Aalto University
School of Business

Key determinants and future implications on Mexican market entry - Case study on Finnish companies

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Master's thesis

Patrick Lees

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Department of Information and Service Economy
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KEY DETERMINANTS AND FUTURE IMPLICATIONS ON MEXICAN MARKET ENTRY

Case study on Finnish companies

Master's Thesis

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AALTO UNIVERSITY SCHOOL OF BUSINESS ABSTRACT

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ABSTRACT

Objectives of the Study

Finland and Mexico share a long and stable relationship since 1936, when they signed a friendship agreement. However, despite the long and stable relationship between the two countries, trade between Finland and Mexico could be described as limited. However, the amount of Finnish companies operating in Mexico is slowly growing. This study aims to recognize the key determinants influencing the market entry of Finnish companies to Mexico. The second key objective is to point out the key determinants influencing the market entry mode of Finnish companies in Mexico. Finally, the study aims to construct a market entry model for Finnish companies considering market entry to Mexico and offer managerial implications and key considerations upon market entry.

Academic background and methodology

There is an abundance of data available on the business environment of Mexico; however, the data on trade relations between Finland and Mexico and Finnish companies operating in Mexico is quite restricted. The literature review builds on the extensive amount of literature available on the Mexican business environment, Finnish and Mexican relations, market entry modes and strategies and foreign trade in Mexico. In addition, the Mexican market and business environment was compared to Brazil, the largest economy in Latin America.

The empirical findings were retrieved via an *exploratory* case study, which included two interview groups: the case company representatives and experts, authorities and researchers in relation to the Finnish and Mexican relations and the Mexican business environment. The existing literature and empirical findings were combined to form an adapted market entry model for Finnish companies to Mexico in addition to managerial implications upon market entry.

Findings and conclusions

The empirical findings offered various key takeaways on the market entry determinants to Mexico for Finnish companies. The three most important determinants concerning the market entry to Mexico were the following: 1. Market factors, 2. Competition, and 3. Inputs (labor, natural resources and land), while the three most important determinants on the choice of market entry and operation mode were the following: 1. Global strategy of the entrant firm, 2. Tax factors, and 3. Control of operations in the target market. Based on the key determinants upon market entry and market entry mode choice to Mexico, the study offers concrete suggestions for the potential Finnish market entrants for all the important determinants, emphasizing the timing of market entry and the prevailing market conditions.

Keywords

Market entry, operating mode, market presence, FDI, Free Trade Agreement

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ABSTRAKTI

Tutkimuksen tavoitteet

Meksikolla ja Suomella on ollut vakaat ja hyvät suhteet vuodesta 1936 lähtien, jolloin maat allekirjoittivat yhteistyösopimuksen. Huolimatta vakaista ja hyvistä suhteista Meksikon ja Suomen välillä, kauppavaihto maiden välillä on ollut rajallista. Suomalaisten yritysten määrä Meksikossa on kuitenkin on kasvanut vakaasti viimeisten vuosien aikana. Tämän tutkimuksen tavoitteena on tunnistaa avaintekijät, jotka vaikuttavat suomalaisten yritysten markkinoilletuloon Meksikoon. Toinen päätavoite on tunnistaa avaintekijät jotka vaikuttavat yritysmuotoon, jolla suomalaiset yritykset tulevat Meksikon markkinoille. Tutkimuksen viimeinen päätavoite on rakentaa markkinoilletulomalli suomalaisille yrityksille, jotka harkitsevat markkinoilletuloa Meksikoon ja tarjota suomalaisille yrityksille konkreettisia ehdotuksia markkinoilletuloon liittyen.

Kirjallisuuskatsaus ja metodologia

Meksikon markkinoista on tarjolla hyvin paljon dataa, mutta data Suomen ja Meksikon välisistä kauppasuhteista sekä suomalaisten yritysten toiminnasta Meksikossa on hyvin rajallista. Kirjallisuuskatsaus pohjautuu aineistoon Meksikon markkinoista, Suomen ja Meksikon välisistä suhteista, markkinoilletulomalleista ja strategioista sekä Meksikon ulkomaankaupasta. Tämän lisäksi Meksikon markkinoita on verrattu Latinalaisen Amerikan suurimpaan talouteen, Brasiliaan.

Tulokset ja päätelmät

Tutkimuksen empiiriset tulokset tarjoavat paljon hyödyllistä tietoa suomalaisille yrityksille, jotka harkitsevat markkinoilletuloa Meksikoon. Kolme tärkeintä markkinoilletuloon vaikuttavaa tekijää olivat seuraavat: 1. Markkinatekijät, 2. Kilpailutekijät sekä 3. Resurssit (työvoima, luonnonresurssit ja maa), kun taas kolme tärkeintä tekijää jotka vaikuttivat markkinoilletulo- sekä operointimalliin olivat seuraavat: Yrityksen globaali strategia, 2. Verotekijät sekä 3. Operatiivisen toiminnan kontrolli. Tutkimus tarjoaa suomalaisille yrityksille empirian pohjalta konkreettisia ehdotuksia tärkeimpien tekijöiden kohdalla, painottaen markkinoilletulon ajoitusta sekä vallitsevia markkinaolosuhteita.

Avainsanat

Markkinoilletulo, operointimalli, markkinapresenssi, suorat sijoitukset, vapaakauppasopimus

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1. INTRODUCTION

Finland and Mexico share a relatively long trade history, commencing in 1975 with the technological, scientific and economic collaboration agreement (Foreign Ministry of Finland, 2013) The breakthrough in trade between Finland and Mexico, however, happened in the 1990's. In 1994, Mexico joined the NAFTA (North American Free Trade Agreement), which resulted in immediate access to the global market. There are currently 37 Finnish companies operating in Mexico, with 12 companies having their own production facilities in the country. (Finpro, 2013)

Although Mexico is not even close to be one of Finland's key trade partners on a global scale, there is a great amount of potential in Mexico yet to be discovered by all Finnish companies. The national trade, internationalization and investment development organization in Finland, Finpro, has identified some significant competitive advantages of the Mexican market such as cheap and educated labor force, high purchasing power, a stable currency and bank sector, low manufacturing costs, rich natural resources and an open economy (Finpro, 2013). On the other hand, plenty of challenges await potential investors in Mexico. According to some of the Finnish companies operating in Mexico, the key challenges for them lie in the following reasons: bureaucracy, corruption, high corporate tax level, dependency on the United States and oil revenues, and establishing long-term business relationships. This study will gather empirical data directly from the companies in order to reassess the key strengths and challenges of Mexico from the point of view of the Finnish companies.

The study will be executed as an assignment for a Finnish consulting company, AGH Associates. One of AGH's key business areas is to facilitate the market entry for Finnish companies to Mexico, and consequently they will help the researcher by providing relevant contact people and data for the study. The researcher's interest in the subject stems from a student exchange period in Mexico and travels through the Latin American region. The amount of Finnish companies operating in Mexico is still relatively small despite the free trade agreement between the EU and Mexico. The researcher will study the investment potential of Mexico and the underlying reasons why Finnish companies have entered the Mexican market and why they still operate in the market. One of the key objectives of the study will be to find out the gap between the perception of the strengths, weaknesses and opportunities of the Mexican market between existing literature and actual management-level decision makers in Finnish companies. The aim is to identify the future implications for Finnish companies currently operating in Mexico and the key determinants on market entry and market entry mode decision for potential future investors to the country.

1.1 Research gap

There is an abundance of data in the trade relations between the United States and Mexico. Trade relations between the EU and Mexico are also fairly well covered. However, going more specific into trade between Finland and Mexico, and the Finnish companies operating in Mexico, the amount of data is more limited and harder to reach. When considering the limited access of data between Finland and Mexico, the distinction between different market entry modes of Finnish companies operating in Latin America is also an area with a lack of data. This study aims to distinguish between the different market entry modes of Finnish companies operating in Mexico. This data will be utilized to analyze the advantages and disadvantages of the different entry modes in the Mexican market.

Even though there is a lack of data in Finnish companies operating in Mexico, and trade between the two countries, the subject area of Mexico as a business environment is well covered. However, strengths and weaknesses of the Mexican market have different levels of significance between different regions, especially between the United States and the European Union. Therefore, the existing literature on market conditions in Mexico, which are mostly based on and retrieved from the United States, is not fully applicable for trade between the EU and Mexico, let alone between Finland and Mexico. One of the key contributions of this study will be to cover this gap by performing an empirical study with the key actors in Finnish companies.

1.2 Research questions and objectives

The research questions and objectives have been formed partly based on the reasons mentioned above in the research gap section. As mentioned earlier, there is a lack of data on the Finnish companies operating in Mexico, namely on the provisional market entry modes, current operating modes and possible changes in the provisional operating modes. All of the three research questions are asking both the questions *what* and *why,* in the context of the case companies already operating in the Mexican market.

1) What are the key determinants influencing the market entry of Finnish companies to Mexico and why?
2) What are the key determinants influencing the market entry and operating modes of Finnish companies in the Mexican market and why?
3) Have there been significant changes in the operating modes of Finnish companies in Mexico? Why?

The research questions are based on discovering the key determinants on market entry and market entry mode choice of the Finnish companies currently operating in Mexico. While the first two research questions focus on the market entry, the third research question is related to changes in operating modes after provisional market entry to Mexico. This is important to understand in order to acknowledge the changes needed to adapt into the Mexican business environment.

Only once the research questions have been answered, the research objectives can be fulfilled. While the research questions have been directed towards the Finnish companies currently operating in the Mexico, the research objectives of the study are related directly to potential Finnish companies entering the Mexican market. The first research objective of the study is *to construct an adjusted Mexican market entry model for Finnish companies considering market entry to Mexico*. The second research objective is *to offer managerial implications and concrete suggestions for Finnish companies contemplating market entry to Mexico*. The chronological sequence of the research questions can be seen from Figure 1.

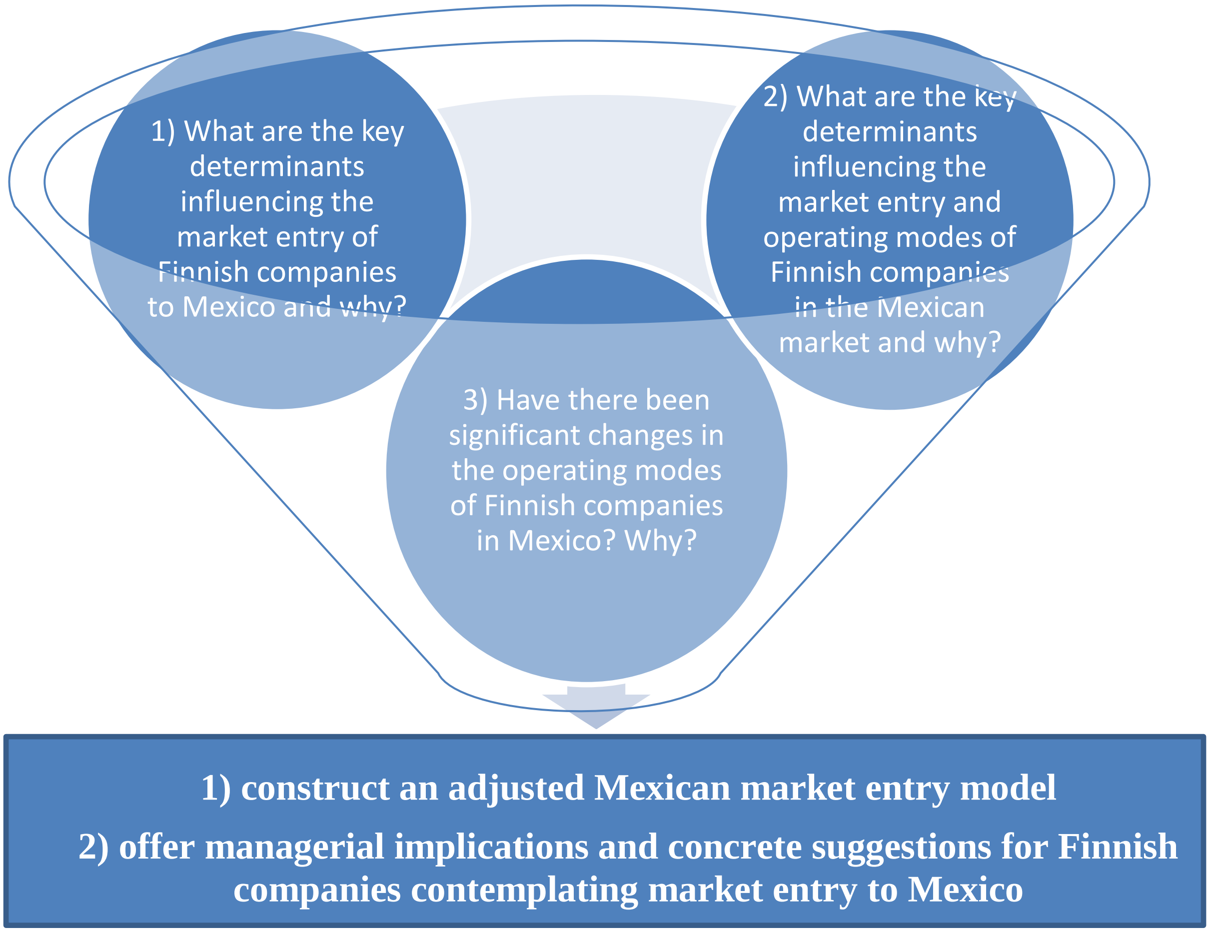


Figure 1 Research questions and objectives of study

1.3 Definitions

In order to help the reader introduce him or herself to the study, this section introduces the basic definitions relevant to the study. These definitions are important to fully comprehend the research and its key results.

Market entry

Market entry is one of the key concepts in relation to the study. According to the Business Dictionary, market entry is defined as *"the activities associated with bringing a product or service to a targeted market. During the planning stage, a company will consider the barriers to entry, the costs of marketing, sales and delivery, and the expected outcome of entering the market"* (Business Dictionary, 2014). This study will focus on both the provisional market entry of the case companies and the future market entry of potential Finnish companies entering the Mexican market.

Market entry strategy

*"A **market entry strategy** is the planned method of delivering goods or services to a new target market and distributing them there"*. (Lymbersky, 2008) According to Welch, Benito and Petersen, there are three groups of factors influencing on the entry mode strategy of foreign companies: the company background factors, specific company mode concerns and foreign market influences (Welch et al, 2007). In the context of this study, the market entry strategies are both related to the global/international strategy of the company and the actual entry mode strategy.

Wholly owned subsidiary (WOS)

According to the official definition of Investopedia, a wholly-owned subsidiary can be defined as a *"company whose common stock is 100 % owned by another company, called the parent company".* (Investopedia, 2014) There are two options on how a company can become a wholly owned subsidiary, by an acquisition by the parent company or a spin off from the parent country (ibid). In the context of this study, all the case companies operating via a WOS have been formed through a spinoff from the parent company.

