarily enforced rules, monopoly control of the real sector’’ are examples of regulative institutional barriers to efficient FDI (Pournarakis and Varsakelis, 2004, p. 80). According to Scott, legal regulations in the home and host country represent the strongest environment pressures faced by enterprise. In regards to investments, the host-country regulations create pressure to the investors in order to create legitimacy in the host country. Pressures coming directly from the state and institutions from the governments are the strongest pressures that affect the investor. The reason behind this is because the government is the main organization controlling all the resources to the investors. These pressures are stronger especially in emerging countries, where due to the nature of an emerging country, rules and institutions may be unstable and unpredictable.

Thus, we can say that FDIs are vulnerable to any form of uncertainty in the country, such as the uncertainty of poor government efficiency, changes in policies, weak enforcement of property right and the legal system in general. Henisz and Zelner (2005) have demonstrated that regulative aspects of a society's institutions influence the mode and extent of FDI and that a country with a good governance infrastructure may attract foreign investors.

3.5. Cognitive pillar

In order to understand how the cognitive pillar works, it is essential to understand the definition of cognition. Cognition emphasized the understanding of concepts in cognitive abilities such as reasoning planning, solving problems and comprehending language. Learning is understood as a constructive process of conceptual growth. (Carey, S. and Gerlman, R, 1991).

The cognitive pillar emphasizes cognitions and actors' generally shared perceptions of what is typical or taken for granted (Scott, 1995). Thus, the cognitive component of a nation's institutional profile reflects the cognitive structures and symbolic systems shared among individuals. As Kostova states (1999, p. 314) ‘‘cognitive programs such as schemas, frames, inferential sets, and representations affect the way people notice, categorize, and interpret stimuli from the environment.’’

In this pillar we can find routines and structures that are used by individuals in a society, by which they empower a certain phenomenon or situation. The way a society will react to a certain phenomenon will always vary and be dependent upon their environment.
The cognitive systems that exist in a society will determine what information is retained and how it is executed, organized and interpreted. These systems will also shape the procedures developed by organizations to provide new knowledge. Decision-making process, perceptions and interpretations will be reflected in each individual's cognitive base. (Wiersema and Bantel, 1992).

Thus, investors will be affected by the way individuals process new information and adapt to new routines, at the same time this will have an impact in the operations and performances of their businesses. For instance individuals with higher education are more likely to process essential information and procedures as well as their perception and reception towards innovation will be higher.

Level of education reflects an individual's cognitive ability and skills. High levels are associated with high capacity for information processing (Schroder, Driver, and Streufert, 1967). Therefore, more highly educated individuals are more inclined to help to valuable routines. Moreover, people that are more exposed to new information and technology have a broader outlook of their organizational and cultural knowledge. The educational system plays an important role in the transmission of societal norms and beliefs from generation to generation.

Fundamentally, values such as, respect for others, tolerance, politeness and rejection of violence are transmitted through education. Education levels in a society can have two fundamental impacts on FDI inflows. First, educational levels may act as a agent for labor quality because foreign investors should be interested in establishing operations in countries with higher educational attainment, as long as it does not increase costs. Borensztein, DeGregorio, and Lee (1998) support this statement affirming that developing countries need a minimum rise of human capital to attract FDI. Multinational firms also may increase the demand for education in developing countries because their plants may be more skilled-labor than the rest of the economy (Feenstra and Hanson, 1997).

Moreover, a higher educational background helps understand the degree to which the society state is opened to foreigners, with nation. The cognitive pillar is also associated with the regulative pillar because the educational system has regulations and sanctions that must be imposed in the society to guarantee the knowledge of values and information.

As a country increases its education level, it increases its ability to compete internationally. At the same time individuals are taught to be prepared to know how to act and react to a global environment. Thus for foreign investors, the impact of education will be directly positive for the institutional profile because it means that the country's educated population is open to foreignness.

3.6 Normative pillar

The normative pillar consists of ‘‘social norms, values, beliefs and assumptions that are socially shared and carried out by individuals’’ (Kostova, 1997: 180). Value is what makes something desirable or undesirable (Shockley-Zalabak 1999, p. 425). While norms dictate how things should be done and therefore define what a society perceives as approved behaviors.

According to Scott (1995) normative components of institutions define what is appropriate and ‘‘right’’ for a society's members. Hence, when an institution (an educational system, religion, or government) encourages the ‘‘correct’’ way of behavior, even in the absence of legal or other sanctions, organizational and individual actions are influenced by normative processes.

These normative institutions are reflected in some dimensions defined by Hofstede (1980). For example, the dimension Power Distance describes the expected behavior toward higher and lower rank people. Individualism and Collectivism explains people’s attitude toward a group, whereas Masculinity and Femininity captures the status of values traditionally associated with male and female role models. However there are societies where people are relativist, they have as few rules as possible, and feel in a more comfortable environment with unstructured situations.

Table 5. Previous studying regarding Institutional Theory

North (1990)	Developed a framework for explaining how institutions and institutional changes affect the performance of economies
Scott (1995)	Institutions are social structures composed of cultural-cognitive, normative and regulative elements
Wei (2000)	Shows that a variety of corruption indices are strongly and negatively correlated with FDI
Meyer, (2001)	Research has mainly focused on host country policies
Henisz (2002)	Studies on Institutional environment
Peng (2003)	Made a study in which informal institutions and their interaction with formal institutions have an effect in organizations in emerging markets.
Williamson (2000)	Formal institutions
Helmke and Levitsky (2006)	Defined informal institutions as socially shared rules, usually unwritten, that are created, communicated and enforced outside officially sanctioned channels.
Perkins (2009)	Formal institutions
Hansson, H. et al. (2009)	Integrated the institutional theory with the internationalization process.

3.7. SUMMARY

The institutional framework is fundamental for understanding the main aspects of the profile of a country. The regulatory pillar presents the rules for doing business, reflecting the laws and regulations of a country and the extent to which these rules are managed and enforced. The cognitive pillar has to do with the cognitive structures that are inserted in a society. The normative pillar consists of beliefs, values and norms that define the behavior in a society.

Regarding the international business, these pillars influence in a large extent the decision making of investors. They can facilitate or inhibit the transfer of strategic organizational procedures. When MNEs enter a foreign market they interact with different and sometimes complex contexts. Firms have to adjust to the institutional environment of each country where they operate. Understand and adjust to the environment will give great benefits to the investors in the short and long term. Comprehending difference and culture will decrease the possibility of errors and costs. The more distance both countries are the more challenging adjustments will be. It is also fundamental to mention the liability of foreignness lowers the profitability of foreign investors to their local competitors. What firms must do in order to reward this is that they must transfer those organizational procedures that are a source of competitive advantage to their units abroad.

As regards to institutions, an important distinction between informal and formal institutions is that, while informal create and share norms outside the official channels, the formal institutions are rules and procedures which are created and enforced through official channels.

4. MEXICO AS A TARGET COUNTRY FOR FDI

This chapter four “Mexico as a target Country for FDI” presents the economic, political and cultural environment of Mexico and the main characteristics of FDI in Mexico. A critical understanding of the background and context of Mexico will be studied in order to understand the business environment and how it impacts investors. Some comparatives tables between Finland, Mexico and Brazil will be shown. The reason for comparing Brazil is because it is the developing country in Latin American with the highest number of FDIs, followed by Mexico.

According to the World Economic Forum the main purpose of the Global Competitiveness Index (GCI) is to quantify the impact of a number of key factors which contribute to create the conditions for competitiveness, with particular focus on the macroeconomic environment, the quality of the country’s institutions, and the state of the country’s technology and supporting infrastructure. (World Economic Forum)

4.1 Economic environment

Mexico is located in the southern area of North America, having border with the United States from California to Texas. Mexico has an area of 1,964,375 square kilometers—making it the third largest nation in Latin America (after Brazil and Argentina). Mexico has economic competitive advantages such as offering savings in labour costs, better manufacturing costs and it´s increasing economy. Mexico is the 2nd economy in Latin America, after Brazil.

Table 6. Mexico. Main Economic Indicators in 2011-2015 (Economist Intelligence Unit (e=estimate, f=forecast))

	2011	2012	2013e	2014f	2015f
GDP at current prices (billion USD)	1,169	1,184	1,287	1,380	1,509
GDP per capita at current prices (USD)	10,033	10,058	11,224	11,687	12,175
GDP (% change)	4.0	3.7	1.2	3.4	3.7
Gross Fixed Investment (% change)	7.9	4.6	1.3	6.7	7.8
Private consumption (% change)	4.9	4.4	3.5	3.2	3.5
Exports (% change)	8.3	5.9	1.0	4.9	6.0
Imports (% change)	8.1	4.3	3.6	7.1	8.0
Consumer Price Index (% change, yearly average)	3.4	4.1	3.8	4.1	3.5
Unemployment rate (%)	5.2	5.0	4.9	4.7	4.3
Exchange rate (yearly average) MXN / 1 USD	12.4	13.2	12.8	12.8	12.7
Exchange rate (yearly average) MXN / 1 EUR	17.22	16.92	17.07	16.41	16.08

From July 2012, the International Monetary Fund (IMF), has labeled Mexico as an emerging country. This means Mexico is considered to be in a transitional phase between a developing and a developed status. The largest emerging country is Brazil, followed by Mexico. In 2012 the country's Gross Domestic Product was $1.761 trillion, less than the U.S ($15.94 trillion) but larger than Canada ($1.513 trillion)

The GDP growth rate (shown in table above) 3.9% was faster than either the U.S.A (2.2%) or Canada (1.8%). Mexico is the 16th largest exporter in the world, and 82% of its exports go to the U.S.A. Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, the trade with the U.S.A and Canada has increased notably. Mexico's share of US imports has increased from 7% to 12%, and its share of Canadian imports has doubled to 5.5%.

Mexico is also a member of the Latin American Integration Association, which provides for reductions in duty rates on merchandise imports from members of the association. In addition, in July 2000, Mexico and the European Union entered into a multilateral free-trade agreement substantially reducing tariff and non-tariff barriers to free trade between the two regions. Mexico has also entered into free-trade agreements with Colombia, Venezuela, Bolivia, Costa Rica, Chile, Nicaragua, Guatemala, Honduras, El Salvador, Israel, Uruguay and the European Free Trade Association (Iceland, Norway, Lichtenstein and Switzerland). In addition, an Economic Association Agreement with Japan has been in force since April 2005. In 2012 Mexico formally joined the Trans-Pacific Partnership negotiations and in July it formed the Pacific Alliance with Peru, Colombia and Chile. In recent years, Mexico has simplified foreign investment procedures, including less red tape, higher ceilings for foreign capital, fewer local-content requirements and better intellectual-property legislation. This of course, is an excellent advance for attracting investors.

Foreign investment is found most frequently in the manufacturing, mining and financial sectors. Its convenient geographical location, border with the United States, has been beneficial for a large market for the export of manufactured goods and semi manufactures. Mexico also has a strong mining industry. In 2012 Mexico was the world’s largest silver producing country followed by China, Peru, Australia and Russia. (The Silver Institute).

Table 7. Silver production in the world 2012 (The Silver Institute)

Silver Production in 2012 ***(millions of ounces)***	
1**. Mexico**	162.2
2. China	117.0
3. Peru	111.3

Besides silver, Mexico is also a big producer of other minerals such as copper, lead, zinc, sulfur and fluorite. The Mexican government should notice this natural resource as another source of attracting investors.

Regarding the production and distribution of electric power, this is controlled by the Federal Electricity Commission. (CFE). As stated by the Constitution, the electricity sector is federally owned, controlling the whole sector and private participation. Foreign companies are allowed to operate in the country only through specific service contracts. (Comisión Federal de Electricidad (CFE)).

The principal manufacturing industries include automobile and auto parts producers, steel manufacturers, textiles, food processing, breweries, glass, chemicals and petrochemicals, and cement and other materials for the construction industry. In regard to mergers and acquisitions the most important foreign investor is the U.S.A, but European investors, mainly companies from the United Kingdom are becoming increasingly important. Investments from other European countries are expected to grow due to the free trade agreement signed between Mexico and the EU on July 1 2000.Maquila companies, or maquiladoras, are also an important sector of the economy. They have shown the highest growth rates of any Mexican industry in past years. The majority of these companies, which most of them are located near the US border, are usually wholly owned by a foreign corporation. The maquiladoras are manufacturing operations that produce semi-finished or finished goods or subassemblies for shipment to foreign corporations. The principal advantages of this operation are the cheap labor market, with lower wage rates than those in industrialized countries.

As far as mergers and acquisitions in Mexico are concerned, the most important foreign investor is the US, but European investors - especially companies from the UK - are becoming increasingly important players in the market. Investments from European countries are expected to grow due to the free trade agreement signed between Mexico and the EU (which came into effect on July 1, 2000).

In comparison with other developing countries, Mexico has quite a modem and sophisticated tax system. Mexican companies and non-resident companies with Mexican branches are subject to Mexican corporate income tax of 35%. It is possible to defer 5% of the tax up to the moment of distribution; this legal incentive has opened the door to many foreign investors. In the following table we can find the rankings concerning the easiness of doing business.

Table 8. Ease of Doing Business (The World Bank)

Economy	Ranking 2006	Ranking 2010	Ranking 2015
Finland	13	16	9
Mexico	62	51	39
Brazil	122	129	120

In Mexico it takes an average of 6 days to set up a new business, being 30 days the average in Latin America. This number shows the great improvement of Mexico over the last years and over neighboring countries. Only a total of 6 procedures are necessary to establish a new business with a cost of 20% of income per capita. Mexico has a paid-in minimum capital requirement of 0% of income per capita.

Table 9. The Global Competitiveness Index (World Economic Forum)

	2004-2005			2010-2011			2014-2015		
Country/Economy	Ranking (out of 148)	Score (1–7)	Ranking Institutions	Ranking (out of 148)	Score (1–7)	Ranking Institutions	Ranking (out of 148)	Score (1–7)	Ranking Institutions
Finland	2	5.76	1	7	5.37	4	4	5.5	2
Mexico	58	4.18	69	66	4.19	106	61	4.3	102
Brasil	87	4.14	91	58	4.28	93	57	4.3	94

In the previous table it is shown the big difference that exists between Finland and Mexico in regards to the quality of the institutions and macroeconomic environment. This ranking helps us understand the challenges that Finnish investors will face when entering the Mexican market. It under to decrease the uncertainty of this ranking, it is necessary to analyze the Mexican institutions as well as the macroeconomic environment.

Figure 5. Investment Freedom (Economic Freedom Index)

As this study mainly concerns the analysis of investments from a developed country, Finland, into a developing country, Mexico, the following figure shows the Investment Freedom Index of these two countries and Brazil as a comparison. Brazil´s index is amongst the three, the most unfree economy

For 2015, Finland ranks 2ND place, with 90 points, being a free investment economy, whereas Mexico, shown in green, ranks 47th place, with 70 points, being a moderate free economy, and Brazil ranks56.6 making ranking its economy in place 118.

4.2 Political and legal environment

Mexico is a federal democratic republic divided into 31 states and the Federal District (Mexico City). The chief executive is the President, who is elected by popular vote for a period of six years and may not be reelected. The current President is Enrique Peña Nieto who took the presidency on December 1, 2012. The Legislative Assembly of the Federal District is elected every three years.

In Mexico the “1993 Foreign Investment Law” is the basic decree governing foreign investment in Mexico. The law provides national operations for most foreign investment and eliminates performance requirements for most foreign investment projects. This law identifies which business activities are open to foreign investors and to what extent. Businesses in Mexico are regulated by the “Ley General de Sociedades Mercantiles” (General Law of Mercantile Companies), “Código de Comercio” (Commercial Code), or “Código Civil” (Civil Code).

Part of the change for attracting foreign direct investments includes the actual President, Enrique Peña Nieto. In December 2013, the Congress passed a bill for privatizing Mexico’s oil industry. According to the article 27 of the Constitution the Mexican government had permanent and complete rights to all subsoil resources. In the past this would cause conflicts between the Mexican government and foreign companies who wanted to invest. Mexico has a great potential in deep water in the Gulf of Mexico, but

PEMEX did not have the technical capabilities or the funding. Mexico has the reserves but not the cash nor the technology to develop them. Pemex estimates that the Mexican industry needs more than $60 billion a year to restore itself, compared with the $25 billion a year the state-owned company can raise by itself. (The Wall Street Journal, 2013).

PEMEX (Petróleos Mexicanos) the previous state-owned company with exclusive access to Mexico's oil, is one of the most lucrative companies in the world. It sent all its revenues to the federal government. As a result, about one-third of the government's income is dependent on oil. This is an opportunity for foreign oil companies as they could share in any profits from the Mexican market. This would allow exploration of Mexico's rich deep-water oil fields and its natural gas reserves.

Concerning exporting, Mexico provides some incentives for exporters. The main tax incentive is the zero rate of value-added tax (VAT) applicable to exports and the consequent right to the refund of VAT charged by others on materials, supplies and services used in the production of exports or the credit of such charges against a company's VAT liability for its activities subject to the tax. (PWC, 2011).

To encourage and promote FDI, the Mexican government has implemented Prosec (Sectoral Promotion Programs). This program was implemented after Mexico joined the NAFTA, in order to overcome challenges faced by international factories in Mexico. With NAFTA, tariff rates increased significantly for many of the raw materials used by "maquiladora" manufacturing companies. Prosec is a tariff reduction measure that allows foreign or domestic producers, to obtain a reduction or elimination of a tariff rate, no matter whether the finished good is intended for exportation or domestic sale. (Secretaría de Economía SE)

The President is also trying to privatize the electricity sector. As the CFE is the commissioned designed for the control and management of the electricity, they set up their own prices, being these excessively high for the Mexican society. Thus, privatization will help lowering its price due to new companies being in charge of the sector. Peña Nieto’s government has said to be committed to improve the security of the country, to stop the wave of violence existing mainly in the North of because due to drug war between cartels and the police, in order to restore peace and order. This will benefit the easiness of establishing a business for foreignness and it will change the bad reputation that Mexico has regarding violence, insecurity and corruption. These modifications in the country will help increase the economy in Latin America. Working for the improvement and development of foreign trade and investments means a better economy which will be able to give huge opportunities for foreign multinationals willing to invest in Mexico.

A negative aspect for the Mexican economy is it high external debt (1850.89 Mexican Billion pesos in January of 2014 (Trading Economics)) and high inflation (3.81% in 2013 (Worldwide Inflation Data)) Consequently, for reducing the high rate of inflation the government has opened the Mexican economy to foreign trade; making Mexico one of most open countries in this matter. Mexican governments have always find ways to attract foreign investment by opening means of international commercial activity.

In regard to foreign investment regulations, foreign investors are generally entitled to the same rights and obligations as local investors. Mexico has approved several rules for improving the foreign investment. For instance, the law allows foreign investors to hold up to 100% of the capital stock of Mexican companies, acquire fixed assets, and enter new areas of economic activity. There are several exceptions to specific sectors for which prohibition or restrictions apply (e.g. the oil and petrochemical industry, electric energy production and provision, radio and television broadcasting, insurance, telephone and cable services).

A positive factor in the Mexican legal system is the antitrust law (Ley Federal de Competencia Económica). This initiative defines the anticompetitive behaviors and precise and the prohibition of monopolies, monopolistic practices, and illegal barriers that may decrease, damage or interfere the free competition. (Mexico, Presidencia de la República). This law provides a solution with federal legislative support for investors against monopolistic practices. The law particularly sets out rules for the creation of so-called conglomerates; mergers, acquisitions, or any act whereby corporations, partnerships, shares, equity, trusts, or assets in general are concentrated among competitors, suppliers, customers or any other business entity, which may constitute an effort against free market participation and competition. Unfortunately, the Mexican society has a crucial problem called corruption, among others such as violence and drug trafficking. Corruption is defined as deviations from the formal rules governing the allocative decisions of public officials in response to offers to them of financial gain or political support (Nye 1967).

Corruption is when individuals misuse the public power in order to be granted private benefits. The corrupt act is when a person accepts money or some other form of reward, and then proceeds to misuse his official powers by returning undo favours. According to Della Porta (2000: 205), the "lack of confidence in the government favors corruption as it transforms citizens into clients and bribers who look for private protection to gain access to decision-makers".

It is important to mention that the traditional Mexican political system born is based theoretically on the Constitution of 1917. But in reality and in practice, laws stated in the constitution are not always followed nor implemented.Unfortunately corruption in the political system has become a "modus operandus" in the political environment. Political actors have privileges and influences due to their political power, which gives them "capacity" to blackmail against other actors in order to get resources or specific favors.