Foreign Direct Investment (FDI)

According to Wilska, Foreign direct investment is *"an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign investor (FDI enterprise or affiliate enterprise or foreign affiliate).* (Wilska, 2002) All of the case companies in this study have entered the Mexican market via FDI.

Market entry modes

Market entry modes are different ways of entering a foreign market in terms of the company form. According to Root, market entry modes can be divided into three different modes:

investment entry modes, export entry modes and contractual entry modes (Root, 1987), while Tang and Liu divide market entry modes to equity or non-equity entry modes. (Tang & Liu, 2013) According to McDonald, Burton and Dowling, market entry modes differ in the degree of risk they present, the control and commitment of resources they require and the return of investment they promise. (McDonald;Burton;& Walton, 2002)

Investment entry modes

An investment entry mode is one of the three subcategories of market entry modes, along with export entry modes and contractual entry modes (Wilska, 2002). According to Root, "investment entry modes (different modalities of FDI) include new establishments, acquisitions and joint ventures with equity participation". (Root, 1987) In terms of the different market entry modes, the investment entry mode is the most relevant in the context of the study, as almost all of the case companies have entered and currently operate in the market with equity participation.

Free Trade Agreement

Free trade agreements can be defined as a *"treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but (in contrast to a common market) capital or labor may not move freely"* (Business Dictionary, 2014) FTA's are crucial in the concept of the study as the vast free trade agreement network of Mexico has a notable influence on the foreign (Finnish) companies either operating in Mexico or contemplating market entry to Mexico. The most notable FTA's in the context of the study are the NAFTA and the FTA between the EU and Mexico.

Operating mode

Similar to the definition of the market entry mode, operating modes are different modes of the operation of daily activities in a target country, instead of different market entry modes. In certain cases, the market entry and operating mode can be similar. For example, a company can enter a market by establishing a WOS. Five years later, the same company is still operating via a WOS, which is its current operating mode. An operating mode states the current mode of operation of a company in a certain market, and as in the case of market entry modes, there are an abundance of different operating modes in use today, such as franchising, licensing, management contracts, international subcontracting, project operations, exporting, alliances and foreign direct investment. (Welch et al, 2007)

Global strategy

According to Govindarajan and Gupta, a company's global strategy can be defined as *"an organizations strategic guide to globalization".* Govindarajan and Gupta also present key questions that a global strategy should address: *"What must be (versus what is) the extent of market presence in the world's major markets? How to build the necessary global presence? What must be and (versus what is) the optimal locations around the world for the various value chain activities? How to run global presence into global competitive advantage?"* (Govindarajan & Gupta, 2008) The concept of global strategy is very important in the context of the study as the global strategies of the case companies and potential Finnish companies entering the Mexican market can have a big influence on whether the companies invest or stay in Mexico.

Maquiladora

The Business Dictionary offers the following definition for a maquiladora:

> *"Mexican 'twin plant' manufacturing program under which specialized production facilities (usually straddling the US-Mexican border) can import components duty-free for in-bond storage, assembly, and subsequent re-export. Established in 1965, this scheme generates employment for cheap Mexican labor and is Mexico's largest foreign exchange earnings after oil exports. From Mexican-Spanish 'maquilar,' to assemble."* (Business Dictionary , 2014)

In the context of the study, the maquiladora program is related to the manufacturing operations of foreign companies established in the northern parts of Mexico. Even though the maquiladora model is not so strong anymore, it has shaped the manufacturing industry of Mexico and helped establish Mexico as a major manufacturing hub on a global scale.

Market presence

Market presence is a key concept in relation to the study, as the empirical findings are based on Finnish companies with market presence in Mexico. In this study, market presence can be defined as the physical presence of a company in a certain market, regardless of the operating mode. (WOS, franchise, sales office, etc.) In the context of this study, having market presence in Mexico means having equity-based ownership in Mexico.

1.4 Limitations of study

The most obvious limitations of the study are related to the scope of the study. With a limited amount of companies operating in the Mexican market, it is not possible to generalize the market entry and presence motives for future investors based on a relatively small sample group (10 companies), especially as there seems to be no industry or sector where Finnish companies have specialized in Mexico. In addition, assessing the market entry motives of Finnish companies already operating in Mexico is challenging as the investments have materialized over 20 years ago in most of the case companies. Therefore, the interviewees might not have a clear view on the original market entry motives, or even worse, they might have a distorted view, which is not consistent with the original motives.

The second limitation of the study relates to the depth of the case-company based analysis. In order to gather a diverse spectrum of empirical data from different Finnish companies, the researcher has interviewed as many Finnish companies as possible in the Mexican market. This has limited the amount of interviews per company to one interview. As the study is qualitative, the answers depend on the perception for the interviewee. Therefore, the perception of the interviewee on decision-making in the company has a significant impact on the research results. However, the interviewees have been carefully screened in order to interview the most relevant and objective people available.

Finally, the third limitation relates to the feasibility of the market entry model to other economies than Mexico. Although the market entry model is primarily serving companies contemplating investment to Mexico, most of the key determinants displayed on the model can also be feasible to other similar Latin American markets with different rates of significance with each determinant. However, as all of the empirical findings and most of the literature review is based on the Mexican market, there is a lack of research on the other Latin American markets.

2. LITERATURE REVIEW

After introducing the subject to the readers, this section will go through the literature review of the study. The section starts will familiarize the readers with Finnish and Mexican relations, the Mexican business environment, economy, and the key concepts in relation to the study, market entry models and market entry modes. Finally, the literature review will introduce the theoretical framework of the study.

2.1 Introduction

The goal of this research is to study the decision-making rubric between different market entry and operating modes and identify the key determinants on market entry of Finnish companies operating in the Mexican market. The decision-making research will be done in two separate areas: the key factors and determinants why Finnish companies either invest or do not invest in the Mexican market and how Finnish companies operating in the Mexican market decide between different operating modes in Mexico. As the study will compare the empirical data retrieved from decision-makers in Finnish companies to existing literature on country-specific strengths and weaknesses in Mexico as a market, the literature review will introduce the reader to Mexico as a business environment. The Mexican business environment will be approached from a global view, but the literature review will also illustrate the Mexican business environment specifically in the point of view of Finnish companies. The literature review will also introduce the political and economic relations between Finland and Mexico and examine the key industries in Mexico in the point of view of Finnish companies.

The literature review continues to build on the research objectives of the study, and will therefore provide the reader with a general overview on different market entry modes and strategies. Finally, the literature review will start the construction of the theoretical framework, which will be based on a Latin American market entry model adjusted to the Mexican market according to existing literature. The theoretical framework will be further adjusted after the empirical findings according to the market entry modes, market presence and market entry determinants in the context of Finnish companies operating in Mexico.

2.2 Finnish and Mexican relations

Relations between Finland and Mexico, both politically and economically, have been good and stable for a long time. Finland and Mexico signed a friendship agreement in 1936. 13 years later in 1949, both countries signed a diplomatic agreement. (Foreign Ministry of Finland, 2013) Finland and Mexico signed an agreement in 1999, which prohibits double taxation between the two countries. (ibid) In addition to the agreement on double taxation, an investment protection agreement between the two countries has improved the conditions for commercial trade. Mexico has signed a free trade agreement with the European Union, which has been in effect since 2000. The final tariffs on industrial products were removed in 2007, opening up trade between Finland and Mexico yet again. (Foreign Ministry of Finland, 2013)

However, there might be a change in the fiscal policy of Mexico concerning the prohibition of double taxation between Mexico and Finland. As Mexico is planning to reform its fiscal policy, not all regulations seem to be favorable for foreign companies operating in the country. According to Kauppalehti, the government of Mexico is deciding on the issue during the third week of October 2013 (14.10-20.10). (Mykkänen, 2013) As the agreement on the removal of double taxation has been considered being one of the strengths of the Mexican market for Finnish companies, there might be drastic changes in the near future, given that the reform will go through. In an open letter written to the authorities of Finland and Mexico, Finnish tax experts and the Finnish Chamber of Commerce offer their concerns on how of the possible reform will affect the Finnish companies in a negative manner: *"As a consequence, Finnish companies would need to change their operating model by selling the goods directly to Mexican customers and not through their Mexican subsidiary."* (Penttilä & Vuori, 2013). Mr. Vuori and Mr. Penttilä also believe that the reform is not helpful in any manner to the Mexican economy:

> *"Finally, in our view the Mexican Government is not benefiting anything from the change, but on the contrary this can result in less tax revenue in Mexico as the activities in Mexico are run down or sales activities are moved to the US. It is difficult to believe that the planned reform is intended to stop business with countries such as Finland with which Mexico also has a Double tax treaty."* (Penttilä & Vuori, 2013)

The proposed fiscal reform can therefore have great bearings on the future of the Finnish-Mexican commercial co-operation. However, at the time of writing, there were no concrete steps to implement this particular fiscal law.

Mexico became a member of NAFTA (North American Free Trade Agreement) in 1994, which opened up the market to the biggest economy in the world, the United States. (Foreign Ministry of Finland, 2013) The FTA also increased the interest towards Mexico for Finnish companies, mainly because of the proximity of the United States. Although the Mexican market has opened up significantly since joining the NAFTA in 1994, and Mexico has agreed on various free trade agreements on a global scale, the open market has not significantly increased the commercial trade between Finland and Mexico. The trade flow has fluctuated remarkably during the last years, partly due to the economic crisis in 2008. Figure 2 shows how the Finnish exports to Mexico have evolved between 2009 and 2012 on a monthly basis:

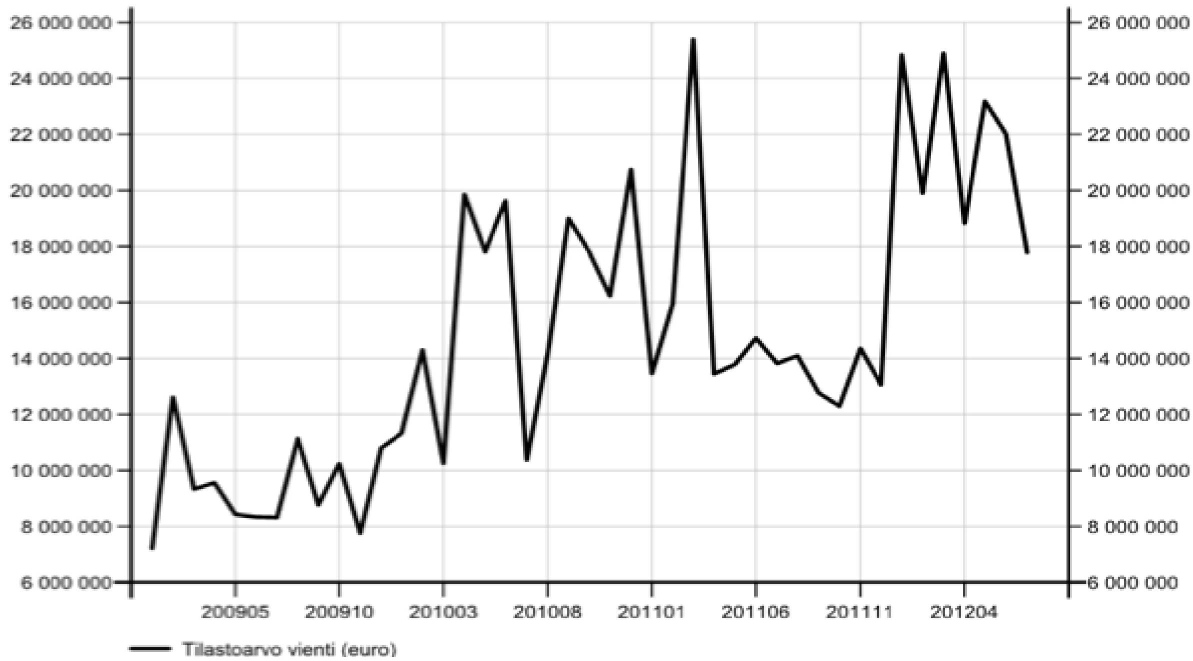


Figure 2 The progress of Finnish exports to Mexico **(Tullihallitus, 2012)**

In 2012, the value of the commercial exchange between Finland was 419 million Euros, with exports from Finland to Mexico accounting for 236 million Euros. (Foreign Ministry of Finland, 2013) Finland imported goods worth of 183 million Euros from Mexico in 2012, giving a trade surplus of 53 million Euros for Finland. (Finpro, 2013) The most important products exported to Mexico in 2012 were machinery and transport equipment (55%), along basic manufactures such as paper and cardboard (27%), and chemicals and related products (11%). The most significant imports to Finland from Mexico were also machinery and transport equipment (71%). Other major imports included crude materials except fuels (6%), chemicals and related products (6%) and miscellaneous manufacturing articles (10%). (Finpro, 2013) The exports from Finland to Mexico account for only 0,2-0,3 % of the whole share of Finnish exports globally. (Foreign Ministry of Finland, 2013) However, the export statistics do not convey the whole picture of commercial activity between Finland and Mexico. According to the Foreign Ministry of Finland, it is estimated that indirect exports from Finland to Mexico are two or three times the size of direct exports. (Foreign Ministry of Finland, 2013) This happens because a big share of the exports travel through factories located in different countries (mostly United States) to Mexico within the boundaries of the NAFTA. (Foreign Ministry of Finland, 2013)

As the focus of the study are the Finnish companies operating in Mexico, the trade statistics between Finland and Mexico is not the most relevant metric for the current state of commercial exchange, but rather the volume of FDI of Finnish companies to Mexico. According to the Bank of Finland, the amount of FDI from Finnish companies to Mexico was approximately 105 million Euros in 2012. (Suomen Pankki, 2014) At the current state of affairs, 37 Finnish companies have operations in Mexico. From these 37 companies, 12 companies have at least one own factory or production facilities. (Finpro, 2013) In addition to the companies operating in Mexico, there are approximately 70 Finnish companies with a local representative in Mexico. (Foreign Ministry of Finland, 2013) There are no specific statistics on this figure, but Finpro has named at least 71 companies having local representatives in Mexico (Finpro, 2013). Comparing to 2007, when there were 27 Finnish companies operating in Mexico and at least 56 companies with local representation, there has been growth despite the economic crisis in 2008. (Finpro, 2013) The biggest current employers are the mobile phone factories of Nokia in Reynosa, the Luvata factory in Monterrey and the Kone factory in Coahuila. (The Finnish embassy in Mexico, 2013)