Corruption exists in a country when the formal legal framework of the state is insufficient and does not work properly. In terms of foreign direct investment, some countries have been able to attract huge investments even when they are corrupt, but in other instances corruption is indeed inhibitive to foreign investments. (Amundsen I., 1999:17)

In conclusion, political corruption is the manipulation of the political institutions where politicians abuse of the laws and regulations. All these practices lead to the deteriorations of institutions. When political corruption exists, laws and written norms are misused or ignored by the rulers only to fit their own personal and economic interests.

Table 10. Corruption Perceptions Index (Transparency International)

Country	**Ranking 2005**	**Ranking 2010**	**Ranking 2014**
Finland	2	4	3
Mexico	65	98	103
Brazil	62	69	43

According to Transparency International, the Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). For the study of 2014, the index includes 175 countries and territories. It can clearly be seen how in the last years, Mexican Corruption Index has unfortunately increased, where as Brazil has been improving its corruption index.

As the table above shows, Mexico is a country which is embedded by corruption. It is a strong problem, which unfortunately becomes a problematic factor for doing business. Nevertheless it is the second top host economy with FDI inflows in Latin America.

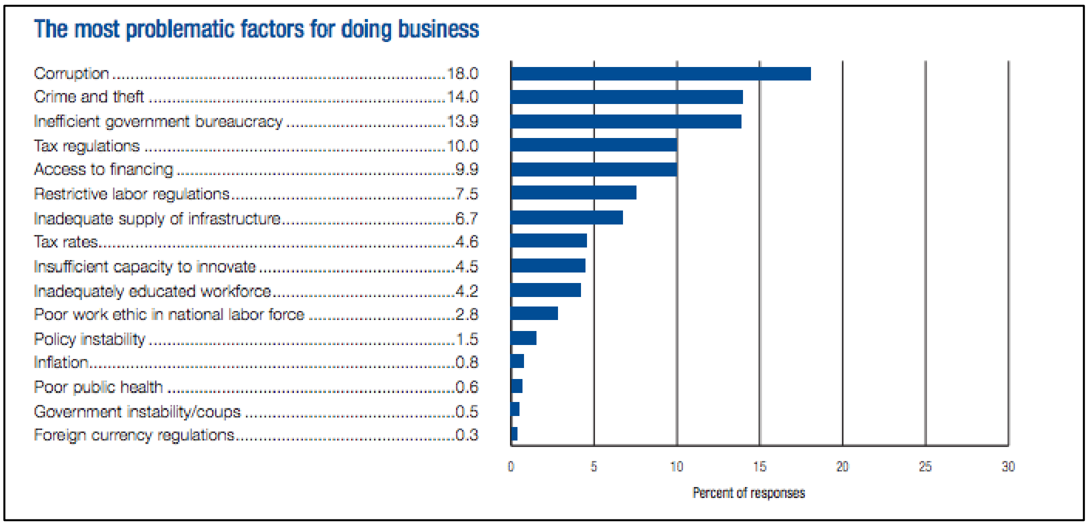

Figure 6. The most problematic factors for doing business (World Economic Forum)

In the previous figure we can see that corruption is ranked #1 as the most problematic factor for doing business. It shows the great role it plays for investing and for location decision-making. In second place we can find crime and theft which is a cause of corruption and the inefficient government bureaucracy is a motive for corruption. All elements are directly connected.

According to the World Economic Forum, competitiveness is the set of institutions, policies, and factors that determine the level of productivity of a country. The competitiveness is measured by 12 pillars: First pillar: Institutions, second pillar: Infrastructure, third pillar: Macroeconomic environment, fourth pillar: Health and primary education, fifth pillar: Higher education and training, sixth pillar: Goods market efficiency, seventh pillar: Labor market efficiency, eighth pillar: Financial market development, ninth pillar: Technological readiness, tenth pillar: Market size, eleventh pillar: Business sophistication, twelfth pillar: Innovation. The following figure shows the main indicators for “Institutions”.

	INDICATOR
	1st pillar: Institutions
1.01	Property rights
1.02	Intellectual property protection
1.03	Diversion of public funds
1.04	Public trust in politicians
1.05	Irregular payments and bribes
1.06	Judicial independence
1.07	Favoritism in decisions of government officials
1.08	Wastefulness of government spending
1.09	Burden of government regulation
1.10	Efficiency of legal framework in settling disputes
1.11	Efficiency of legal framework in challenging regs.
1.12	Transparency of government policymaking
1.13	Business costs of terrorism
1.14	Business costs of crime and violence
1.15	Organized crime
1.16	Reliability of police services
1.17	Ethical behavior of firms
1.18	Strength of auditing and reporting standards
1.19	Efficacy of corporate boards
1.20	Protection of minority shareholders' interests
1.21	Strength of investor protection, 0–10 (best)*

Figure 7. The Global Competitiveness Index (World Economic Forum)

In spite of the high corruption in Mexico, Finnish companies feel attracted in investing in Mexico. The following table shows the amount of millions of dollars entered into Mexico by Finnish FDIs.

Table 11. Finnish FDI inflows to Mexico (Secretaría de Economía, México)

Finnish inflows in Mexico (millions of dollars)										
Year	**2002**	**2004**	**2006**	**2008**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Total	24.89	-48.12	19.35	79.40	24.5	5.85	5.3	5.37	2.97	-0.74

The table above shows how Finnish inflows have been decreasing significantly since since 2010. This has also been the tendency occurred for Finnish outward investments over the last years. This can be seen in the following figure.

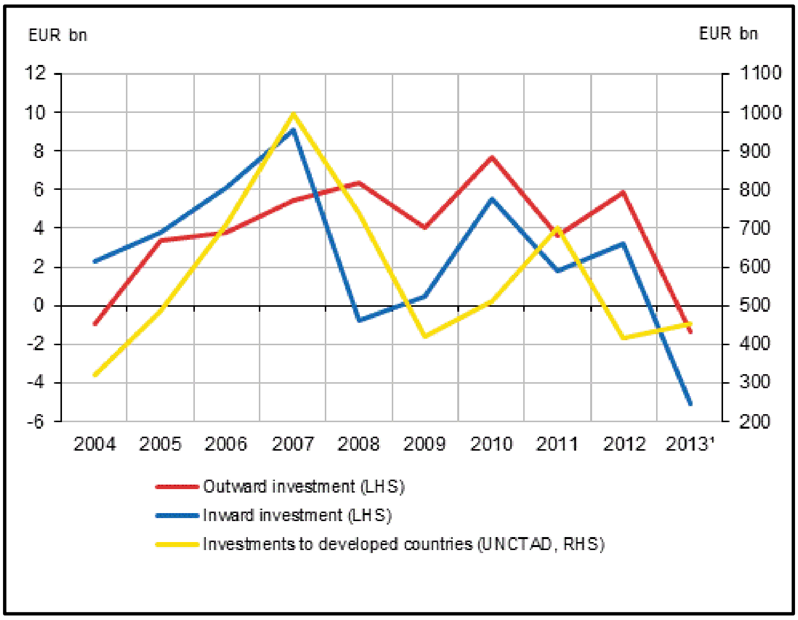

Figure 8. Flows of FDI in 2004 to 2013 (Statistics Finland)

Investments from Finland are mainly directed to the EU area. Significant direct investments outside the EU are found in the United States (EUR 8.7 billion) and Russia (EUR 2.8 billion). (Statistics Finland, 2013).

Table 12. Finnish FDIs in Mexico (Secretaría de Economía, México)

Finnish FDIs in Mexico (1999-2015 2Q)		
FDI (millions of US dollars)	Ranking	Main sectors
685.045	25	Manufacturing of metallurgic/electronic accessories and devices, power generation supplies

From 1999 to 2015 Finnish companies have invested 685.045 millions of US dollars in Mexico. Almost 50% of those investments have been in the manufacturing industry, followed by the waste management sector and finally the trade sector.

In 2015, there were registered 35 Finnish companies in Mexico. Finnish companies in Mexico are located mainly in the north of Mexico (Coahuila, Nuevo León, Tamaulipas). The Finnish companies established in Mexico are: Abloy, Ahlstrom in Monterrey, Amer Sports, Blancco, Comptel, Exomi, Filtros Larox, Grupo Industrial Phillips, Hiab, Huhtamaki Packaging, Kemira in Tlaxcala, Metso Minerals in Guanajuato, Kwh Mirka, M-Real Alliance, Enterprise Solutions & Nokia Networks, Nokia in Reynosa, Glaston in Jalisco, Outotec, Perkin Elmer, Perlos and Savcor in Tamaulipas, Luvata in Nuevo León, Kone in Coahuila, Rapala, Heatcraft in Chihuahua, PKC Group in Sonora, Stora Enso, Tecnotree, Tekla, Pöyry, Konecranes in Mexico City, Vacon, Visko, UPM Raflatac in Mexico City and Wartsila.

Due to new Mexican reforms to open its market, in April 2015, Wartsila has announced they will build an electric plant in the north of Mexico, Nuevo León, in order to export energy to Mexico.

4.3 Cultural environment

National cultures differ significantly across the globe, and those differences have important implications for business activity (Hofstede, 2005) Geert Hofstede defined national culture as the collective programming of the human mind. He has defined six dimensions of national culture: power distance, individualism, masculinity, uncertainty avoidance, pragmatism and indulge. However, this study will only examine power distance, individualism, masculinity and uncertainty avoidance as these are the dimensions that best help to analyze the way relationship between Finland and Mexico for doing business.

Table 13. Values for Finland, Mexico and Brazil (The Hofstede Centre)

Dimension	Finland	Mexico	Brazil
Power Distance	33	81	69
Individualism	63	30	38
Masculinity	26	69	49
Uncertainty Avoidance	59	82	76

As it is shown in the above table Mexico is a very hierarchical society (power distance 81). This means that Hierarchy and social status are particularly significant in Mexican culture. Every person has a specific place in the hierarchical order depending upon their economic status or organizational position. Thus centralization is executed by the top level, where the subordinates are told what to do. Final decisions are generally made by a central authority. Mexicans place great emphasis on showing respect to others, especially to the elder and to top executives. Mexican businessmen and executives like to show their power by adopting firm positions and giving the impression of being sure of their approaches. Whereas in Finland, hierarchy between places does not play an important role. It is a society with equality, where power is decentralized and employees, not matter their position, are take into account.

In regard to individualism, Mexico scores 30 which means that it is a collectivistic society. This can be seen in the important that is given to being a part of a group, family or extended relationships. Loyalty in the society is predominant. The society cultivates strong relationships where everyone takes care of other members of their group. In the contrary, Cultivating close personal relationships and building trust are considered as vital components for a successful work environment. Mexicans tend to have their business meetings within a trusted circle. Breakfast, lunch and dinner meetings are popular in order to get familiar with the other part and to establish a more personal relationship. Finland is an individualistic society. Individuals are expected to take care of themselves Hiring and promotion decisions are based only on merit only where as in

Mexico they are based on trust and relationships. Mexico is also a masculine country, scoring 69. This means that Mexicans “live in order to work”. Managers are expected to be determined; the emphasis is on competition and performance. On the other hand, Finland is a feminine society. The focus is on “working in order to live”. Managers seek for value equality and quality in their working lives. Incentives such as free time and flexibility are fundamental for the productivity and wellbeing Competition does not exist as status is not part of their culture.

As to uncertainty avoidance Mexico scores 82 placing it in a very high preference for avoiding uncertainty. This means Mexico has “strong” codes of belief and behavior and is little tolerant unusual behaviours and ideas; even though in Mexico rules usually do not work. Finland also scored high in uncertainty avoidance.

4.4 SUMMARY

Despite of all the negative image and reputation that Mexico has regarding the drug cartels, insecurity and corruption, Mexico is nowadays one of the best countries in Latin America for doing business. During the last years the government has made some many changes and improvements to its infrastructure and fostered the competition through its trade policies.

Mexico is an emerging country that is opened to FDI in most of its economic sectors. The actual government, led by President Enrique Peña Nieto, is putting priority in the economic reforms in order to attract investors and create more competitiveness. One of the most beneficial factors for investing in Mexico is its location, natural resources and low labor costs. Its proximity to the USA and Brazil makes it a very attractive country. The main of FDI in Mexico is its neighbor country, the USA.

As mentioned Mexico offers significant low labours costs when compared to other options in Latin America. It is important to mention, that in the last years China has been increasing its labor cost, thus this is one factor that is also attracting foreign direct investors into Mexico. According to the World Bank's "Doing Business "Mexico ranks 39^{th} place, being above Brazil. (120^{th}). Moreover many has signed many free trade agreements all over the world, which makes it one of the most open countries for international trade.

On the negative side of Mexico is its poor infrastructure and weak institutions. Mexico is known for its corruption which exists due to the lack of transparency in the institutions. In 2015, Mexico ranked 103th among 177 countries in corruption. The legal system is also low and inefficiency.

5. EMPIRICAL RESEARCH

In this chapter five "Empirical research" the research methodology is presented. Firstly, the research method is explained and the reasons for choosing the qualitative research approach are explained, using Yin´s path research of process. The selection of case companies and reasons for being selected is presented. The profile required from the interviewees is also explained. This chapter presents all the information obtained tape recorded interviewed made to Finnish managers working in Mexico. And finally this chapter ends with the discussion of the validity and reliability of the study.

5.1 Research method

The methodology used in this study is the qualitative approach rather than the quantivative approach. The qualitative approach is more suitable because of the deep analysis of this study. According to Yin (2003) the choice of suitable research method is dependent upon the research problem and the methodological fit.

Despite of the small population from which the cases where chosen it is still possible to achieve some critical and important analysis and criticism regarding the case study research. As this study only addresses three organizations, the case study is also therefore the best approach. In order to gain a better and deeper understanding, semi-structured interviews were made with Finnish representatives of Finnish companies in Mexico.

Yin (2003) suggests different types of case study design: holistic single case; embedded single case with multiple units of analysis; and multiple cases with one or multiple units of analysis**.** Single case study research is most suitable when the particular case is critical or unique or where the single case is the representative or typical of a large population (Yin, 2003). On the other hand, multiple case studies extend the scope of the investigation and the degrees of freedom, increase the potential for generalizability and provide more robust results (Patton, 2002). The use of multiple cases will allow the researcher to search for cross-case patterns and themes to provide accurate and reliable theory and capture important findings that may exist in the data (Miles and Huberman, 1994). This study used the multiple-case method, because this method is the best one to compare the results between case companies.

5.2. Research process

According to Yin (2003) there are four stages in a case-study: 1) design of the case-study 2) conducting the case study 3) analysis of the case study and 4) developing the conclusions, recommendations and implications.

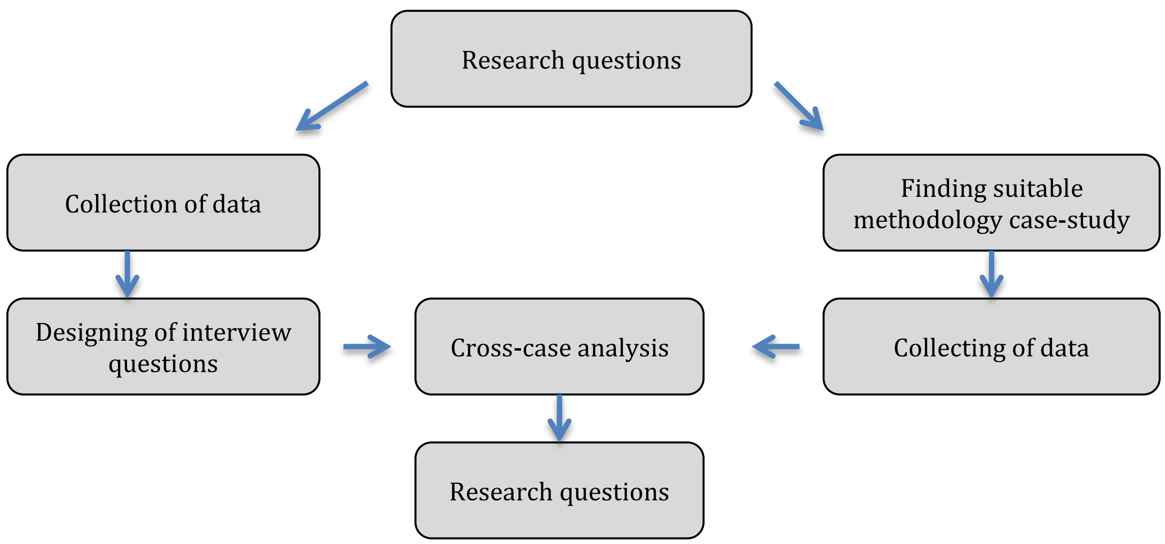

Figure 9. Path of research process Yin (2003).

The first selection of the interview was FINPRO. The reason for this is because of the detailed and depth information and analysis they have regarding all Finnish investors in Mexico. They know and understand the reasons, motives, difficulties and incentives for investing in Mexico. An email interview request was sent to Kone and Stora Enso as they are located in Mexico City, city where the interviews took place. These companies were first were contacted by email in September 2012, in order know if they would like to participate in the research of this study. The first email only gave a small insight regarding the study, in order to create their attention and interest. The contact with Kemira was obtained through the interview in FINPRO. After the contact with the managers by email, then the dates for the interview were fixed. The interviewees were only given basic information regarding the subject of the study in order to avoid bias of the project. For conducting the interviews it was necessary to research about the companies, in order to get the most possible information. The information from the case companies was gathered from the company home pages and of the annual reports. The design of the interviews was divided into three phases: pre-investment, during investment and post-investment. Concerning the questionnaire the questions were prepared using a five-point scale (1 = not at all important, 5 = most important). While answering the questionnaire, the interviewers also gave some comments.

The interviewees had to have a specific profile in order to be suitable and relevant for the goals on the study. The people interviewed they were all Finnish managers working for a Finnish company in Mexico. They were people with substantial experience in the area of investment and marketing projects. All of them had worked at least 10 years in Mexico. This was a fundamental criterion as they had to know and understand deeply the Mexican environment. All the interviews were made personally in their offices.

The managers were asked to fill in a questionnaire (Appendix 1) and respond as well to some open-ended interview questions (Appendix 2). The interviews were made in Spanish as they all speak fluent Spanish. Even though Spanish is not their native language, this was not a barrier for them to answer to the questions. The questions were not translated into Spanish, they were left in English in order to reduce possible error. The open questions within the standardized structure of the interview was very helpful as it did not limit the answer, and more deep and useful data could be gathered.

For reasons of confidentiality one company asked to remain, anonym. Each interview lasted for approximately 45-60 minutes. Interviews were tape recorded. The managers gave permission to be recorded while being interviewed. Important notes were also written in order not to miss important information.

5.3 Validity and reliability

According to Yin (2003), validity can be divided into three components: construct, internal and external validity. In the construct validity, the correct operational measures for the studied phenomena have to be established. With internal validity one establishes a causal relationship, where certain conditions are shown to lead to other conditions. External validity is the establishment of a domain to which a study´s finding can be generalized. When a case-study is done, in order to increase the construct validity the use of multiple sources of evidence during the data collection can be employed. In this study the construct validity can be said to be high as the interviews were conducted from different persons and information with collected data was verified by cross examination. Most of these interviews were tape-recorded to avoid any loss of information and enabling double checks of the answers. Reliability demonstrates that the operations of a study including data collection can be repeated and get the same results. To minimize the possible errors in this study the questions were opened and the interviewers were free to answer what they thought without being limited by the questions.

For the research methodology, three Finnish companies were analyzed. The first organization to be interviewed and analyzed was FINPRO. As mentioned earlier the reason for interviewing FINPRO in Mexico was for all the knowledge and years of experience regarding Finnish investment in Mexico. This gave a depth and overall situation of Finnish investments in Mexico through the last years.

5.4. Company 1: FINPRO

FINPRO is the national trade, internationalization and investment development organization in Finland. They support the clients' international growth and success by enabling them to be in the right markets at the right time with a competitive concept and offering. The basis for their strategy is the view of the importance of foresight to Finnish competitiveness. They also seek out the best operators and sign them up as partners – both in Finland and overseas. FINPRO's task is to focus on small and medium-sized growth companies and support them in their internationalization. FINPRO's public funding (EUR 21 million in 2012) covers approximately 55% of our costs. In 2012, 1422 client assignments were made. FINPRO has 375 professionals in 69 offices in almost 50 countries. (FINPRO) Due to the huge growth of Latin America, FINPRO opened a project office in Rio de Janeiro and it has already taking actions on starting a separately funded project office in Peru.
The person interviewed was Nina Jaakkola, Head of Trade Center, at FINPRO, Mexico. This interviewed gave a general and deep insight about the all the main topics of Finnish investments in Mexico. Below are shown are the responses from the interview.

Main motives for investing in Mexico: Mexico is a great destination for investing due to its strategic location, its trade agreements, natural resources and low production costs.