2.3 The economy of Mexico

The Mexican economy could be described as one of the most open economies in the world at the moment. Mexico has 11 free trade agreements with a total of 44 countries around the world. (Finpro, 2013) Among all the major free trade agreements, the most important ones are the North American Free Trade Agreement (NAFTA) and the free trade agreement between the EU and Mexico. These FTA's, which are crucial for the sustainable and high pace growth of the Mexican economy, connect Mexico to nearly one billion potential customers all around the world. (Finpro, 2013) In addition to the current free trade agreements, Mexico is also a part of an economic bloc, the Pacific Alliance, which consists of four Latin American countries, Mexico, Peru, Chile and Colombia. (Alianza Pacifico, 2013) The Pacific Alliance state members recently agreed to liberalize 92 % of their countries' goods and services. (Badawy, 2013) These free trade agreements, starting to materialize in the 1990's, led to a strong growth rate on Foreign Direct Investment to the country until the economic downturn in 2008. In 2012, Mexico recorded a stock of direct foreign investment of 13,7 $ billion, (Foreign Ministry of Finland, 2013) declining significantly from the FDI rates of 19,5 billion $ in 2011 and 20,7 billion $ in 2010 respectively. Mexico is still far away from the levels before the recession, when the FDI was nearly twice the size compared to 2012, 27,1 $ billion in 2008. However, the gross domestic product has grown steadily during the same period. After the decline of 5,6 % in the GDP of Mexico in 2009, highly dependent on the recession, the GDP has grown by an average of 4,5 % during the past three years. (OECD, 2013) The GDP is expected to grow by 3,3 % in 2013. (Foreign Ministry of Finland, 2013)

Partly due to the open economy and being a favorable business environment for foreign companies, Mexico is gaining significant recognition as being one of the fastest growing emerging economies in the world. According to the World Bank, Mexico was the 13th largest economy of the world in 2012. (World Bank, 2013) However, there is a mutual consensus that Mexico will be at least among the top eight economies in the world by 2050. HSBC Mexico estimates that Mexico will be the eighth largest economy in the world by 2050, while Goldman Sachs is more optimistic in its estimate by positioning Mexico as the fifth largest economy by 2050. (Finpro, 2013) There are various reasons for the strong growth prospects of the Mexican market. In addition to the openness of the Mexican market, one of the key reasons for growth is the attractiveness of the market for foreign investors. With a rapidly growing middle-class and strong purchasing power, Mexico is the 11th largest consumer economy in the world. (ibid) In a country with 112 million inhabitants, the GDP per capita adjusted for Purchasing Power Parity (PPP) in 2012 was $ 9,741 (World Bank, 2013) As Mexico was formerly seen as an excellent strategic location for entering the nearby markets, such as Canada, United States, and Asia, now companies are considering Mexico, per se, being a significant market. Mexico has been a manufacturing-driven market for the last decades, especially in the automotive industry and the assembly lines (maquiladoras). The mining and construction industry have been and still remain to be key industries. The end products have usually ended up outside of the country, especially to United States, which accounted 78,7 % of Mexican exports in 2011 (Foreign Ministry of Finland, 2013). However, it seems like the domestic market will have a more decisive role in the investment potential of Mexico in the future, highly as the result of the rising purchase power of Mexican consumers.

As the GDP rate of Mexico has not yet managed to reach the pre-recession levels around $ 25 billion, the new regime of President Enrique Peña Nieto has started to work on opening the market for foreign investors. In addition to the competitive advantage of various FTA's, the new government has started to work on various reforms simultaneously. Telecommunications, labor market and educational reforms have already begun, while fiscal and energy reforms are being prepared (Foreign Ministry of Finland, 2013). While the energy reform might be the most crucial reform to be implemented, it is also by far the most challenging one. Even though there are signs of reforming the state-owned petroleum company PEMEX, there seems to be no possibility of privatization. As Luis Rubio from the Wilson Center states, privatization is not seen as an option:

> *"Mexicans tend to be tied to their history and the 1938 oil expropriation was a major historical feat that shaped perceptions and strengthened the ideological foundations of the political regime. From this perspective, the property of the oil resources has become a stalwart of the country's nationalism, an untouchable sacred cow."* (Rubio, 2013)

The Mexican economy is still highly dependent on oil revenues and Mexico is currently the number nine crude oil producer in the world. (Finpro, 2013) This is why the energy reform is deemed to be so crucial, as PEMEX is considered to be highly corrupted and ineffective:

> *"PEMEX is a political entity, more a government ministry than a productive enterprise. It is organized to serve the interests of its stakeholders and beneficiaries and not of its theoretical shareholders (the people of Mexico). It has served as a source of "petty" cash for presidents since its inception and caters to its prime stakeholders: the government, the union, its bureaucracy and its contractors. It is not surprising that, given the alignment of interests among all of these, paralysis is the status-of-choice for all."* (Rubio, 2013)

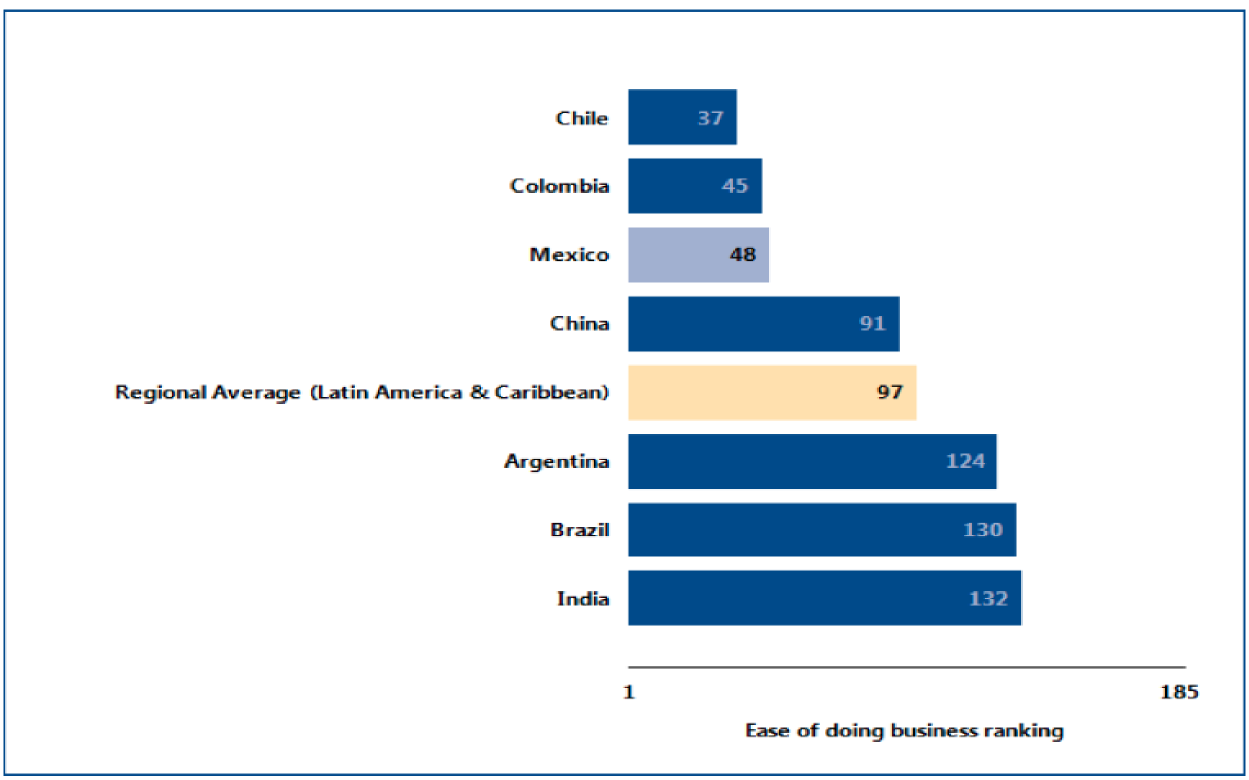
How Peña Nieto's regime manages to implement the planned reforms will have huge bearings on the Mexican economy, especially in terms of foreign investment. In order to keep up the highest growth pace of Latin American economies, Mexico must continue to attract foreign investment.

2.4 The Mexican business environment in a global perspective

The previous section offered a brief insight in the state of the Mexican economy. This section will focus on the assessment of the Mexican business environment in a global perspective. This includes not only the current foreign enterprises operating in Mexico, but also all the potential investors in the future. Instead of focusing on the economy as a whole, the section concentrates on the market purely as an investment option, and how the strengths, weaknesses, opportunities and threats are portrayed on a global scale.

According to the report *Doing Business 2013* by the World Bank and IFC, Mexico ranks as number 48 in the world in 2013 in the ease of doing business ranking. (The World Bank, 2013) Mexico has improved its rank by five positions compared to 2012. While the 48th position might not be formidable on a world scale, Mexico is still the third easiest country to do business in Latin America, just behind Chile (rank 37) and Colombia (45). (The World Bank, 2013; OECD, 2013) When considering other large emerging economies, both in Latin America and on a global scale, Mexico fares well considering its unworthy reputation as a developing country. Brazil is still the largest economy in Latin America by a significant distance; however, it might come as a surprise how a bureaucratic and challenging business environment it is for foreign companies. Currently, Brazil stands at rank 130 in the ranking. Figure 3 shows how emerging markets around the world compare to each other's in the ranking.

Figure 1.2 How Mexico and comparator economies rank on the ease of doing business



Source: Doing Business database.

Figure 3 How Mexico and comparator economies rank on the ease of doing business **(The World Bank, 2013)**

The strengths, weaknesses, opportunities and threats of market entry always vary between different industries, and there is no exception in the case of Mexico. However, there are also certain market characteristics that apply simultaneously to all industries. When considering the competitive advantages of Mexico, a Mexican governmental institution promoting international trade, ProMéxico, offers the top business strengths for Mexico: location, laws and openness, reforms, trade agreements, competitive costs, abundant and skilled workforce, future prospects, tourism, manufacturing and logistics hub and strategic partnership. (ProMexico, 2013). According to Finpro, the core competitive advantages for Mexico are a large consumer market with purchasing power, investment grade and IP protection agreements, a stable economy and political environment, an efficient manufacturing and logistics hub, free trade agreements, a competitive and young labor force, and being the 11th largest economy of the world. (Finpro, 2013) As both organizations are focused on enhancing the presence of foreign companies and FDI in Mexico, they do not offer weaknesses or challenges for foreign or Finnish companies operating or contemplating operation in Mexico. According to Atradius, a multinational trade credit insurance company, the key strengths of Mexico as a market lay in the various FTA's, purchasing power of the growing middle-class, the business-friendly government and the countless opportunities in the infrastructure sector, namely in the energy, telecommunications, road, rail, ports and aviation industry. (Atradium, 2013).

Mexico has always been highly interconnected to the economy of the United States and remains as a significant hub to the North American market, including Canada. However, after Mexico started to open up its economy to free international trade and attract investment flows, other regions, such as Latin America and the EU, have obtained a larger share of the international trade of Mexico. (ProMexico, 2013) The free trade agreement network of Mexico is one the most extensive networks in the world and it is starting to pay dividends both for Mexico and foreign investors. According to readings on the Mexican market, the FTA network is seen as the most important competitive advantage compared to other emerging markets. The second key strength of Mexico as a market seems to be its own people. In addition to a growing middle class with purchasing power, Mexico is known for its skilled workforce. Over 115000 engineers graduate every year in Mexico, which exceeds the figure of Germany, UK, Brazil and Canada respectively. (ProMexico, 2013) While there is a robust base of highly skilled workforce in the form of engineers, Mexico also has a competitive advantage to other emerging economies in labor costs.

According to the sources of ProMexico, the average labor cost in Mexico in the area of manufacturing was 3,41 US dollars per hour in 2008 (United States Department of Labor). This is significantly lower than in other emerging economies, such as Latin American heavyweights Argentina and Brazil, as figure 4 illustrates. Perhaps the most important cost advantage is gained against United States, by far the most important trading partner of Mexico. According to AlixPartners, Mexico has an average business cost advantage of 21 % relative to the United States. (Finpro, 2013) This has been measured in 19 different industries. (Finpro, 2013)

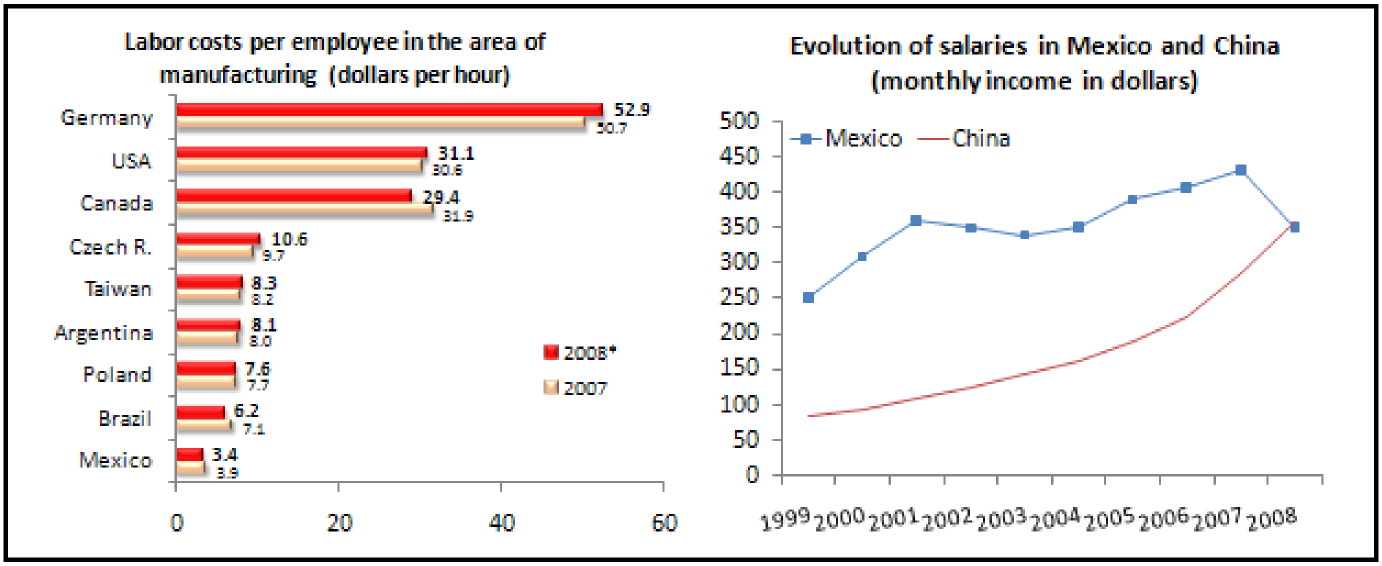


Figure 4 Labor cost differences **(United States Department of Labor, 2007) (International Labor Organization, 2008)**

The third key strength that has occurred from different sources is the geographical location of Mexico, especially as a manufacturing and logistics hub. (E.g. Finpro, ProMexico) This has been a key strength for decades due to the proximity of the world's largest economy, the United States. With a 12 % share of the imports of the United States, Mexico is the 3rd largest trading partner of its northern neighbor. (CIA, 2013) Mexico shares a 3145 kilometers long border with United States, which has enabled and still enables US-based companies to outsource their production to Mexico. (International Boundary and Water Commission, 2011) The Maquiladora program, referring to the manufacturing operations (assembly lines) in the free-trade zone close to the border of Mexico and United States, has been in a significant role in the trade between Mexico and the United States. In 2011, 78,7 % of the total exports of Mexico were exported to the United States. (World Trade Organization, 2013) The total value of the Mexican exports in 2011 was 349,6 billion dollars. (ibid) While the US market is still the key factor in outsourcing manufacturing operations to Mexico, there are also other advantages in its geographical location. Compared to other emerging economies, Mexico is strategically close to big consumption centers in the world, such as Los Angeles, Rotterdam, Yokohama and New York. (ProMéxico, 2013) With 16 major seaports situated on both the Pacific and the Atlantic Ocean, Mexico has easy access to the EU, Asia and South American markets. Due to the vast network of FTA's in Mexico, tariffs have decreased from an average 13 % to 8 %, with an estimate of 4 % in 2012 (ProMexico, 2013). While Mexico is seen as a gateway to various major markets, foreign companies have also realized the potential the domestic market of Mexico has. Huge infrastructure plans, various reforms under the new regime (fiscal, energy, education, healthcare) and the growing middle class make Mexico an excellent geographical location for investment per se, even without considering the gateways it offers to other markets.