Main reasons for selecting the operation mode: we could say that Finnish firstly look for a representative who sells their products in Mexico. But in the last years many Finnish companies have decided to acquire companies due to the positive profitability. In the last place there is only a minority of firms who engage in Greenfield projects.

Major challenges or barriers for investing: the negative image and news regarding the Mexican society, unfortunately is a negative aspect that influences the decision making of investors. One major fear for Finnish investors is the security in Mexico. One of the problems Finnish companies have encountered is the strong impact that labor unions have in Mexico. Labor unions work in totally in a different way that in Finland. It is very important to know with whom in Mexico you will be doing business and to follow the laws strictly. It is important the Finnish investors learn Spanish language, because not many Mexicans speak English, then in order to facilitate communication and reduce errors, it is advisable to learn Spanish. It is also fundamental to have a good team work, to find key people, strong human resources. People who know about the market, the production process, about the culture.

Incentives for investing in Mexico: the government has many attractive programs regarding incentives. They are different in each state of Mexico, but lately have been unified a bit. For example some Finnish investors have been given free lands, there are tax reductions, if the company brings R&D to the country they also get some reductions. Those are the principal ones, but there are many incentives. As mentioned before each state has different incentives so the competition to get investors between states is very high.

Legal restrictions for investing: there are certain sector such as petrochemical industry, telecommunications, which are only available for the Mexican sector. Everything has to be followed by the book. If all the procedures are established as stated in the law then investors will not find any difficulty. Before the legal system used to be more slowly, but as time has passed through, duration of paper work has decreased

Easiness for doing business in Mexico: the easiness has changed dramatically. When talking to the investors they say that what the World Bank says, applies in reality. The easiest countries in Latin America are Chile, Mexico, Peru and Colombia. And the most difficult ones are Brazil, Argentina and Venezuela. When a company first starts exporting to Mexico, for Finnish investors all the paper work and bureaucracy is a great challenge and they ask for help and recommendations to FINPRO. FINPRO helps the companies in order to facilitate their exports and investments. Almost 70% of the projects that FINPRO is in charge are exportation from Finland to Mexico. FINPRO makes a market research an environment study, searches for the best representative concerning the specific product to be exported in order to increase the easiness of doing business in Mexico and they have a solid base to start exporting.

Major difficulties after the investment: if the planning and research is done properly, the investors will not find any major difficulties. Some problems found have been the connection to the light, water, or high costs of light. Thus the need to research about all energy costs before deciding on the location. A positive aspect that has surprised many Finns is the high quality of human resources that exist in Mexico. People are well trained, with good experience.

Change in the market position or market size: yes, the market position and market size improves once they are closer to their clients and they can give faster results.

Management and integration of Mexican and Finnish culture: Mexicans are used to working long shifts at work, while Finnish people stop working around at 4 pm. Mexicans are very productive and comparing Mexicans are Brazilians, it is easier to work with Mexicans because they are most honest and transparent. It is important to have a Finnish open minded working in Mexico, who can understand the major differences in the culture. For example some Finnish people do not understand the need for so many copies for the same document. They have to be flexible and to take into account that the Mexicans tend not to be direct when saying and answers, and they do not say “no” because of politeness. The better Spanish and the better understanding of the culture, helps the managements of the teams.

Role of government in Mexico and Finland: the major difference in government governance between Mexico and Finland, is that in Mexico there is a huge competition between states. In Mexico, states are rules by different parties thus the governance is not unified. Invest in Finland has been integrated to FINPRO Now the only Latin American investment in Finland is CEMEX, with 3 plants. Both governments provide future investors with very relevant and useful information regarding investments.

Major changes since the beginning of the investment: nowadays, she has seen that more positive changes in investments due to the decrease of unethical behaviours from the authorities, despite of the corruption that exists in Mexico. Corruption is not a major problem for foreign investors; it might be more Mexicans from different spheres. Some companies have expanded like Kone, but Perlos has been bought by an Asian country.

Overall performance of the company: in general the performance and experience with investors has been positive. For example, some Finnish investors in Brazil have decided to end their business, but Mexico is a completely different story.

General experience of investing in Mexico: she mentioned that she does not see corruption as a barrier for investments. She knows corruption is a major problem in the Mexican society but it does not impact in the businesses. Finnish companies have not had a lot of problems with corruption. She says it might be because Mexicans know how ethical Finnish people are, and then they do not dare to ask for bribery. Finnish investors say Mexican culture is very similar to that of the south of Europe. It is easier to understand and communicate to Mexicans that to Asian people.

5.5 Company 2: Anonymous

Company 1 is in the paper business, biomaterials, wood products and packaging industry. The Group has some 28 000 employees in more than 35 countries worldwide, and is a publicly traded company listed in Helsinki and Stockholm. Latin America has become an important target due to the low-cost pulp tree plantations. For instance in Brazil the company has 211 000 hectares of land and in Rio Grande do Sul they own 43 000 hectares. For this year 2014, in Uruguay, it is expected to start a pulp mill project which will produce 1.3 million tons of pulp per year. But the company had to delay of the pulp plant in due to strikes and other labor issues. Today the company is the greatest land owner in Uruguay.

For the interview the representative was first contacted by e-mail. The interview took place face to face at the company´ s office in Mexico City in the WTC in December 2012. In Mexico City the company only has a sales office, having most of its production plants in South America. In Mexico the company is in charge of the distribution of their product, having work related to imports and exports.

Main motives for investing in Mexico: the main motives for deciding to establish a sales office in Mexico is because the location was very convenient. Mexico City is a place where there are many international countries. Its geographical situation, in the center of America, helps them have a better and more efficient communication with South America. Their main reason for having the sales office there is because they can manage and control more easily imports and it is easier to reach their customers and buyers. It is a strategic location.

Main factors for selecting the operation mode: the logic behind establishing a sales office and not a production plant, is because the Mexico is not the most suitable location for establishing paper plants, thus they decided to focus in a sales office. The representative said that Mexico is a suitable country for manufacturing plants. The North of the country counts with a large amount of international manufacturing plants. One sales office is enough and it has resulted in great benefits, they are not looking for expanding their offices in Mexico in the future.

Process for investing: The process for opening the sales office was not very difficult. The company has many years of experience opening sales office, so we already know all the planning and process that has to be done. In Mexico the main challenges that they had to deal with was the large amount of paper work. Thus they had to take into account and understand all the bureaucracy that was behind for opening the office. The procedures are obviously slower than in Finland. It takes more time to gather the documentation and to set appointments with people in the government.

During the Investment process: during the investment process all the Mexican actors were helpful, but as mentioned before the process were longer than expected due to the bureaucracy and due to the Mexican working style. We found major differences in the business style but this did not create any problem for us as we already knew about the Mexican way of doing business. It is very important to understand the culture in order not to be surprised later on.

Major challenges or barriers for investing: The interviewer explained that an impediment they struggled with was the bureaucracy in all the Mexican government, as well as the way of Mexican working style, which slowed the project.

Incentives for investing in Mexico: the government was always very supportive and helpful. Their trade agreements were a great incentive for the establishment of our office.

Legal restrictions for investing: in general all the legal procedures are very slow. You need to get many copies and signatures of the same document in order to get things done. If you are missing a copy, this slows the process. The legal system is not very transparent, there is corruption, but we have never been involved in corruption. We follow the steps as it has to be done.

Easiness for doing business: in Mexico once you understand the way of doing business it gets easier, but there is a lot of bureaucracy and relationships are very important. Thus the more people you know the easier it is because it speeds the processes.

After the investment: we are very happy with the results. Even though we are not planning to open more sale offices. From Mexico we have a very tight relationship with Brazil, with whom we work a lot.

Major difficulties after the investment: no major difficulties, as we have already adapted to the environment.

Change in the market position or market size: our market position has increased as we are closer to our clients, to the USA and to Latin America.

Management and integration of Mexican and Finnish culture: the integration has been easy because the manager before working for this company had already worked before in Mexico, so she already knew how to handle the differences between Mexican and the Finnish culture. She is very happy with the Mexican working style, they work a lot and they are very productive. The manager speaks perfect Spanish, this is fundamental for understanding and having a better relationship with the clients, and suppliers.

Role of government in Mexico and Finland: the manager has seen the openness that the government has had during the last years. The government supports and helps foreign investors through many free trade agreements, which is excellent.

Major changes since the beginning of the investment: every six years there are elections, thus a new president is elected. This brings changes to the personnel working in the governmental departments. This sometimes slows our processes.

Overall performance of the company: the numbers of the company have increased, we have not have had any major effects due to corruption.

General experience of investing in Mexico: we are very happy with the results, and we know exactly how to do business in Mexico.

5.6. Company 3: KEMIRA

Kemira provides expertise and tailored combinations of chemicals for water-intensive industries. They focus on pulp, paper, oil and gas, mining and water treatment to best improve their customers' water, energy and raw material efficiency. Their Revenue in 2013 was EUR 2,229 million (2012: EUR 2,241 million) (Kemira Website). Kemira of Mexico, SA de C.V. is, since 1998, the subsidiary in Mexico. Kemira of Mexico is present throughout the national territory and Central America, and delivering to federal agencies and municipal waters, paper, textile and chemical industries in general. The person interviewed from Kemira was Tuomas Rinne, Managing Director at Kemira Mexico.

Main motives for investing in Mexico: Kemex was the company who contacted

Kemira for doing business. They explained to them the business and started a joint venture with them in 1998 in Cuernavaca, Mexico. Later Kemex decided to sell their part and Kemira acquire the company become the only owner. They had already built a plant in Tlaxcala, which was their first and only plant. In 1998, Mexico City was planning to build a plant for "black waters" . Thus we were invited to contribute in that project, which by the way, it is still being in process. The process was in stop due to political issues and changes in the government, but three years ago it was decided to restart the project again. They decided to go to Mexico because the treating of "black waters" in a business that is increasing in a great amount.

Main reasons for selecting the operation mode: in the beginning it was a Joint Venture with Kemex, but then Kemira acquired Kemex.

During the Investment process: they did not have many problems. To get the permits took a long a time. To create the company was not so complicated. As a Finnish company, for us corruption is unimaginable. He saw just a few examples of corruption, but in general most of the process was very clean. Once the Mexicans know it is a foreign company they do not even propose it because they know nothing will happen. Their lawyers were Mexicans. The time to build the plant took around the years. The length of the process depends on the management and supervising of the team. They had a positive result managing and working with Mexicans because they knew who to choose in their team, this is a fundamental key in Mexico, to know with whom you are working. They had some delays but this was due to the lack of well planning. It was also important to understand that at that time many processes were still done manually, and there was not a lot of need for automatization.