Although there seems to be numerous good reasons for companies to invest in Mexico, market entry to Mexico is certainly not problem-free. According to representative of Finpro and Team Finland, the biggest challenges of Mexico are the security issues, the ineffectiveness of the legal system, corruption and bureaucracy. (Kaihilahti & Jaakkola, 2013) The war against drugs continues rigorously, especially in the northern parts of the country, where a big part of the foreign companies operate, especially in manufacturing. This has huge bearings on the reputation of Mexico as a business environment when companies make decisions on foreign market entry. Mexico is an obvious solution for various industries for investment, especially when making resource-based decisions. For example in the mining industry, the amount of resources such as silver and copper in Mexico practically forces global players to enter the Mexican market for pure terms of extraction. However, when considering that a significant part of the natural resources are situated in areas that are considered dangerous because of the drug wars, the companies might have a tendency to invest more in the safety of the operations and their work force.

According to Finpro, the biggest weaknesses identified by Finnish companies in Mexico are the following: Corruption, insecurity, bureaucracy, high infrastructure costs (energy, highways, railways), complicated labor laws, legal, political and fiscal uncertainty and US dependency. (Jaakkola, Mexico as a market area and production site for Finnish companies, 2007) Even though Mexico has a wide range of FTA's, this has not abolished the bureaucracy, needless paperwork and amount of procedures involved in foreign operations in Mexico. These factors have been recognized in 2006; however, the legal, political and fiscal uncertainty might change drastically depending on the proposed fiscal reform of the regime of President Enrique Peña Nieto.

The existing literature on the Mexican business environment has been more focused on the strengths. The findings from the first interview group will dig deeper into the weaknesses and challenges of the Mexican business environment, especially in the context of Finnish companies.

2.5 Business environment comparison: Brazil vs. Mexico

The previous section assessed the Mexican business environment in a global perspective in terms of market entry for foreign companies. In the globalizing world, MNC's are outsourcing their activities to numerous locations based on differing criteria: costs, alignment to global strategy, market presence, control of operations, etc. As there are numerous options for outsourcing for global companies, Mexico is competing with other economies to attract foreign direct investment. This section will compare the Mexican business environment and future opportunities with Brazil. The key reason for the aforementioned comparison is the fact that both countries are attracting FDI with very different strategies. In the Latin American market, Mexico and Brazil are the biggest markets by a significant margin, and it is interesting to realize how both countries have been successful in the past by utilizing their own strategies. As mentioned earlier, Mexico is seen as a relatively open market, especially in the context of Latin America, while Brazil is more of a protectionist country; however, this has not decreased the amount of FDI in the past years. Brazil is the most relevant point of reference for Mexico in terms of attracting FDI, when considering the Latin American context.

The commercial exchange between Finland and Brazil in 2012 was approximately 1,5 billion Euros, which is over three times more than between Finland and Mexico. (Luoto, 2013) Even though the commercial exchange between Finland and Brazil is already on significantly higher terms, the importance of Brazil for Finnish companies can be best depicted from the direct investments of Finnish companies in production facilities in Brazil. Approximately 50 Finnish companies have over 21,000 local employees with a combined turnover of approximately 3,6 billion Euros. Many of the case companies operating in Mexico also have presence in Mexico. In comparison to Mexico, Brazil still holds a significant advantage for Finnish companies due to many reasons. One of the determinants for market entry and presence for Finnish companies to Brazil is the favorable business environment for pulp production. (Luoto, 2013) In addition to the local demand for paper and pulp products, there is an abundance of natural resources available in Brazil. With a domestic market of just under 200 million, there is a huge demand of products incomparable to other Latin American countries.

Similar to Mexico, Brazil offers huge opportunities for Finnish companies, especially in the energy industry and public infrastructure. Massive infrastructure improvements are required to exploit the oil and gas opportunities found close by to the Brazilian coast, including ship fleets and cargo. (Luoto, 2013) In addition to oil and gas opportunities, the biggest opportunities Brazil can offer for Finnish companies still lay in the energy industry. Growing energy demand has forced Brazil to invest in renewable energy, which opens up opportunities in wind energy and especially biofuels. Brazil is the world's largest biofuel consumer and this has offered promising opportunities for Finnish companies in Brazil. (ibid) With a huge energy demand, Brazil is in need of huge investments in power transmission infrastructure, which according to Finpro accounts to over 6000 kilometers. (Touré, 2010) Other potential industries in Brazil include waste treatment, wastewater treatment, the education sector, the telecom industry, agribusiness and the healthcare industry. The Finnish education system is well known in Brazil, and the demand stems from both hi-tech products and services in the education sector.

When comparing the key determinants on market entry between the two countries, Brazil holds a significant advantage to Mexico in terms of market size and market potential, which is one of the key determinants for market entry in Mexico for foreign companies. Despite the growing market potential in Mexico, it still cannot compete with Brazil within domestic markets, as the population of Brazil in almost twice the size of Mexico. However, while the target market for companies entering Brazil is usually the domestic market, resource-seeking market entrants in Mexico are focusing on the US market, which is significantly larger than the Brazilian market, both in terms of population and purchasing power. Mexico seems to be better situated strategically than Brazil, as it is closer to both the Asian market and the United States, while the nearby economies to Brazil are all smaller Latin American economies. However, Brazil does share a border with all of the South American countries except Ecuador, which in total accounts to a relatively large market area. The GDP per capita in Brazil in 2012 was $ 11.340, which is slightly higher than in Mexico. (World Bank, 2013) Therefore, the purchasing power is still higher in Brazil, although the growth seems to be stalling, while in Mexico there is a trend of high and sustainable growth in purchasing power in the near future.

Bureaucracy and safety are key issues in Mexico and unfortunately, Brazil shares the same issues. As mentioned in the previous section, Brazil only ranks as the 130th best country in the world to conduct business in comparison to Mexico, which ranks as the 48th best country in the world according *Doing Business 2013* report by the World Bank and IFC. (OECD, 2013) Considered to be a protectionist trading partner by many of the interviewees of this study, Brazil does not have such a vast network of FTA's as Mexico. Brazil is one of the founding members of Mercosur, the trade alliance between 11 Latin American countries (Brazil, Uruguay, Paraguay, Argentina, Bolivia, Chile, Ecuador, Peru, Venezuela, Columbia and Mexico), but Mercosur still cannot considered to be a 100 % free trade agreement, according to Touré. (Touré, 2010) The European Union and Mercosur are also negotiating on a free trade agreement between the two parties, but according to the Director of the Latin American and Caribbean unit of the Foreign Ministry of Finland, the negotiations are progressing very slowly. Bureaucracy affects both countries, but it seems to set more restrictions on Brazil because of the complicated fiscal policy legislation and high customs. (ibid) As in Mexico, the business environment is considered to be a key strength of Brazil, despite the high level of bureaucracy. According to Touré, the business culture in Brazil is very *Western* and the level of English is very high. (ibid). She has also paid tribute to the professionalism of the top managers in Brazil.

2.6 Market entry models

In order to comprehend the decision-making logic of Finnish companies operating in the Mexican market, one must assess how the market entry and market presence fits the market entry and internationalization strategy of the entrant company. Before entering a foreign market, companies normally undertake extensive research and analysis on the target market in order to reveal all the strengths and opportunities but also the challenges, potential pitfalls and barriers to entry to the specific market. Depending on the size and rate of internationalization of the company, the companies set different rates of significance on their internationalization and market entry strategies. This study will also assess how Mexico fits in the internationalization strategies of the Finnish firms operating in Mexico. While the internationalization strategy concentrates more on the overview and strategic direction without significant country-specific considerations, the market entry strategies are commonly implemented on a country-specific basis. This section will assess the existing literature on key factors affecting the market entry strategies of entrant firms. In the empirical findings section, the strategic decisions of the case companies will be evaluated as well as possible, to the extent that the interviewees want to reveal their companies' strategic decisions in Mexico.

As the study focuses on companies already operating in the Mexican market, the research is directed towards analyzing the market entry mode determinants, given the fact that the market entry decision has already been made. Therefore, this would be after a market feasibility study, where the company decides if it is actually worth investing in the market or not. Once the decision on investment has been made, the next step is to decide how and when the market entry happens. According to Hollensen, there are four groups of factors that have direct influence on the way and time of foreign market entry (Hollensen, 2004):

1) *Internal factors (company size, international experience, product/ complexity and advantages of differentiation);*
2) *External factors (socio-cultural difference between origin country and entry country, market risk/ uncertainty of demand, market size and growth, direct and indirect trade barriers, power of competition, a small number of relevant intermediaries);*
3) *Desirable entry characteristics (low risk, control, flexibility);*
4) *Business-specific factors (export know-how, opportunistic behavior, transaction cost);*

Sendic and Domazet argue that the decision-making process in international market entry starts with the market entry mode, followed by sequencing decisions, or in other words, determining the order of market entry. (Domazet & Sendić, 2010) Therefore, they assume that companies always determine their market entry mode before choosing the timing on their entry.

Welch et al. argue that there are three key influencing groups of factors on the entry mode strategy: the company background factors, specific company mode concerns and foreign market influences. Figure 5 shows the vast array of different factors influencing the entry mode strategy. The company background group includes factors such as global strategy, size, international experience and resources, which seem to be fairly predictable criteria. Foreign market influences such as market condition and size, market growth, competition and macroeconomic conditions such as inflation and exchange rate have been mentioned in the second group of factors. Finally, the third group of factors includes the concerns for specific company modes including control, risk and uncertainty, speed of foreign market entry and flexibility.

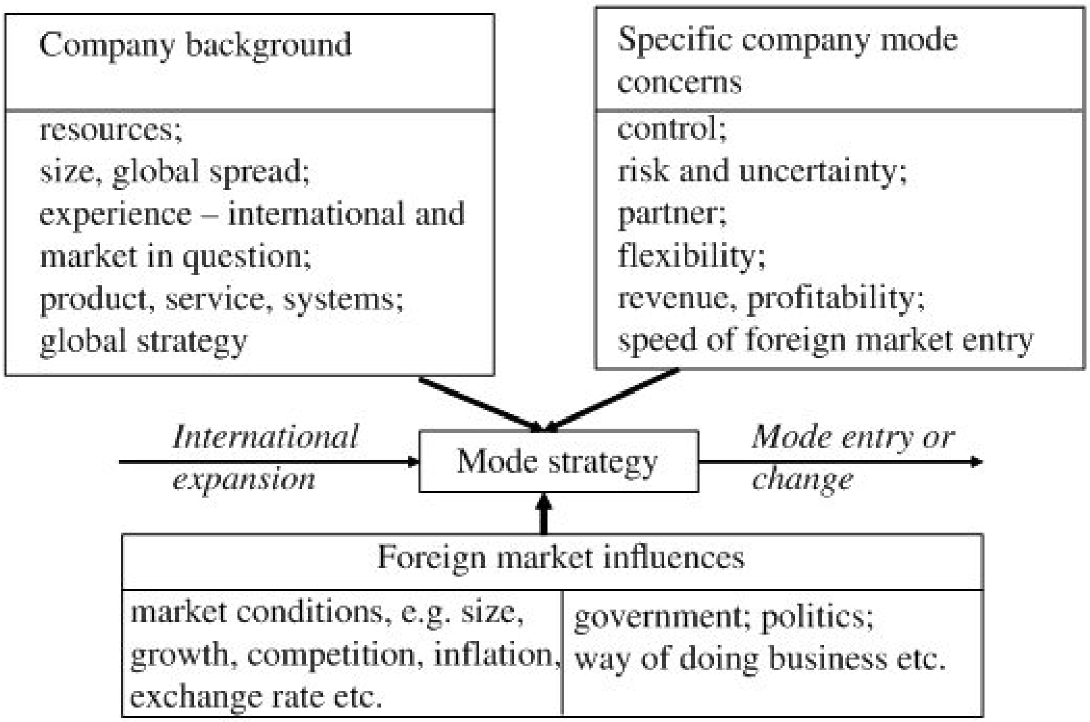


Figure 5 Influences on foreign operating mode decision making **(Welch et al, 2007)**

As all the case companies in the research are already operating in the Mexican market, the study will examine the past market entry models and strategies, but also focus on the current operating mode and possible changes in the operating modes in question. Welch et al. state that *"companies frequently deal with mode combinations rather than singular modes in their international activities"*. (Welch et al, 2007) While the time of the market entry of some of the Finnish case companies is yet unknown, it might be challenging to discover market entry strategies happening over 20 years ago. Therefore, the empirical study and questions will also assess the possible changes in operating modes or currently utilized operating mode combinations, which seem to be more of a rule than exception according to Welch et al.

2.7 Market entry modes

Despite the significant amount of research around the theme of different international market entry modes, there seems to be no scientific consensus on the categorization of the different entry modes. Wilska divides the different market entry modes into three different categories: investment entry modes, export entry modes and contractual entry modes. (Wilska, 2002) According to Root, “Investment entry modes (different modalities of FDI) include new establishments, acquisitions and joint ventures with equity participation.” (Root, 1987) This study focuses mainly on the first market entry mode, the investment entry mode, as the case companies all have equity participation of the three aforementioned modalities of Foreign Direct Investment.

Tang and Liu divide the market entry modes into two simple categories: equity and non-equity entry modes. In a mutual understanding with the research of Wilska, however with one additional category, Tang and Liu break down equity entry modes into four categories: Wholly owned subsidiaries (WOS), equity joint ventures (JVs), acquisitions and capital participation. (Tang & Liu, 2013) Wholly owned subsidiaries fill the same category as new establishments in the definition of Wilska. According to Tang and Liu, however, capital participation is less used in practice and relatively unknown in the academic field, and therefore might not be present in other researchers’ categorization of different market entry modes. “Capital participation is a foreign entry made by the expansion of an existing domestic operation as funded by the foreign investor (Beamish, Delios & Makino, 2001)”. (Tang & Liu, 2013)

As conveyed in the figure 6, Welch et al divide varying foreign operating modes into eight different forms: franchising, licensing, management contracts, international subcontracting, project operations, exporting, alliances and foreign direct investment. Although they are not categorized as market entry modes *per se*, the foreign operations modes can also be applied as market entry modes, the only difference is the time frame. However, to give a more generalized picture, the study divides the foreign operating modes into three general categories: Contractual modes, Exporting and Investment modes, which each have different subcategories, consisting of the eight categories mentioned previously. (ibid) Welch et al. thoroughly examine the tendencies, pros and cons on different market entry modes depending on various factors such as industry, market saturation, political risk, macroeconomic stability, etc., which gives a good overall picture on different market entry mode trends between different industries and geographical locations. As mentioned earlier, the study focuses primarily on the investment entry modes, as all case companies have equity participation in their operations in Mexico. However, some of the foreign operating modes conveyed in figure 6 under the exporting and contractual modes, can be possible operating modes for Finnish companies in Mexico, such as alliances, subsidiaries and own sales offices. The empirical findings will convey if other possible operating modes have been utilized.

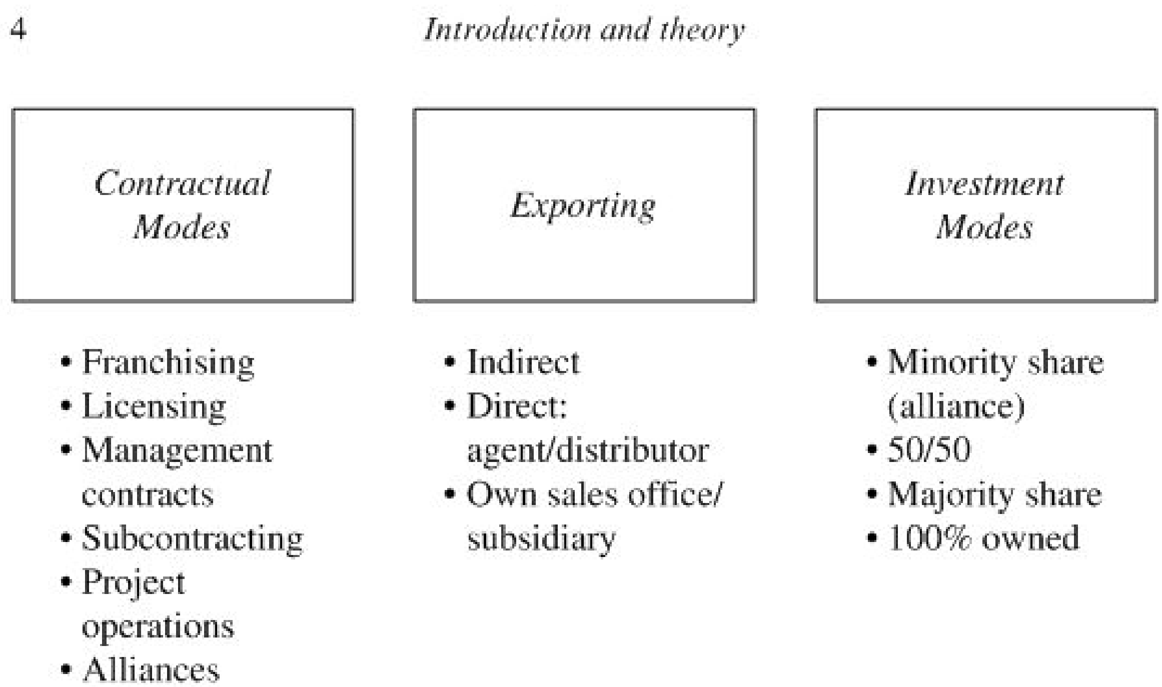


Figure 6 Major foreign operation method options **(Welch et al, 2007)**

As conveyed in the previous paragraphs, no consensus exists on either the amount or categorization of different market entry modes in an international context. Welch et al. also introduce the combination of different market entry modes more as strategic decisions, not as separate market entry modes. Therefore, it is impossible to give a perfect explanation or categorization of different market entry modes and as they mention:

> *"It is not feasible in any book to cover all aspects of the complexity and detail of individual mode groups, let alone the multiplicity of mode combination possibilities, but*

> *there is sufficient coverage in this book to give the reader a good feel for the nature and range of mode options that are available to companies as they seek to internationalize"*. (Welch et al, 2007)

This study will not go through every single market entry mode mentioned in the literature review but instead focus on the relevant market entry modes related directly to the case companies in hand. As acquiring information on the utilized market entry modes and strategies on the case companies before the interviews was extremely difficult, the theoretical framework was adjusted along the course of the study. Although there might be a very limited set of different market entry modes and strategies in question, the framework will be constructed in consideration of all Finnish companies operating in the Mexican market in addition to potentially investing Finnish companies.

2.8 Theoretical framework

As the thesis is focused on both the motives on market entry and market presence in Mexico, the theoretical approach will also focus on both sets of motives. The theoretical framework is based on the combination of different international market entry models and determinants, which combines the key factors regarding the market entry specifically into the Mexican market in the revised framework later in the study. While the framework combines the key factors influencing on market entry from different market entry frameworks, the market entry model, which is one of the key outputs of the research, will integrate the empirical findings with the existing model to form a framework for Finnish companies contemplating investment to Mexico. This section will introduce different market entry theories and frameworks introducing key determinants on FDI, market presence and entry motives and operating mode strategies, and will combine the most relevant determinants to form the theoretical framework for the study.

As there are only 37 Finnish companies operating (equity-based) in Mexico, the theoretical framework will not be industry or sector-specific. The Finnish companies currently operating in Mexico form a diverse spectrum of industries, therefore justifying the decision not to utilize an industry-specific market entry model. Although certain industries might have more potential for Finnish companies planning to invest in Mexico in the future, there is no specific industry that stands out. The framework and research results are aimed to serve all Finnish companies planning to invest in Mexico, and therefore will not focus on industry-specific factors. However, the managerial implications, a key part of the findings of the thesis, will remark how the adjusted framework can be utilized in different manners according to the industry. The economic and political environment in Mexico is subject to a fast-pace change depending on how the proposed fiscal, energy and trade policy reforms materialize. This might significantly raise the market potential towards Finnish off shore technology companies, for example, if the energy reform will go through as expected.

According to Welch et al, the wide range of foreign operation methods can be broken down to two main dimensions: "location, that is, where a certain activity takes place, and governance, that is, how that activity is organized." (Welch et al, 2007) Wilska argues that the driving forces of Foreign Direct Investment can be divided into three groups of determinants: Host country market and input-related determinants (primary determinants), External trade-related determinants, capital movement-related determinants and background conditions (secondary determinants). (Wilska, 2002) *"The host country and input-related determinants are either home-market sales (for market-seeking FDI) and/or home market inputs (for efficiency-seeking or resource seeking FDI)."* Some examples of the primary determinants are market size, growth, competition (market-seeking) and labor and natural resources (efficiency- and resource-seeking) (Wilska, 2002). All the host country determinants for FDI are displayed on figure 7.

PRIMARY DETERMINANTS	GROUP	
1. HOST COUNTRY MARKET AND INPUT RELATED DETERMINANTS	**A, C**	Factors related to the home market and inputs availability in the host country.
1.1. Market size and growth	A	Market size and growth, current demand and market potential.
1.2. Transport infrastructure and distribution systems	A, C	Quality and density of national transportation infrastructure and distribution channels.
1.3. Inputs	C	Availability and cost of inputs.
1.3.1. Labor	C	Availability, quality and cost of labor. Labor regulations and strength of labor movement. Availability of competent and innovative management with organizational skills.
1.3.2. Intermediate goods	C	Quality and price of intermediate goods.
1.3.3. Natural resources	C	Availability and cost of natural resources (metals, minerals and agricultural products).
1.3.4. Land	C	Availability and cost of land.
1.3.5. Capital	C	Availability and cost of capital (financial and physical fixed).
1.4. Production-related infrastructure	C	Availability and cost of energy, water, communications.
1.5. Linkages	A, C	Input / output logistics: nearness to suppliers and/or to raw materials or clients. Synergy logistics: nearness to parent or partner owned firms or firms of same nationality or in same industry. Other successful examples of FDI, agglomeration and reputation.
1.6. Competition	A	Competitive situation in the host country. Factors need to be combined with host market opportunities or production-related benefits.

SECONDARY DETERMINANTS	GROUP	
2. EXTERNAL TRADE RELATED DETERMINANTS	**B, D**	Need to be combined with host country-related factors A and/or C.
2.1. Degree of openness towards imports	D	Existence of artificial barriers (e.g., tariffs and other import controls) to trade in goods and services.
2.2. Economic integration	B	Access to neighboring markets via economic integration arrangements and trade agreements.
2.3. Exchange rate policy	B, D	Relative position of the currency vis-à-vis other countries.
2.4. Promotional policies	B, D	Availability of export promotion and import subsidies.
2.5. Transport infrastructure	B, D	Quality of host country's international transportation infrastructure.
2.6. Geographical distance	B, D	Geographical proximity and location (in relation to origin country and third markets).
3. CAPITAL MOVEMENT RELATED DETERMINANTS	**E**	Need to be combined with host country-related factors A and/or C.
3.1. Degree of openness towards foreign investment	E	Government policies toward foreign investment. Investment laws and regulations. Openness toward international capital movements, repatriation of profits.
3.2. Taxes and other investment incentives	E	Tax benefits and other fiscal and financial incentives.
4. BACKGROUND CONDITIONS	**F**	Need to be combined with host country-related factors A and/or C.
4.1. Macroeconomic environment	F	Macroeconomic environment: economic growth, inflation, interest rates, etc.
4.2. Other infrastructure	F	Other basic infrastructure than directly production or transportation related.
4.3. Political and social stability	F	Political and social stability of the host country.
4.4. Metaphysical factors	F	Civil institutions, patterns of political, judicial and economic organization, strategic and political capacity, rule of law, other socio-cultural factors.
4.5. Cultural distance	F	Cross-country ideological, language, cultural, business, political, etc. differences, i.e., psychic and cultural familiarity.

Figure 7 Host country determinants of FDI **(Wilska, 2002)**

According to Wilska, external trade-related determinants cannot be driving forces of FDI, and therefore, are always combined with the host market sales- or input-related factors. Wilska states that *"Companies go to foreign countries in order to sell something there or to get benefits from some local resources".* In other words, Wilska believes that primary determinants are always to be considered in the case of Foreign Direct Investment. The official definition is "external trade-related factors are related to the material flows entering and leaving the company". (ibid) Companies selling significant amounts of their production into foreign countries tend to emphasize the exchange rate, transport infrastructure and geographic distance. Meanwhile, companies who import high amounts of their inputs stress the importance of tariffs, other trade restrictions, the exchange rate, transport infrastructure and geographic distance. (ibid)

Among secondary determinants are also capital movement-related determinants and background conditions. According to Wilska, "capital movement-related determinants can be separated into factors that influence capital flows into the country/company (policies towards FDI in general and financial incentives) and those factors related to the capital flows out of the country/company (fiscal incentives and repatriation of profits)". (ibid) When considering the division into two, financial incentives include factors like government grants and subsidized credits. On the other hand, fiscal incentives include the reduction of corporate income rates, tax holidays or accelerated depreciation. (ibid) Just as in the case of the external trade-related factors, investment decisions are not usually based on the capital movement-related determinants; therefore, they will be accompanied with one of the groups of primary determinants. (ibid) Although according to Wilska, investment decisions are not based on the secondary determinants, there is not enough evidence to state that investment decisions are not in danger due to unfavorable tax conditions, for example. A company might base its investment decision on the primary determinants; however, the whole investment might fail on the grounds of the tax conditions or sudden changes in the government policies toward foreign investment, for example. Therefore, in addition to the framework Wilska proposes, it seems reasonable to suggest that secondary determinants might have a direct impact on the investment decision, albeit not being the most important factor to consider in the beginning.

As can be seen in table 5, background conditions include various factors that can have significant importance on the investment decision. The same hypothesis stands for the background conditions as with the other secondary determinants; they might not be the basis of the investment, but can certainly make the difference between a failed or successful investment. Background conditions include the macroeconomic environment, other infrastructure, political and social stability, metaphysical factors and cultural distance. (Wilska, 2002)

While Wilska discusses the determinants of FDI-based market entry, Root has listed the key determinants on the actual entry mode selection. According to Root, the factors influencing entry mode decisions can be divided into internal and external factors. Figure 2 shows the raw distinction between the two divisions, including target country market, environmental and production factors and home country factors in external factors and company product factors and company resource/commitment factors in internal factors. As each category of factors has subcategories, Root has listed the ten most important host country factors influencing the entry mode decision (Root, 1987):

1) General political stability
2) Government policies toward foreign investment
3) Other government policies and legal factors
4) Macroeconomic environment
5) International payments
6) Market factors
7) Production/supply factors
8) Labor factors
9) Capital sourcing factors
10) Tax factors

All of Root's factors coincide with the key determinants displayed by Wilska, apart from one, international payments, which is not considered in Wilska's framework. As the 10 most important factors of Root are not in any particular order, it is difficult to see how he has emphasized the rate of significance on each factor. However, it is interesting to see how only four factors out of ten from the list or Root are classified as primary determinants in the provisional framework. On the other hand, there might have been a slight change in focus through the years as Wilska's framework was published 15 years later than the Root's study. Five out of the ten factors from Root's list are secondary determinants in Wilska's framework. In addition to the time difference, the biggest difference in the determinants between the two studies also depend on the sample group used defining the key criteria. Wilska's framework has been adjusted from one pilot project in Costa Rica on the base on various existing studies.