Major challenges or barriers for investing: The most difficult part was to take the telephone lines with TELMEX. (Telephones of Mexico), we had to wait and follow the guidelines. Mexicans do not understand the importance of English language. The language was sometimes a major barrier for communication and this created some problems and slowed the processes. The collection of fees is not efficient at all in Mexico, they had a lot of problems.

Incentives for investing in Mexico: the government was very opened and supported their projects.

Legal restrictions for investing: the legal system also takes some time regarding permits and contracts. You cannot prevent everything that will happen, because you cannot trust 100% the legal system, especially in the speed of processes. Some can even take years and you can never know what will happen. Legal processes are not as expensive as in the United States, but it is extremely slow. The company uses external consulting. They had a legal department in North America.

Easiness for doing business in Mexico: the labor cost was very low, but now it has been increasing. The infrastructure in Mexico is very important for building their plant, if there is not a good infrastructure there are not clients.

Major difficulties after the investment: they have not had any major difficulties. They are thinking about creating projects in South America, mainly in Brazil.
The Europe crisis had a little impact on some product costs due to the currency changes, but this has not changed their market position.

Change in the market position or market size: their position improved and their participation in Mexico increased, but globally it did not have any impact because this project was very local. What did improve a little were exports to South America.

Management and integration of Mexican and Finnish culture: to understand the Mexican culture has helped them integrate some processes into other projects in South America. An important aspect about working with Mexicans is that they are very flexible. Unfortunately their knowledge and study level is not very high. They had very negative surprises regarding their education. For example, engineers who did not know how to write. But on the other hand Mexicans are very motived and interested in working. But he also comments that for labor work in Mexico it is not necessary to have a high education. It was difficult as well to understand the social and economic status of people, and understanding the differences between people who studied in public or private institutes. This has a great impact in the cost of professionals. People coming from public institutes “are cheaper” to hire, but they do not speak English and due to their social economic status they might not be well accepted in special meetings, but on the other hand someone from a private school does speak English but is “more expensive”. They can produce the same results but with different costs. Well-educated people in Mexico are scarce and costly**.**

Role of government in Mexico and Finland: they had the support of the government through the easiness of processes. They had support of the government; it was easy to work with them. He mentions that there are some departments which are more “dirty” than others. This is a great difference with the Finnish government, where all the processes are completely honest and transparent. A similarity in both governments is that in order to get a project you have to go through a tender.

Major changes since the beginning of the investment: the expansion of business in Mexico; geographical growth. They are not thinking about building more plants in Mexico because of priorities; right now Mexico is not one of them. Concerning exports, the number has increased. In customs there are not many problems because of the classification and because they have improved in a large extent. This is because Mexico depends a lot on imports and exports. Freight costs are competitive, they are not expensive, but the costs in the ports are sometimes high.

Overall performance of the company: regarding the production of the plant it is still very manual, sometimes it is not very efficient producing thus this has increased to costs of production. It has been difficult to maintain competitive costs. Kemira has some small local competitors, which sometimes do not follow all the security guidelines and they do not have high administrative costs such as a big company

General experience of investing in Mexico: very positive, very good experience. No negative experiences, but there are just some issues like the paper work is very long.

5.7. Assessment of the results

Factors for investing in Mexico

1- not important 5- very important

	FINPRO	Company 2	Kemira
Location	5	4	5
Natural/Raw resources	4	1	4
Low cost resources	3	3	2
Government openness	5	3	3
Political stability	5	4	4
Legal systems	3	4	2
Economic instability	1	3	3
Income level	5	3	5
Labor costs	5	3	2
Culture	3	1	2
Language	3	1	2
Infrastructure	5	4	5

The main concerns found in the interviews before doing an investment where the location (mean 4,66), infrastructure (4,66), political stability (4,33), income level (4,33), government openness (3.66), labor costs (3,33) and legal system (3).

Location was said to be the most important factor for investing in Mexico, because Mexico has an excellent geographical location, being a neighbor with USA and being very close to South American countries such as Brazil, and Argentina. It was mentioned that Mexico is a perfect location to be near South America and the USA and Canada, and it is a country which has many resources without increasing the cost of doing business. This finding reconfirms that location brings a huge amount of benefits such as the closeness to the customers, and suppliers, as well as it reduces the transaction costs due to the closeness of other target countries. No matter what kind of investment the company is doing, whether it is an export, joint ventures, acquisitions or Greenfields, companies need to research all the pros and cons of the host country.

Besides location being a main reason for investing, it was found that political stability and infrastructure in Mexico play a positive role for attracting investments. Despite Mexico having political problems, this is not a concern that affects investors because all laws and procedures for investing are already established and the Mexican government is working hard in order to improve the easiness of doing business. They mentioned they were happy with the Mexican political stability. They think the President's job regarding the reforms for attracting investors is working. The government plays an important role for the easiness of doing business in Mexico, and the interviewees agreed that the government has been opening its frontiers to foreign investment through attractive incentives and free trade agreements which make Mexico a very good destination for investments.

As stated in the theory we could find that poor quality in the infrastructure can increase costs and diminish FDI activity. The analyzed companies said Mexican infrastructure does not have any negative impact in their reasons or performance, but they did state that the infrastructure in Mexico has improved and that they had been able to overcome the difficulties this factor could bring. Their companies made a deep study to understand the infrastructure in order not to get surprises, and they planned ahead in order to reduce errors or costs.

Regarding language, this factor was not important, as all Finnish managers spoke perfect English. As English not being widely spoken in all social levels of the society, it is fundamental to speak Spanish in order to be able to manage a company.

Reasons for investing in Mexico

	FINPRO	Company 2	Kemira
Increase profitability	5	4	4
Access to other countries	5	4	5
Gain local marketing expertise	3	4	3
Gain local management expertise	3	3	3
Gain technology transfer	4	1	1
Develop a new product or technology	4	1	1
Get rapid market entry	5	4	5
Customer/Supplier/buyer relationship	5	5	3
Human capital	5	3	1

Regarding the reasons for investing in Mexico, the most important ones were the access to other countries (4,66), to get rapid market entry (4,66), to increase their profitability (4,33) and to improve the customer/supplier/buyer relationship (4,33).

In spite of the results regarding the access to other countries, none of the companies interviewed established their business in Mexico to expand to other countries, but they consider this a main motive for investing abroad. As mentioned above, Mexico is close to USA, to Brazil and Argentine, big destinations for opening business. The access the other countries will have at the same time a positive and rapid market entry. Closeness to other partner countries reduces the tariffs in exports, imports, freight costs, transportation costs; it also improves the communication due to the timing zone. Many investors have the need to be close to their customers and suppliers in order to improve the quality of the business, which may be positively linked, their profitability. As mentioned before, due to the strategic location of Mexico, many firms use Mexico as a first point to later on expand their business to North America or South America. The least important motive was to gain technology transfer. The reason is because Mexico is not a developed country; therefore it does not have all the infrastructure and technology advances that Finland does. There are not so many advanced skills or technology that Finnish companies can get from Mexico.

Issues related with post- investment

	FINPRO	Company 2	Kemira
Culture	4	3	3
Language	4	3	5
Political Risk	1	2	4
Corruption	2	2	3
Bureaucracy	3	4	3
Business ethics	2	4	3
Financial institutions	3	2	1
Competition	4	4	4
Economic Instability	1	4	2
Legal systems	3	3	4
Social norms	3	3	3

Concerning the elements post-investment, in the Mexican environment, the most relevant elements were competition (4), language (4), legal system (3,66), culture (3,66) and bureaucracy (3,66). It was mentioned that competition was very fierce in Mexico and that Mexico is becoming more and more competitive due to the free trade agreements and low costs.

Legal systems and bureaucracy are also important after having made the investment, because these factors may slow processes and procedures and increase costs. Bureaucracy was not mentioned as having negative repercussions in the performance of the companies, but it was stated that paper work was really slow and that paperwork must be done with a lot of time in advance in order to prevent problems.

The three interviewees agreed that understanding of the Mexican culture is fundamental for diminishing misunderstandings with customers, suppliers and employees. It is also important to understand that Mexicans have a different attitude toward their bosses, as they think they are superior, and they avoid saying “no” as they find it impolite. Whereas Finnish are direct with their answers and demands. This is a negative aspect, as when being with customers or clients, their responses will be positive even though the real answer is “no”, thus this slows processes. Interviewees also mentioned that it is very important to understand and adapt to the Mexican culture in order to avoid uncertainties.

Regarding the language, learning Spanish is a must. Educational level in Mexico is low compared to Finland, thus not many people speak English. Bureaucracy was another factor to be found very relevant. It is a factor that completely slows the procedures; sometimes it might even stop productivity causing cost losses. Highly bureaucratic tasks, increases the uncertainty of operations and transaction costs, because the investors cannot know for sure how long the process will take, if they can proceed with further actions or if they just have to stop. Therefore, it can be affirmed that the institutional differences affect investors’ internal transfer of knowledge and practices. These procedures in Mexico may take from days to years. Much documentation is needed, as well as signatures. There are many guidelines to follow and they tend to be pretty slow.

Difference in national cultures has an impact in organizational and administrative procedures, but as long as everything is followed by the book, these differences will be diminished. As stated by Meyer and Peng (2003), multinationals have to adjust to the institutional environment; otherwise they are less likely to survive. Finnish investors affirmed having adapted in order to increase their effectiveness and productivity. They must also know very well the people with whom they will be working. A relationship based on trust and communication, will improve the procedures between two the parties.

The most relevant finding was that corruption is said to be one of the greatest barriers for doing business. Even though a low level of corruption is highly related to a higher number of FDIs, in Mexico this rule does not apply with Finnish investors. Despite of the high corruption level that exists in all the spheres of the society, it has been found that corruption does not interfere with the performance of Finnish FDIs. Corruption in Mexico only works in a level where they know they will get something from the other side. In regards to Finnish investments, corruption will mean the exit of the Finnish country, which translates into the decrease of the Mexican economy which depends highly in exports and FDIs, the loss of the business will take with it large amount of money, the loss of future jobs for Mexicans, and the loss of an important business partner.

6. CONCLUSIONS

Foreign Direct Investment is one of the most representative and dynamic elements of globalization. In Mexico, Foreign Direct Investment has had a mayor impact in the Mexican economy since the entry of the North American Free Trade Agreement (NAFTA). As a consequence, investment flows have been increasing immensely. Lately determinants of FDIs have become of great interest for researchers as they are considered one of the steadiest capital flows in developing countries. At the same time the link between institutions in developing countries and FDIs has been addressed.