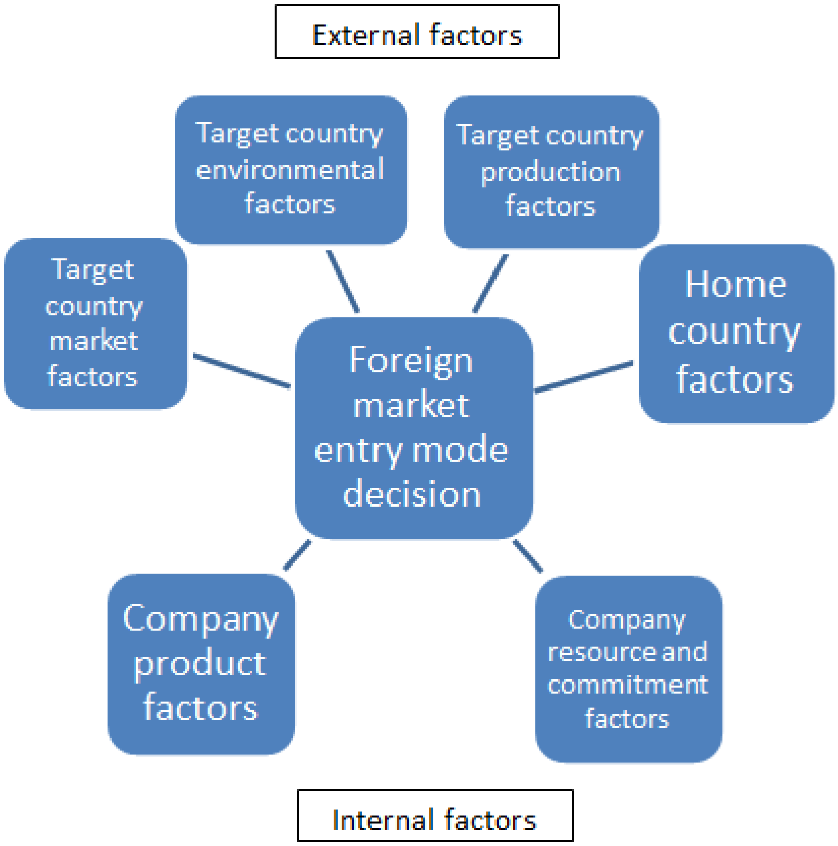


Figure 8 Factors in entry mode decision **(Root, 1987)**

Tyyri has listed the 12 most important criteria for international market selection (Tyyri, 1994):

1) Market potential
2) Competitive situation
3) Market price level
4) Geographic distance/logistics
5) Availability of distribution
6) Buyer's quality requirements
7) Economic situation
8) Trade barriers and political risks
9) Market familiarity
10) Resource requirements
11) Number of inquiries received
12) Others

The criteria presented by Tyyri has two factors indifferent to previous determinants presented by Wilska and Root, the buyer's quality requirements and numbers of inquiries received. Even though the two former frameworks have factors related to demand, they do not go into such specific details. Tyyri offers an interesting variation to the first two frameworks by focusing more deeply on the potential customer. Numbers of inquiries might refer to a situation where demand has already been forecasted; therefore, a market feasibility study has possibly been implemented already. Quality requirements seem to be a significant determinant, and it is surprising to see their absence in the first two frameworks. Even though they might be incorporated into market factors, neither Wilska nor Tyyri have specifically emphasized the importance of the quality requirements. With the highly growing purchase power of the Mexican middle class, quality requirements might rise in value in the context of the Mexican market. The importance of the quality requirements will be assessed in the revised theoretical framework. As the previous sections of the literature review have studied the existing literature on market entry models, operating models, market presence and market entry determinants and strategies, the theoretical framework combines the key factors presented in order to form a feasible market entry framework for the potential Finnish companies investing to Mexico in the future.

What are the key determinants on market entry to foreign markets?	• Wilska (2002), Pehrsson (2008), Root (1987) , Hollensen (2004) and Tyyri (1994)
What are the key determinants for market presence in foreign markets?	• Wilska 2002)
What are the most important factors for market entry mode choice (strategy)?	• Welch, Lawrenson and Benito (2007), Hollensen (2004), Tyyri (1994) and Root (1987)
What are the most important factors for operating mode choice (strategy) in Mexico?	• Welch, Lawrenson and Benito (2007)
What foreign market entry modes exist?	• Tang & Liu (2013), Welch, Lawrenson and Benito (2007)

Figure 9 Relevant literature for theoretical framework

Figure 9 conveys all the relevant studies utilized in the construction of the theoretical framework, which are related directly to the two first research questions of the study: *"What are the key factors influencing the market entry decision of Finnish companies to Mexico?"* and *"What are the key determinants influencing the market entry and operating mode of Finnish companies in the Mexican market and why?".* The figure shows the key studies and researches related to the construction of the framework. As the third research question, "Has there been significant changes in the operating modes of Finnish companies in Mexico? Why?" is directly related to the empirical findings of the study, these differences will be adjusted to the revised framework by adding and removing the relevant and irrelevant determinants in the context of the study. The first two main research questions are also related to the empirical findings; however, existing literature does cover market entry determinants to an extent that they can be included in the framework.

Primary determinants on market entry	Author	Companies	Primary determinants on market entry/operation mode decision	Author	Companies
Host country market and input related determinants			**Company background**		
Inputs (labor, natural resources, land)	Wilska		Experience (international and market in question)	Welch, Benito and Petersen	
Market factors (size, potential, familiarity)	Wilska/Tyyri		Global strategy	Welch, Benito and Petersen	
Linkages/availability to distribution	Wilska/Tyyri		**Specific company mode concerns**		
Quality requirements	Wilska/Tyyri		Speed of foreign market entry	Welch, Benito and Petersen	
Competition/competitive situation	Wilska/Tyyri		Control	Welch, Benito and Petersen	
External trade related determinants			Partner	Welch, Benito and Petersen	
Geographical distance	Wilska		**Foreign market influences**		
Transport infrastructure (internal/external)	Wilska		General political stability	Root	
Background conditions			Government policies towards FDI	Root	
Trade barriers and political risk	Tyyri		Macroeconomic environment	Root/Wilska	
Bureaucracy (legislation)	Own		Labor factors	Root	
Corruption	Own		Tax factors	Root	
Safety	Own		Geography	Own	

Figure 10 Theoretical framework

Figure 10 conveys the Theoretical framework on market entry to Mexico. The framework utilizes the framework of Wilska (figure 1) as the basis, and combines existing criteria from existing studies from Welch et al, Root, Tyyri and Wilska. In addition, the researcher has added four own criteria, including bureaucracy, corruption, safety and geography. These criteria have been added according to the existing literature on the Mexican business environment, as they have proven to be important criteria in the Mexican context. The framework has divided the determinants into two sections: the determinants on market entry and the determinants on market entry and operating mode decision. The framework will be adjusted according to the empirical findings (e.g. the interviews) to form the market entry model to Mexico for Finnish companies. This process might include both adding and reducing existing criteria from the framework in order to adjust the market entry model as well as possible to the Mexican market for Finnish companies.

3. RESEARCH METHODOLOGY

The research methodology section will explain the research methods utilized in the thesis. It will explain the reader the reasons behind the qualitative study, different forms of qualitative study, and the whole research process, including data collection methods, data analysis and the validity of the study.

3.1 Research Method

This thesis was conducted as a qualitative study because of two key reasons, the nature of the research questions and objectives, and the relatively narrow scope of research. Firstly, the scope of the research is all the Finnish companies operating in Mexico, which currently stands at 37. (Finpro, 2013) The amount of companies available for interviews, and therefore empirical findings, was much smaller, (ten companies), which leads into a situation where in order to gather meaningful and significant results, the study focused on the smaller amount of companies operating in Mexico, and extrapolated the results to a larger base of potentially investing Finnish companies. Creswell has offered the following definition of a qualitative approach:

> *"A qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences, meanings socially and historically constructed. with an intent of developing a theory or pattern) or advocacy/participatory perspectives (i.e., political, issue-oriented, collaborative. or change oriented) or both. It also uses strategies of inquiry such as narratives, phenomenologies, ethnographies, grounded theory studies, or case studies. The researcher collects open-ended, emerging data with the primary intent of developing themes from the data"* (Creswell, 2013).

This study is based on a *constructivist* perspective and has collected open-ended data in the form of semi-structured interviews in order to create the market entry model for the Finnish companies contemplating investment in the Mexican market.

This research was done as a case study. A case study has various definitions in its wide area of literature; however, there is one specific definition that corresponds in the best manner to the current study. Yin states that a case study is *"an intensive study of a single unit for the purpose of understanding a larger class of similar units"*. (Yin, 2003) In the context of this study, the single unit is the group of Finnish companies currently operating in Mexico. As the study was constructed to understand the behavior of Finnish companies operating in Mexico, and serve as a tool for Finnish companies potentially investing in Mexico in the future, the latter group act as the larger class in Yin's definition.

The study answers the questions *how* and *why* Finnish companies are operating or investing in Mexico. According to Yin, "how and "why" questions are more *explanatory* and likely to lead to the use of case studies, histories, and experiments as the preferred research methods". (Yin, 2003) Yin states that this happens because "such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence". (Yin, 2003) As the research is not directed towards examining the frequency of incidents, in this case for example being the amount of investments done or own factories founded in Mexico, but examining the underlying reasons for investment and choice of market entry mode, a case study method was used for the study.

According to Yin, case studies can be divided into three categories: "There may be exploratory case studies, descriptive case studies, or explanatory case studies". (Yin, 2003) As mentioned earlier, how and why questions are more explanatory, and Harder offers a more extensive description of explanatory case studies:

> *"Using both qualitative and quantitative research methods, explanatory case studies not only explore and describe phenomena but can also be used to explain causal relationships and to develop theory. Case studies are often lumped together under the rubric of qualitative research and are frequently confused with methods such as ethnography and grounded theory as well as those of quasiexperimental research. In fact, explanatory case studies are distinct from all of these, and unlike most qualitative research that is employed to explore certain phenomena, explanatory case studies can be employed to explain phenomena. Explanatory case studies should consist of an accurate description of the facts of a case, considerations of alternative explanations, and a conclusion based on credible explanations that are congruent with the facts"* (Harder, 2010)

As explanatory case studies are designed to explain, not explore phenomena, the definition fits coherently with the case study method utilized in this study. As all the case companies are already operating in the Mexican market, the study aims to *explain* the phenomenon: what are the key determinants behind the initial investment and current operating modes and market presence.

While the main case study method utilized has been the explanatory case study method, the exploratory case study method was used as the background research design of the study. The definition of Streb offers an explanation why also the exploratory method fits into the research methodology of this study:

> *"The exploratory case study investigates distinct phenomena characterized by a lack of detailed preliminary research, especially formulated hypotheses that can be tested, and/or by a specific research environment that limits the choice of methodology. This form of case study is very often applied as a preliminary step of an overall causal or explanatory research design exploring a relatively new field of scientific investigation in which the research questions have either not been clearly identified and formulated or*

> *the data required for a hypothetical formulation have not yet been obtained"* (Streb, 2010)

There is an obvious lack of research in the field of Foreign Direct Investment from Finland to Mexico, market entry and operating modes and motives of Finnish companies operating in Mexico. Therefore, the first interview group was designed to fill this gap with the knowledge and experience of authorities, experts and researchers related to the subject. Even though the primary research method applied was the explanatory case study method, it does not rule out also using the exploratory method as a background study. In the context of case study methodology, Yin states *"Every research method can be used for all three purposes – exploratory, descriptive, and explanatory ... Even though each method has its distinctive characteristics, there are large overlaps among them. The goal is to avoid gross misfits – that is, when you are planning to use one type of method but another is really more advantageous"*. (Yin, 2003) In this particular study, the exploratory method has been utilized to an extent, which does not hinder the utilization of the explanatory method as the main research method.

Existing literature, such as academic articles, company organization and government reports and academic literature on international market entry, the Mexican business environment and market characteristics and financial statistics were used as secondary data for the literature review. The secondary data was compared to the empirical results in order to create the conclusions and the adjusted market entry model. In addition to the comparison between the secondary data and empirical results, the existing literature served as an excellent introduction to the subject.

3.2 Data collection methods

The empirical data of this study was retrieved directly from interviews. The interviews were organized with two sets of people in a distinctive manner. The first group consisted of researchers, authorities and experts related to the Mexican market and trade between Finland and Mexico. The second group consisted of key decision-makers of Finnish companies operating in the Mexican market. The underlying reason for the division into two separate interview groups was to gain sufficient knowledge of the Mexican business environment before interviewing the company representatives.

The first group was interviewed with semi-structured interview method. However, the interview method varied slightly from the second interview group, who were all asked the same set of questions. The interview questions for the first interview group were adjusted according to the position and the Mexican or Latin American experience of the interviewee for two reasons. Firstly, the nature of the interviewees' occupation and expertise varied significantly between the group members, which led to an altering set of interview questions depending on the occupation and expected level of knowledge. Secondly, the aforementioned interview group was not the key part of the research findings, as the main goal was to gather a comprehensive understanding on the Mexican business environment in order to form the interview questions for the second interview group. Therefore, there was no need to limit the variability of the questions. Even though the first interview group does not have such a significant weight on the key findings of the study as the second interview group, they still had a huge impact on the acquired knowledge of the researcher, hence facilitating the interview process with the key informants.

The first group was chosen based on the industry and business environment related knowledge in the context of Mexico. The most significant players in the trade relations between Finland and Mexico are the Finnish and Mexican governments, which prompted the interviews to be performed with government officials related to trade between Finland and Latin America, especially Mexico. In addition to the government officials, researchers in the field of foreign trade policy and Latin American business were interviewed in order to gather an unbiased and independent view on both the Mexican business environment and trade relations between Finland and Mexico. Although the study was conducted only in the Mexican context, the Latin American business environment and Finnish-Latin American relations were also addressed during the interviews to understand the decision-making rubric of Finnish companies when making investment decisions between different Latin American economies. Trade centers promoting trade between Finland and Mexico were interviewed in order to acquire the most updated and thorough data on the Mexican business environment. However, this set of interviews cannot be considered entirely objective, as the main priority of their core activity is to increase FDI between the two countries. Although the trade centers might have had subjective views on the potential of the Mexican market for Finnish companies, they have the most insight on the true market entry and market presence motives of these companies apart from the companies themselves. Unfortunately, no exact figure could be extracted from the interviews what percentile of the Finnish companies operating in Mexico currently have used the help of the Finnish-Mexican trade promoting organizations. However, due to the detailed information they had on Finnish companies in Mexico, most of the companies are assumedly at least in constant contact with the trade promoters.

The second interview group, the company representatives, was interviewed with a semi-structured approach, having almost the same set of questions for all the interviewees, however having space for additional, more in-depth questions that were formed during the interview. Due to the geographical distance between Finland and Mexico, some of the interviews were conducted via Skype or phone. Two interviewees did not have sufficient time for personal interviews, so they replied directly to the written questions via email. The best insights and findings were gathered from the personal interviews as it gave buffer for additional questions and answers were typically significantly more extensive. The interviewees were working in a varying set of different positions in the companies, including country managers, sales managers and supply chain managers. Therefore, the in-depth questions were usually formed according to the key areas of the interviewee, for example the supply chain manager would be asked to specify the impact of the in-country infrastructure and logistics on the operations and market entry.

The semi-structured interview method was a justified choice with the company representatives as it was obligatory to utilize the same set of questions for all case companies to create a reliable market entry model for Finnish companies. At the same time, the semi-structured method enabled the researcher to gather further insight into specifically important factors in the given case company, such as the in-depth questions mentioned in the previous paragraph. There was a fixed format of questions for the company representatives; however, a few additional questions were added before the interview according to the position of the interviewees in the company. According to Eriksson and Kovalainen, the semi-structured interview is a technique where all the questions are outlined beforehand, however, leaving the possibility to change the emphasis and sequence of the questions according to the situation. (Eriksson & Kovalainen, 2008) The fixed set of questions and the additional questions can be found from the appendices part of the study.