The aim of this study was to discuss the Mexican institutional environment, the economic, political and cultural environment, and the impact of these factors over Finnish FDIs in Mexico. Institutional environment is important for businesses as it guides the way investments must be planned, implemented and managed. The more research there is about the market the more prepared Finnish companies will be. They will know how to react to the institutional environment.

Over the last decades Foreign Direct Investment is a topic that has attracted the attention of many researchers. The best-known and most used theory of investments is by John Dunning, the so called Eclectic Paradigm. The OLI-paradigm has been a good scheme for this study for understanding why FDI flows occur. This paradigm anticipates that companies invest abroad when they get firm-specific advantages. All companies will to expand abroad are looking for some firm-specific advantages such as expansion or higher profitability.

Research in institutional environment has also increased greatly due to their crucial role of institutions as determinants of the economic growth, showing a response to the gaps between economies, not explained by traditional factors. As defined by North (1990), institutions are compelling determinants of economic performance, since its main function is to reduce uncertainty by establishing a stable structure of human interaction. Thus, institutions represent the set of constraints created by men, formal and informal, which affect the behaviour of individuals and organizations in a society. Therefore the quality of institutions determines the incentive framework to carry out activities, and stimulating their productivity.

Due to the differences found between Mexico and Finland, formal and informal institutions play an important role in creating an efficient and stable economic exchange. The theory suggests that investors are more like to respond favorably to an economy with an increased transparency, such as Finland. Thus it is expected that a developing country, such as Mexico, with more transparent institutions and procedures tend to attract more inward investments. On the contrary, according to the table 9 the transparency Index shows Mexico ranking in the position 103. In spite of Mexico having such a high transparency index, according to the results from the interviews corruption has not been a major constraint while establishing or implement an investment in Mexico. It is a fact that corruption does exist in Mexico but my assumption is that such big companies as those interviewed in this study may surpass the hurdles and avoid the corruption issues through their professional corporate advisors like big accounting firms. Perhaps due to the fact of being Finnish companies with a good reputation and such large corporations they are treated differently and with greater respect than Mexican companies.

In regards to similarities in countries where culture, political structure, and infrastructure have less uncertainty, relatively lower transaction costs may be presented. Therefore; investors are more likely to invest in countries where they are culturally similar, and have similar organizational structures. Despite of the huge cultural difference that exists between Finland and Mexico, this study examined companies that have done a good planning job before investing in Mexico. Doing an exhaustive research of the Mexican market has helped the interviewed companies in having a positive impact in the performance and management. The results in this study have shown that culture has played an important role in the post-investment, but this role has not been negative. Some theories mention that high differences in cultures may have a negative impact in the investment. This is not the case of Finnish investments in Mexico.

It is important to notice that formal institutions in developed and developing countries may encounter big differences in the institutional structures. Developing economies usually tend to have weaker institutional structures, whereas developed economies have stronger, more stable and more transparent institutional structures. In the last years attitudes and policies in Mexico towards liberalization of FDI policies have been subject to some controversy due to loss of national sovereignty, anti-competitive behavior and other possible consequences. Some exclusive activities for the Mexican state are: Oil Industry, Minerals, Railway, among others. But with the current President Enrique Peña Nieto, some industries have been opened to the market such as the Electrical Industry "Comisión Federal de Electricidad (CFE), which has lost its monopoly for selling electrical industry, and now has to compete with private companies.

FDI's have historically given rise to such concerns, since it may involve a controlling stake by large multinational corporations over which domestic authorities appear to have limited power. For these reasons, governments have traditionally imposed restrictions on inward FDI. But as mentioned earlier, in recent times, increase on the benefits of inward FDI has led to reconsideration of these restrictions and this has been reflected in modifications of policies and reforms to attract FDIs.

On the other hand with the growth of foreign investors and acquisitions there are political pressures which are against opening the exclusive Mexican industries to foreigners and wish to develop in favor of restricting foreign investment. Thus the importance that the Mexican government review deeply the FDIs policies so that national interests are being protected.

The Mexican business environment makes the market entry more difficult than it is in Finland. Mexico also has higher trade barriers and more restrictions in foreign investments than Finland. These conclusions are not true in all cases, but these common denominators can be found in the majority of develop and emerging countries, where the institutional structure in emerging countries is often not so opened, even though during time countries have been improving their business regulations.

It is also necessary to say that firms will take location decision not only based upon their knowledge of the host country, but also they will take into account previous experiences in similar countries. The three companies researched have a high amount of investments all around the world, where country differences are high. These companies have a huge experience and background on the FDI world, so this is a key point for understanding the impact that the environment may have in their investments as well as how to manage pre investment, management and post investment. I may state that if the study had focused in smaller companies with less experience in market expansion in developing countries, the environmental impact could have been stronger and with more repercussions. Institutional knowledge can help firms reduce their liability of foreignness, or their disadvantage with other firms in the same host country due to lack of knowledge of the local environment. The understanding of the political governance, the laws and norms can help diminish problems and costs.

Firms operate in different and complex institutional environments. Previous literature has analyzed and understood the importance of institutions in the host country for the better management, control and performance of the firms. In order to reduce uncertainty, it is fundamental for companies aiming to internationalize, to analyze the institutional environment in the host country. By reducing uncertainty, companies will reduce the cost of doing business, as well as diminishing the risks of failure and decrease the time of entry and operations. In order to achieve the company’s goal businesses need to adapt their procedures, processes and strategies in order to successfully be competitive and strong in the host country. A company from a country with a similar institutional framework will experience less uncertainty compared to a company from a developed country, like Finland, entering a developing economy, like Mexico.

In regards to the empirical part, this study was conducted by using qualitative multiple-case study as a research strategy in order to produce deep analysis and descriptions environmental factors affecting the performance of Finnish FDIs in Mexico. It could be found that Finnish companies are very well aware of the benefits of Mexico, such as location, natural resources, trade agreements. Due to these benefits, Mexico is constantly making reforms in order to improve the competitiveness, the education and the business environment. However, the effectiveness of the reforms is limited by its own informal institutions that slows and sometimes inhibit the procedures. These changes have to be made by the Mexican government, but due to corruption, bureaucracy, level of education and legal system, the results are slow. In order to have a long term and definite economic growth, there is a need for restructuring structural policies, educational system, and to improve the legal system.

The main findings in this study are that corruption and bureaucracy have not played a major negative problem for the companies interviewed, as it is stated in many studies. It has been found to be an issue in Mexico, but according to the results from the interviewees these factors are not a barrier nor affect Finnish investments. The main reasons for investing in Mexico are shown in the following table.

Table 14. Main factors, reasons and issues in investment

Main Factors for investing	Reasons for investing	Main Issues after the investment
• Location • Political Stability • Infrastructure	• Increase profitability • Access to other countries • Get rapid market entry	• Language • Competition • Bureaucracy • Legal System • Culture

The Mexican government has been improving its policies and legal framework for attracting investments. Mexico has been modifying its economic passive policies into a more flexible framework since it has been demonstrated that a free market can guarantee a better use of resources and consequently this flexible framework will attract foreign investments. As a result of modifications into policies and reform, foreign investments are increasing and Mexico is becoming, slowly, one of the best locations in Latin America for Foreign Direct Investments. Mexico has a good political stability and the government is working positively for reducing the barriers for investments and creating new reforms to attraction of FDIs.

This work has explained the fundamental differences between formal and informal institutions and their impact in Foreign Direct Investments. Even though the results may not be applicable to all countries, the basic main differences help understand the decision making of developed countries entering in emerging countries. It must be mentioned that each country is different and unique, no matter how big or small the cultural distance or how much difference there are between institutions. It is essential to carefully analyze the host country before entering a new market. Formal institutions such as regulations, rules and laws play an important role when entering a foreign country because these have a direct impact in the decision making, business model and strategy for expanding abroad. But informal institutions also play an important role and require as much attention as formal institutions. Informal institutions play a substantial role in countries with weak formal institutions. Therefore, companies must address this fact especially when entering an emerging country.

Informal institutions are based on the beliefs, ideologies and education of a society, therefore these may determine the existence of satisfactory or poor governance. Thus, in intolerant and distrustful societies, governments can hardly function efficiently. Such beliefs and ideas can be verified or not, false or self-imposed, and when these ideas are maintained over time they create a "culture". Education is another important element shown in the findings of this study. Education increases or diminishes corruption, to the extent that a more educated person generates higher production and decreases levels of corruption within the organization or society.

Another factor studied in this work is the effect of the Mexican legal system in Finnish investments. If a government has good fiscal resources then it will be capable of providing with enough quality institutions. The legal system in Mexico was found to be a moderate factor for the investment decision making.

Table 15. Findings about the Impact of the quality of Institutions

General Impact of the quality of Institutions in the economy		
-Increase of economic growth -Economic performance -Improves business productivity -Influence on investments (human capital, technology, production)		
Economic Impact	**Political Impact**	**Social Impact**
-In foreign capital -Economic policies -Productivity -Human and capital investments -Economic incentives -Infrastructure	-Political policies and reforms -Political instability -Legal system -Investment laws -Political freedom -Government openness	-Corruption -Bureaucracy -Education -Trust in foreign investments -Culture and social norms -Business ethics

The above table has been created from the literature review and from the analysis of the interviews. It shows the impact of the quality of institutions over the economy, politics and social environment.

Institutional environment is a relevant element in a country´s economy due to the impact it may have in the growth of the economy. It is necessary for governments to be able to identify the key conditions and factors that impact and affect the economy in order to act towards improving their institutions and improve their economic performance.

According to the literature corruption in informal institution that discourages the inflows of foreign direct investment, because the investors may feel morally obligated to avoid bribery practices, where local businesses may adopt to use unethical options, or where the degree of corruption in the host country tends to be highly correlated with other institutional elements such as the degree of bureaucracy and legal system quality.