As mentioned earlier, the most important questions the research was set for answering were *"how"* and *"why"*. However, as the market entry and operating modes of the Finnish companies operating in Mexico were impossible to find before conducting the interviews in certain cases, the interviews also answer the question "what" with questions such as *"what was the market entry mode company X used once entering Mexico?"* or *"what is the current operations method utilized by the company in Mexico?"*. Albeit being trivial questions that do not offer insight to the underlying reasons for the market entry or operating mode, these questions still are important in creating the market entry model for the Finnish companies in Mexico. According to Eriksson and Kovalainen, the interviewer's position can be stated being either a *constructionist* or a *positivist.* (Eriksson & Kovalainen, 2008) In this case, the interviewer can assume both positions as the constructionist is focused on determining reasons and meanings while the positivist sets out to determine facts. The main role of the interviewer is a constructionist, as a case study sets to answer the questions *"how"* and *"why"*. However, before determining the reasons and meanings, the interview must seek out to answer the question "*what",* hence the interviewer also assumes a secondary role as a positivist.

In total, 18 interviews were done for this study, including ten interviews from the case companies and eight interviews from the first interview group. Table 2 shows more detailed information on the interviews.

Table 1 Detailed information on the interviews

Case companies	Researchers, authorities and experts
Planned interviews = 11 Face-to-face interviews = 4 Skype interviews = 2 Conference call = 1 Written answers = 3	Planned interviews = 10 Face-to-face interviews = 7 Skype = 1
Total interviews = 10	**Total interviews = 8**

3.3 Data Analysis and Interpretation

When considering the vast amount of empirical data gathered from the interviewees (18 interviewees), it is extremely important to filter the relevant information of the study in order to keep the research concise and understandable. However, this must be conducted without missing out on any key information. All the interviews, which included over 14 hours of face-to-face or online interviews in addition to three written interviews, were recorded and partially transcribed in order to point out the key findings. As there was such an abundance of data to be analyzed from the interviews, the researcher utilized the theoretical framework to mark all the key data on the framework for further utilization in the empirical findings section. In addition to the key data relevant to the framework and the research questions, additional themes that rose up during the interviews were analyzed to form the managerial implications on a more general level. As the interviews were semi-structured, additional questions were asked by the interviewee in each interview according to the area of expertise of the interviewee or the general theme of the interviewee. This helped in gaining more insight in specific industries or geographical areas in Mexico for example.

Once all the interviews were transcribed, they were analyzed in an objective manner in both the empirical findings and discussion and analysis sections. Despite the objective manner of the analysis, the respective positions of the interviewees in their companies' were considered. The different positions of the interviewees in their companies, which will be explained more thoroughly in the findings section, certainly have an influence on their opinions on certain subjects. Therefore, a certain amount of source criticism was utilized.

3.4 Validity of Data

Reliability, validity and generalizability can be defined as concepts, which provide the basic framework for the evaluation of research in business research (Eriksson & Kovalainen, 2008). Reliability can be described as the extent to which a certain measure or procedure yields the same results, or in other words, the consistency of the study. (ibid) Yin states that if you use a case study research method and the investigator would follow the same procedures as described as the previous investigator, the later investigator should find the same conclusions. (Yin, 2003) Therefore, in order to ensure the reliability of the study, the researcher must carefully document the entire interview process. For the first interview group, the questions varied between every interviewee. However, there was a common set of questions that were asked from all interviewees, only few questions changed depending on the interviewee. All the interview questions have been documented in the end of the thesis in order to facilitate the future research on the subject. The second interview group, the company representatives, which were all interviewed with a semi-structured interview method, was easier to document, as the set of questions was equal for everyone. These questions can also be found in the end of the study.

Validity refers directly to the extent to which the conclusions made in research give accurate or descriptions or explanations what has happened, or as Kovalainen & Eriksson directly state *"In principle, to be able to say that research findings are valid is to say that they are true and certain"*. Yin argues that using multiple sources of information will increase the validity of the study. (Yin, 2003) Before doing the interviews, the researcher thoroughly researched the existing literature of the Mexican business environment, Mexican economy, the Finnish and Mexican relations, and the market entry and internationalization process in order to form relevant questions for the interviews. In addition to extensive research, the interviews were divided into two groups to reduce subjectivity and pinpoint the differences in opinion between the companies and the other interview group consisting of authorities, experts and researchers on trade and relations between Finland and Mexico. This was especially important as the sample group was relatively small, 10 companies. The external view of the Mexican business environment, the company interviews and the extensive study of the existing literature on Mexico offers a reliable platform to base the findings of the study on.

Restrictions also exist on the case study method utilized on the research. Riege argues that the case study method has been criticized on a large scale in being subjective. (Riege, 2003) This happens due to the direct contact between the researcher and the case company. In this case study, the interviewees certainly have their own view on the underlying motives for market presence, market entry and market entry mode decisions. Especially in the case of market entry, as some companies have entered the Mexican market several decades ago, leaving the currently operating organization potentially unclear with the provisional motives for market entry and entry mode choice. Another limitation on this study, not directly related to the case study, is the fact that only singular company representatives were interviewed per each case company due to the challenge in reaching various key people from Finnish companies. In addition, the scope of the study was to create a market entry and operating model for all Finnish companies and therefore, the case study was directed towards as many companies as possible in order to get a diverse set of findings independent of the industry.

The generalizability can be measured by the external validity of case studies in relation to other case studies. (Karhunen & Kosonen, 2008) The researcher has aimed to interview a set of companies as diverse as possible in order to address all the possible market entry determinants and barriers for Finnish companies in the Mexican market. If the key finding of the research, the market entry and operating model, is to be applicable for the whole range of Finnish companies contemplating investment to Mexico, the model must determine the differences between the determinants related to the industry. This important factor has been considered even though the actual entry model is not directed towards any specific industry; rather covering all the potential industries in relation to Finnish companies. Although there are no exactly similar case studies to compare the study, the study conducted by Wilska, *"Host country determinants of foreign direct investment in Latin America – Finnish company vases in Brazil, Chile and Mexico",* serves as a comprehensive and relevant background study. The theoretical framework is also built based on Wilska's study.

4. EMPIRICAL FINDINGS

This section will introduce the reader to the empirical findings of the study. The findings were retrieved from two interview groups, with the first group consisting of experts, researchers and authorities in the field of Finnish and Mexican relations (both economic and political), the Mexican business environment and Latin American economy and politics. The expected results of the first interview group, which were further explained in the methodology section, were to obtain a more comprehensive picture of the Mexican business environment, Finnish and Mexican relations and the Mexican economy. Therefore, the first interview group was almost completely interviewed before the second interview group, the company representatives, before adjusting the questions to the company representatives.

The second part, which consists of the findings of the case company interviews, is concentrated solely on the research objectives of the study, discovering the key determinants on the market entry and market entry model. The empirical findings of the second interview group mostly form the basis of the market entry model. The main objective of the second interview group was to find out the key determinants on market entry and market entry modes for the Finnish companies operating in Mexico. These results will later be extrapolated to form the market entry model for Finnish companies contemplating investment to Mexico by pinpointing the most important determinants.

4.1 Data and results

4.1.1 First interview group – Expert, researcher and authority interviews

The interviewees for the first interview group were selected according to the contacts and recommendations of AGH Associates, who have a very diverse spectrum of contacts in the field of commerce between Finland and Mexico. Some interviewees were also contacted based on the recommendations of previous interviewees. This was particularly useful, as they already understood the scope and focus of the research, which resulted in highly suitable interviewees for this specific research.

Political environment and trade policy

Given the fact that the amount of Finnish companies operating in Mexico is relatively small, 37, it was very likely that the authorities related to trade between Finland and Mexico were highly aware of the activities of Finnish companies operating in Mexico. Three interviews were undertaken with relevant authorities in order to gain a thorough view on the political and business environment of Mexico and Latin America as a whole. The interviewees include the Ambassador for Finland to Mexico, the Director of the Latin American and the Caribbean unit for the Ministry for Foreign Affairs and the Commercial Counselor for the Ministry for Foreign Affairs. Although the focus on these interviews was to gain an understanding on the political environment and relations between Finland and Mexico, the interviewees were also highly knowledgeable in the commerce between the two countries, albeit not to the same extent as the representatives of the trade centers.

When asked about the most important trade policy-related factors that affect on the commercial trade between Finland and Mexico, there were some differing answers on offer. While the Commercial Counsellor believes that the most important determinant is definitely the North American Free Trade Agreement (NAFTA), the Director of the Latin American unit believes that the renewal of the FTA between the EU and Mexico is the most relevant and important step to take in the foreseeable future. However, the latter does believe that the catalyst for the renewal is actually the renewal of the FTA between the EU and the United States and the EU and Canada. The differing opinion of the Commercial Counsellor stems from the fact that the NAFTA is still the most important FTA, as most Finnish companies, especially in the 1990's, have entered and will enter the Mexican market due to the proximity of the US market. The situation might be changing in the future as the domestic market and purchasing power of the Mexican's is growing, however the status quo remains that the majority of the market entrants are targeting the US market. The interviewee also reminds that the true value of the commercial exchange between Finland and Mexico cannot be measured from the Balance of Trade of FDI between Finland and Mexico, as a significant portion of the trade materializes through intermediaries, such as US- or Caribbean based subsidiaries. The Commercial Counsellor estimated that the amount of trade that actually materialized between Finland and Mexico that cannot be seen from the trade balance, was over twice the size of the official trade balance between Finland and Mexico in the 1990's. The true value of the direct and indirect trade between Finland and Mexico is practically impossible to measure, according to one of the interviewees

Two of the authorities agreed on the notion that the biggest trade-policy related factors that affect on the commercial trade between Finland and Mexico are the FTA's as a whole. The commercial counsellor believes that it is vital for the EU, and therefore also Finland, to secure the foreign trade to the United States via Mexico in order to not be marginalized in the important trade relations between Mexico and the United States. In many cases, Finnish companies might consider market entry between Mexico other Latin American countries, such as Brazil or Argentina. Therefore, the Commercial counsellor believes that the vast spectrum of FTA's Mexico possesses on a global basis are absolutely vital in attracting FDI, including FDI from Finland. As Mexico has a significantly smaller amount of trade barriers and is generally a more open economy than for example Brazil, which is the biggest economy in Latin America, keeping the amount of trade barriers as low as possible is extremely important for Mexico to attract FDI. The Director of the Latin American unit emphasizes that in co-operation with Finpro and Team Finland (promoting Finnish trade abroad), the Ministry of Foreign Affairs has an important role in promoting Finnish expertise and Finnish companies in Latin American countries, including Mexico.

When questioned about the competitive advantages and weaknesses of Mexico as a market, all the three interviewees had relatively similar answers. The geographical location, or in other words the proximity of United States, and the network of FTA's, especially the NAFTA, were the most important factors according to the Ambassador and the Director of the Latin American Unit. The Commercial Counsellor also believes that the geographical location is a significant competitive advantage as Mexico is close to the United States. He also believes that there are two starting points for Finnish companies investing or operating in Mexico. If the target market is United States or Canada, the biggest competitive advantage or determinant in investing in Mexico is cheap and relatively high-quality labor. If the target market is the domestic market, the competitive advantage is the size of the market, which exceeds 100 million inhabitants. The Commercial counsellor reminded that if a global company wants to enter the Mexican market, it is practically impossible or extremely challenging to control the Mexican operations outside of the country, due to the size in terms of population and area. This does not count as a competitive advantage per se, but certainly as a determinant. If companies wish to enter the Mexican market, which is forced upon numerous MNC's based on competition or existence of natural resources for mining companies for example, they cannot control the operations outside of Mexico due to the sheer size of the country.

Both the Commercial Counsellor and the Director of the Latin American unit believe that the EU has an impact on the trade between Finland and Mexico. The former believes that on a general the European Union has had a positive impact on the trade between Finland and Mexico. The key reason for this is the FTA between the EU and Finland. Without the agreement, Finnish companies would have to operate even more through the United States, which would increase the difficulty of operating through Finland. The other reason why the EU has, and will facilitate the trade between Finland and Mexico is the trade policy related issues, for which the European Commission is responsible of in favor the EU member countries. Therefore, in addition to the tangible economic benefits of the Free Trade Agreement, Finnish companies can turn to the EU in legal or political issues, which lowers the barrier to enter the market. The Director of the Latin American unit agrees on the most important positive impact the EU has on trade between Finland and Mexico, which is the FTA between the trade partners. As another significant positive impact the interviewee points out that, the EU is a strategic partner of Mexico. In practice, this means that the two parties meet on a consistent basis to improve the business environment and to discuss on the timely issues concerning trade policy. A concrete example of the activities, which have been implemented from the initiative of the meetings, is the update of the FTA between Finland and Mexico, which is subject to materialize in the near future according to the interviewee.

The ambassador believes that Mexico is facing a huge challenge in competing with China on the manufacturing front. While the maquiladora model has been a key determinant on the huge growth of foreign companies investing in Mexico in the past decades, especially in the late nineties, the amount of maquiladoras has been declining since the beginning of the Millennium. Global sourcing and low prices especially in China have contributed directly to the maquiladora model; however, the model still exists in the northern parts of Mexico. When considering investment decisions between Mexico and the other Latin American countries, and also China, the ambassador believes that the maquiladora model cannot be accounted as a competitive advantage anymore.

Market potential and business environment

As the interviews with the government authorities were designed to gather a thorough overview of the political environment, and to some extent the business environment, there was still a need to understand the commercial potential between Finland and Mexico, especially in the case of Finnish companies operating in Mexico. The representatives of the two main trade centers between Finland and Mexico, ProMéxico and Finpro, were the best alternatives for interviewees for this category, as they are in constant contact with the currently operating Finnish companies in Mexico. Most importantly, their core business is to attract FDI between the two countries, which means contacting potential Finnish companies to invest in Mexico. In addition to the two trade centers, the commercial attaché of the Mexican embassy in Finland was a key contact in terms of the commercial co-operation between the two countries. The interviews were conducted with the director of Finpro in Mexico, the Trade Commissioner for ProMéxico in the Nordic countries and the commercial attaché of the Mexican Embassy in Finland.

From the three interviewees, and their respective organizations, the director of Finpro seemed to have the best insight of the trade between Finland and Mexico, especially concerning Finnish companies operating in Mexico. This happened because of two facts: first of all, Finpro is solely concerned on promoting Finnish companies to invest in Mexico and vice versa, while the Nordic region of ProMéxico consists of all the eight countries in the Nordic and Baltic region while the commercial attaché of the Mexican embassy also covers Estonia. Secondly, the director of Finpro in Mexico has nearly two decades of experience working in this particular position; two other interviewees had significantly less experience in their positions. However, each interviewee offered interesting insights and varying opinions in different questions and issued raised in the interviews.