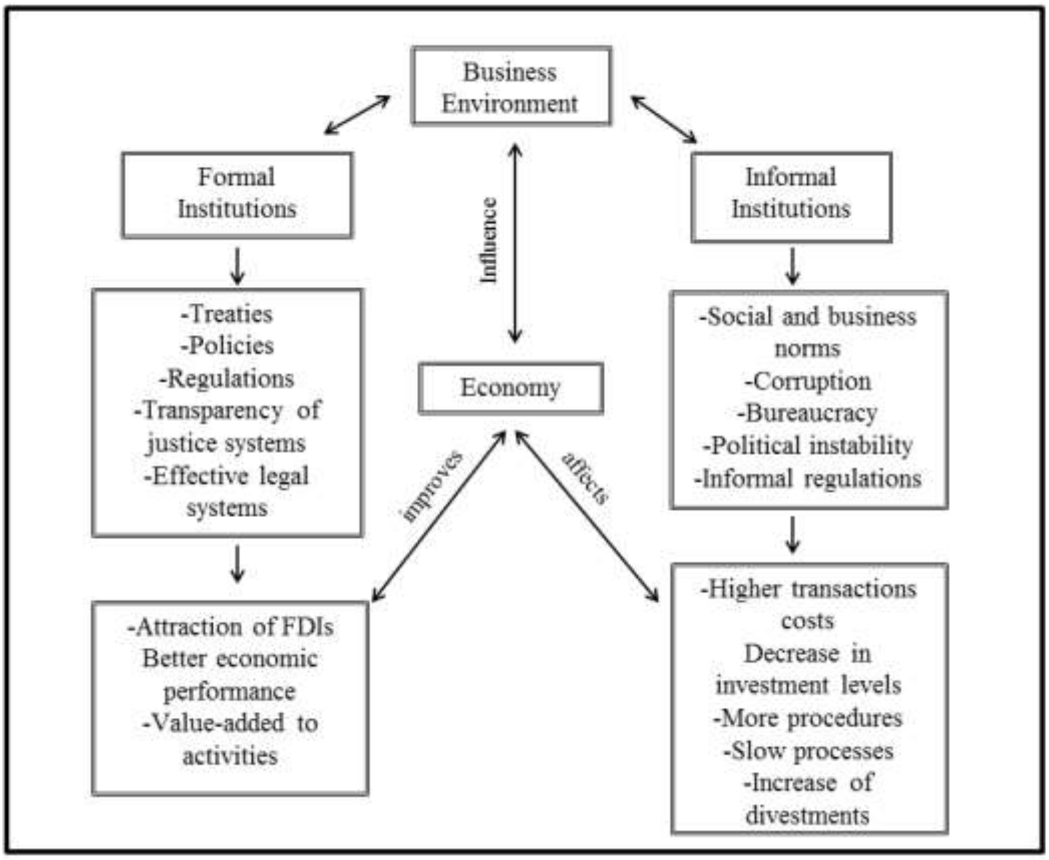

Figure 10. Findings about institutional environment

The previous figure was created from the literature presented and from the findings from this study. It shows how the economy of a country and its business environment are interrelated. The business environment is constituted by formal and informal institutions which may affect positively or negatively the economy through the attraction of FDIs.

The Mexican government is working hardly in order to improve the economy and the attraction of FDIs, but it is still necessary to amend and improve regulations, the legal system, the transparency of procedures among others in order to boost the flow of investments. This study has stated how institutional deficiencies are present in the stability of a government in their capacity to create and implement reforms in order to increase the growth of the economy. Therefore it is fundamental for the Mexican government to review and analyse its institutional environments, although it is a very long and complicated process. If Mexico is willing to achieve a better economic performance through the attraction of FDIs, the government must be able to reduce corruption, bureaucracy and improve legal systems and transparency in order to rely on a strong and transparent institutional framework is suitable for the economic growth and stability.

6.1. Contributions and future research

The main reason for analyzing two distant countries such as Mexico and Finland is due to the need for understanding the relationship between political, institutional and cultural differences between both of them when doing business and to understand fully institutions and policies in order to maximize the benefits and outcomes of the investment.

This work has helped explore the impact of institutional environment in Finnish MNEs operating in Mexico. The study found that the legal system and bureaucracy play a role for the achievement of processes and that it is necessary to understand in advance how paper work is done, so this time planning must be considered. But nor bureaucracy nor corruption play a negative role, as it is stated by many theories. Corruption is a problem in Mexico, but it is not a major problem for foreign companies. Legal systems and bureaucracy, despite of not being a negative factor, where shown to play a major role in the procedures of Finnish companies, as processes and regulations are very slow and there is many paper work to do for each procedure.

As emerging countries are growing and becoming more important host countries for developed countries, competition is increasing largely, making Mexico a better attraction for FDIs. As to Mexican culture it was confirmed that culture plays an important role when doing business anywhere in the world. Finnish managers confirmed that it is essential to study and understand Mexican culture before doing business, as this decreases time and transaction costs.

Another finding was the language for doing business in Mexico; everything is required to be done in Spanish due to the low educational level, compared to that in Finland. The most important finding was that in spite of the results from previous studies and results from external sources, corruption is a fact and an element that is present in the Mexican society, but it does not have a negative impact for Finnish investments, as it may have been expected.

Concerning the main factors for investing in Mexico, Finnish companies choose Mexico due to its location and its natural resources. Mexico is well located due to its geographical proximity with the United States of America and agreements with Brazil.

For future research, a deeper analysis of the institutional environments between Finland and Mexico may be done. Also the effect of formal and informal institutions may be explored separately, as well as a deeper study of the institutional environment in a specific industry or a specific establishment mode. Unfortunately this study did not focus in a specific industry due to the difficulty of finding the adequate profile. At least three Finnish people who have worked in the same industry in Mexico could not be found. It may also be interesting to compare Finnish investment in Mexico and Brazil within the same industry.

It may also be important to focus on foreign investments in different provinces or cities or Mexico, in order to learn and compare how location inside Mexico affects Foreign Direct Investment. Strategies used in different areas of Mexico by the government, could also be studied and analyzed, helping to understanding of cost-efficiency and long-term effectiveness in Mexico. This study could provide a broader picture to the investor for knowing what state in Mexico is better and why. To provide a list with is less cost-efficient states, the most transparent or those who provide better incentives to investors.

Mexico is a very resourceful country, but the environment might be quite complex, making it difficult and slow to access resources due to bureaucracy or due to lack of investment promotion strategies, which need to be informed by global and local conditions and executed with high levels of skills thinking in long-term, because the results of FDIs are long-term, but unfortunately emerging countries think only of short terms where results can be tangible and noticed in a short period of time. This work studies only the Foreign Direct Investment, but it does not analyze the trade aspect. Will the Mexican institutional environment have the same effect on Foreign Direct Investment as in the Trade sector? This is an important question to take into account for future research.

6.2 Limitations

This study was focused only on the relationship between Finland and Mexico, thus a general analysis regarding emerging countries could not be done. This study gives a general idea but it is not possible to state whether the same results could be reached with another emerging country.

A comparison with another emerging country in Latin American could be studied in the future in order to see if another institutional environment has some effect or not in Finnish investments. Thus it is not possible to conclude that institutions can have the same impact in Mexico, Brazil, or Argentina.

Another important limitation is that the three companies analyzed, did not meet the exact same criteria. The sector industry and establishment mode were different, as well as the size of the company, thus regrettably these factors affect greatly in the generalization of results. Having analyzed the same sector could have provided a deeper understanding of the Finnish decision making in a specific sector in Mexico.

Another limitation is the number of people interviewed. Only three people were interviewed, but they were all Finnish managers who have worked for at least 10 years in Mexico, who speak Spanish and who understand in a great extent the Mexican business environment. This number might not necessarily be able to provide sufficient information for generalizing how the institutional environments influences or affects Finnish investments.

Lastly, the study was focused only in Mexico, and only at the national level. Mexico has 32 states, which have their own government, fiscal systems, procedures and incentives. It would be important to learn which are the states with better incentives and opportunities for attracting investments. Only two companies were established in Mexico City, the other one had its premises in “Estado de México”.

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APPENDIX 1. QUESTIONNAIRE

1. Company information

- Name of the company
- Industry of the company
- Annual sales (2011/2012) (parent company)
- Size of the company (number of employees)
- Years of establishment of the subsidiary
- Establishment mode

a) Greenfield
b) acquisition
c) Joint Venture

- Ownership
- Years of international experience
- Company’s previous operation in Mexico

a) None
b) Sales office
c) exporting/importing
d) licensing
e) Greenfield
f) Acquisition
g) Joint Venture
h) other

Issues related with pre- investment

Factors for investing in Mexico

1 not important 5- very important

- Location 1 2 3 4 5
- Natural/Raw resources 1 2 3 4 5
- Low cost resources 1 2 3 4 5
- Government openness 1 2 3 4 5
- Political stability 1 2 3 4 5
- Legal systems 1 2 3 4 5
- Economical instability 1 2 3 4 5
- Income level 1 2 3 4 5
- Labor costs 1 2 3 4 5
- Culture 1 2 3 4 5
- Language 1 2 3 4 5
- Infrastructure 1 2 3 4 5

Reasons for investing in Mexico

1- Not important 5- very important

- Increase profitability 1 2 3 4 5
- Access to other countries 1 2 3 4 5
- Gain local marketing expertise 1 2 3 4 5
- Gain local management expertise 1 2 3 4 5
- Gain local distribution channel 1 2 3 4 5
- Gain technology transfer 1 2 3 4 5
- Develop a new product or technology 1 2 3 4 5
- Get rapid market entry 1 2 3 4 5
- Customer/Supplier/buyer relationship 1 2 3 4 5
- Human capital 1 2 3 4 5

Issues related with post- investment

Impact of Mexican environment

1- low 5 – high

• Culture	1 2 3 4 5
• Language	1 2 3 4 5
• Political Risk	1 2 3 4 5
• Corruption	1 2 3 4 5
• Bureaucracy	1 2 3 4 5
• Business ethics	1 2 3 4 5
• Financial institutions	1 2 3 4 5
• Competition	1 2 3 4 5
• Economical instability	1 2 3 4 5
• Legal systems	1 2 3 4 5
• Social norms	1 2 3 4 5

APPENDIX 2. INTERVIEW QUESTIONS

Before investment

- Could you please describe and explain the main motives for investing in Mexico?
- What were the main reasons for selecting the operation mode?

During the Investment process

- What were the major challenges or barriers for investing in Mexico?
- Were there any incentives for investing in Mexico? Which ones?
- Were there any legal restrictions for investing? Which ones?
- How would you consider the easiness for doing business in Mexico?

After the investment

- What have been the major difficulties after the investment?
- Has the market position or market size changed from the beginning? How and what are the factors?
- How has the management and integration of Mexican and Finnish culture been?
- Could you please compare and contrast the role of government in Mexico and Finland?
- What have been the major changes since the beginning of the investment?
- What has been the overall performance of the company? What factors have been the most beneficial?
- How would you consider the general experience of investing in Mexico?