When the question about the potential industries for Finnish companies in Mexico was raised, no specific industry stood out from the answer. Among the most potential industries were mining, oil and offshore, ICT, the healthcare industry (medical devices), machinery (forestry), engineering, the automotive industry, public infrastructure, cleantech (including waste water treatment), the energy industry, manufacturing and education. Mexico is renowned for being a manufacturing country, and hence, all the interviewees mentioned the automotive industry being a very potential industry for the future. Engineering and machinery, the healthcare industry and the energy industry were also areas where all the interviewees agreed on. Even though the interviewees might have bias towards Finnish companies investing in to Mexico, it seems that the vast array of potential industries offered by the interviewees is correct, as all the answers were explained briefly, yet convincingly. When considering the current Finnish companies that operate in Mexico, one can observe that the range of different industries support the interviewees' answers. ICT (five companies), various types of machinery (four companies), forestry (three companies), wastewater treatment (two companies, cleantech) and packaging (two companies) are the most represented industries currently operating in Mexico. According to the answers of the interviewees and current evidence, it seems that no industry will stand out in the future for Finnish companies. Although forestry is one the biggest industries for Finnish companies in Mexico at the moment, it has its limitations, according to one interviewee. Opposite to the normal assumptions, a significant part of the trade deficit of Mexico comes from the forestry industry, as a vast amount of pulp and paper products are imported. 80 % of the fibers used at the factories in Mexico are recycled paper, which is imported from the United States. Additional challenges for the industry stem from the *ejido* communal land system, which limits the size of the plantations. Therefore, the locals tend to favor local workforce instead of Finnish machinery, as the plantations are not big enough to exploit the economies of scale with machinery.

The challenges, strengths and weaknesses of the Mexican market were portrayed in different ways between the interviewees. According to one of the interviewees, the biggest challenge of the Mexican market is finding the suitable business partner. In order to gain market knowledge, various Finnish companies have ended up contracting local distributors or forming joint alliances instead of establishing their own subsidiary when entering the market. However, it requires a great amount of work to find the partner, and this is the part where the companies should allocate a significant amount of their resources according to the interviewee, as it is vital for the future successes of the country. Personal relations play such a significant part in the decision-making process of companies, that it cannot be dismissed. According to another interviewee, the biggest challenges of Mexico are the success of proposed reforms, corruption and bureaucracy. The interviewee believes that the actions of the current presidential regime are crucial for the attraction of FDI to Mexico, as now seems to be a very good moment to tackle corruption and bureaucracy to some extent. The third interviewee also mentioned that the success of the energy and fiscal reforms is the biggest challenge up to date. Improving the bad image of Mexico and strengthening the collaboration between academy, the government and corporations were also mentioned as significant challenges. The bad image of Mexico, stemming mostly from the drug wars and perception of Mexican workforce being lazy and incompetent, is prohibiting a significant amount of FDI flowing in to the country, which might go to Brazil, for example, even though it is a harder environment to conduct business according to the World Bank. (The World Bank, 2013)

The interviewees agreed on most of the biggest strengths of the Mexican market. The geographical location south of the United States and between the Pacific and Atlantic Ocean makes the country an attractive location for investment, especially for production and manufacturing. Even though the Mexican domestic market is growing, the interviewees emphasize that various companies have production in Mexico in order to enter the US market or Asia. The value for money for production in Mexico is a key factor, as the Mexican labor force is relatively cheap and high skilled, and therefore, fares very well in different rankings in cost and quality of work force. According to one interviewee, the Mexican business environment and the ease to establish a business are certainly key strengths of the Mexican market. Registering a company in Mexico lasts only nine days, the macroeconomic environment is stable and Mexico has one of the largest free trade agreement networks in the world, which makes the country very attractive for foreign investors, according to the interviewee. The third interviewee also mentioned the stable business environment as a strength, but clearly emphasizes the strength of cheap skillful labor force, which seems to be a surprise for Finnish companies. Unlike in many Asian countries, where Finnish companies often outsource production, the Finnish companies operating in Mexico seldom have a big proportion of Finnish or other foreign employees working in Mexico, as they rather trust in local workforce. This is a huge cost advantage in comparison to Asia in addition to the cultural advantage, as the Mexican culture is significantly closer to the Finnish culture in comparison to various Asian cultures, according to the interviewee. This applies especially to China, where a big proportion of production is outsourced nowadays.

The interviewees agree on the fact that there is more potential for Finnish companies in Mexico than vice versa. On the other hand, even though there would be potential for Mexican companies to invest in Finland, it is unlikely that the scale will be equal in the future. Two of the interviewees were asked about the Mexican business environment in comparison to other Latin American economies and what competitive advantages Mexico possesses against the other economies. They both agree on the vast network of FTA's, which has been mentioned as a strength earlier already. Experience in manufacturing, demographics, geographical location and the ease of doing business were also mentioned, with the emphasis on the ease of doing business. According to one the interviewees, the demographics are a significant competitive advantage as the purchasing power of the middle class is growing with a high pace. However, there is a note of caution, as while the population of Mexico exceeds 100 million, it is still well behind Brazil, where the population has exceeded 200 million. Like in Mexico, the middle class is also growing with a high pace. However, one of the researchers interviewed in the first interview group (next section) believed that the growing middle class of Mexico is pure illusion due to the continuously growing income gap in the society. However, this could be addressed more as a social issue that has little or no impact on foreign trade.

As the reputation of Mexico is yet to be cleared from the security issues and perceived corruption, some companies might not even consider Mexico as a potential option for market entry. For certain companies, Mexico is a natural option due to the size of the market, location, or natural resources. As one of the Finnish authorities mentioned, the vast market of Mexico cannot be handled from outside the country. Mexico also has one of largest natural reserves of copper and silver, which attract global mining corporations to enter the market without choice. The proximity of the United States also forces some companies to enter the market, without perhaps considering the risks on market entry. In these cases, the companies tend to use their own sources for market feasibility studies and market entry. However, in many industries Mexico is a potential market competing equally with other countries. This is where all of the interviewees believe the trade centers and the foreign ministry has an important task in attracting Finnish companies to Mexico and vice versa. Most of daily work of the trade centers consists of attracting FDI to both countries in the form of business delegates, road shows, etc. One of the interviewees explained how surprising the business environment in Mexico is in a positive way for many countries. Raising awareness of the opportunities Mexico beholds as a market is one of the key factors of future trade according to all interviewees.

Cultural differences and business culture

In order to dig deeper in to the relations between Finland and Mexico and the Mexican culture in comparison to other Latin American countries, researchers and authors in the field of Finnish and Mexican relations and Latin American culture were interviewed. In a culture such as Mexico, where personal relationships have such a big impact on commerce, it was important to understand the historical relationship between Finland and Mexico. In Latin America, Finland also has other important trading partners, such as Brazil, which is currently more important to Finland than Mexico. Other economies, such as Argentina, Chile and Columbia are also growing in importance for Finland. Therefore, in order to understand how Finnish companies decide between investing in different Latin American countries, it was important to comprehend the cultural differences between Mexico and other Latin American countries.

The current relations between Finland and Mexico were described in many different ways by the three interviewees, the key words being *exotic and distant, old, and stable.* Although the relations between Finland and Mexico have been stable for a long time, they cannot be considered being significant or important for either country when looking at the big picture. One of the interviewees believes that the relations are *stable* due to relatively similar cultures. For example, both countries have a strong presidential culture (Kekkonen) and live next to a big neighbor (Russia and the United States). In comparison to other Latin American countries, such as Brazil and Argentina, Mexico can be characterized as a stable country, where nothing radical happens, unlike in other Latin American countries. However, big cultural norms still exist which might hinder the relations or at least cause surprises for Finnish companies entering the Mexican market. Mexico is still highly regarded as a corrupted country, which is the opposite of the perception of Finland, both in terms of cultural norms and working ways. As one of the interviewee's points out, some business procedures that are considered corrupt in the Finnish context might be considered as normal procedures in Mexico. When talking about corruption in a business context, it is often connected with bribery. However, one of the interviewees reminded that the activity that is considered as "corrupted" in the Finnish context is not always related to corruption, but tax avoidance. This tax avoidance is not, however, illegal in Mexico, but the fiscal framework has loopholes, which enable foreign or local companies to virtually avoid paying taxes or at least pay low rates of tax, according to the interviewee. The corporate tax rate is higher in Mexico (30 %) in comparison to Finland, (Deloitte & Touche, 2013) where the corporate tax rate decreased to 20 % from 24,5 % in the beginning of 2014. (Valtiovarainministeriö, 2014) In any case, one of the biggest challenges Finnish companies withhold in entering Mexico is to accept local working ways, without endangering the integrity or social responsibility of the company because of the two aforementioned forms of "corruption".

The interviewee that stated that the Finnish and Mexican relations are exotic and distant believes that the underlying reason is the cultural and geographical distance, unlike the first interviewee, who believed that the stability of the relations has prevailed due to the cultural similarities. The description *old* stems from the agreement of cultural exchange that was agreed upon in 1938 according to one of the interviewees. However, according to the foreign ministry of Finland, the cultural exchange was agreed in 1982. (Foreign Ministry of Finland, 2013) In addition to the cultural exchange agreement, Finland and Mexico share a long history in forestry, signing a similar agreement in the 1960's, which started between the universities and has since evolved to be an agreement between the two governments. (Foreign Ministry of Finland, 2013) As mentioned earlier, all of the interviewees agree that the Finnish and Mexican relations are not significant, especially in economic terms. As can be concluded from the amount of Finnish companies operating in Mexico, and vice versa, commercial relations are more important to Finland than to Mexico. There is only one Mexican company operating in Finland (Cemex) in comparison to 37 Finnish companies operating in Mexico. Although according to the representatives of the trade centers of Finpro and ProMéxico, there is a sincere will to promote the FDI of Mexican companies to Finland, the researchers are not so convinced that this will happen in the near future. One of the researchers believes that the cultural and political relations are much more important. Interestingly enough, one of the researchers believes that Finland was interested in the Mexican market potential and buying minerals in the past, but this was forbidden as it was thought that the minerals would be sold directly to the USSR. The interviewer believes that Finland was perceived to be a Soviet country in a sense.

When asked about the business culture of Mexico, all the interviewees agreed that personal relations are very important in decision-making. Being more specific, the differing styles of the Mexican and Finnish business cultures can have significant bearings on the success of business relationships. As an example, one of the researchers mentioned the differing business culture of Finnish engineers and Mexican decision-makers. The interviewee recalled various examples of failures in building long-term relationships with Mexican suppliers, distributors or business partners due to the direct manner of "doing business", which does not work in Mexico. One should never start meetings by talking about "business", but long-term relationships can only be successful once the Mexican counterpart has earned the trust of the future partner. Although it is a well-known fact that in Latin America and Mexico building a successful relationship requires more time and trust, the lack of patience from the Finnish counterparts might still be an issue. Although building a successful partnership or doing business would normally require flexibility from both parties due to the differing natures of the business culture in Mexico and Finland, the Mexicans seldom make exceptions in their nature of first building a relationship, and then "doing business".

Another interesting notion from the differing business cultures comes from one of the other researchers. While in Finland there might be a strict culture and respect in written word at the work place, such as operations manuals and code of conduct, the same notion does not apply in the case of Mexico. While the interview believes that Finnish people are respectful towards rules, Mexican employees are normally more motivated to personal relationship and respect. Consequent to the low wages on average, employees are not motivated by money, but rather by the meaningfulness of their work and personal relationships with their co-workers and superiors.

For Finnish companies operating in Mexico or contemplating market entry, this is a very important fact to acknowledge. As Finnish companies operating in Mexico tend to utilize local work force due to the cost and quality benefits, the management must address these cultural differences in their management culture.

While some of the typical stereotypes of Mexicans might be distorted, such as the view that Mexicans are lazy and never on time, there are certain negative traits that exist both on a personal and institutional level, according to one of the interviewees. On a personal level, corruption very much still exists, and on an institutional level, something that might be considered very corrupt and unethical in Finland can be perfectly normal in the Mexican context, according to the interviewee. While the relations between Finland and Mexico are relatively stable, the biggest problems have risen exactly from the prevailing views on corruption and ethical working ways. According to the interviewee, these prevailing views are for example political conflicts, human rights, worker rights or the functionality of trade unions. A concrete example of the differing functionality of the trade unions in Mexico can be seen from the latest report from Finnwatch, a Finnish NGO concentrating on monitoring human and labor rights of developing countries. According to the report of Finnwatch, six Finnish companies operating in Mexico are *"breaking the workers right for freedom of association and right to organize"* in differing ways. (Finnwatch, 2012). Even though the companies are mostly acting accordingly to the Mexican legislation, according to Finnwatch, the Mexican legislation in the right for freedom of association and right to organize is in many cases in crossroads with international agreements on human and labor rights. (ibid) The loopholes in the Mexican legislation, which enable avoiding paying taxes in addition to the legislation concerning the trade and labor unions, depict how the gap in corruption and the perception of ethical behavior can be in crossroads between Finland and Mexico.

As some of the Mexican practices that would be illegal in the Finnish context are legal in Mexico, it brings up ethical, not legal, challenges for Finnish companies trying to adjust to the Mexican market. The report of Finnwatch reveals how Finnish companies are surprisingly unaware of the discrepancies of the labor legislation in Mexico. (Finnwatch, 2012) In addition to the lack of knowledge, the labor legislation is extremely complicated in Mexico, which might limit the options of choosing labor unions for the local employees, as in many cases the labor and trade unions are controlled by the government by a corporatism system, where the official unions belong to the major political party. (ibid) The Finnwatch report confirms the observations of the interviewee to an extent that Finnish companies might have challenges in integrating to the local culture and legislation.

Conclusions

The first interview group was set to gain a better understanding on the political environment, the business environment, the business culture of Mexico and the cultural differences between Finland and Mexico. Having a diverse set of interviewees from different backgrounds (authorities, researchers, experts) enabled the researcher to receive differing opinions on the aforementioned issues. The key strengths and competitive advantages of Mexico that were conveyed in the literature review, were relatively well in line with the opinions of the interviewees, having the focus on the geographical location, free trade agreements and the labor costs of Mexico. The most significant insight gained from the interviewees was the view on the business culture and business environment of Mexico, in addition to the trade policy issues and the political environment. The government officials emphasized the impact of the EU and the trade centers on the future prospects of the foreign trade between Finland and Mexico. The role of the EU in facilitating the market entry and trade policy related factors between Mexico and Finland was emphasized while two of the government authorities pointed out the key role the trade centers have on generally raising awareness of the potential of the Mexican market, without forgetting the strengths and weaknesses. The consensus was that Mexico is suffering of its bad reputation on issues such as corruption, safety issues and the labor force and, hence, the trade centers have key role on conveying the truthful image of Mexico in order to promote the FDI of Finnish companies to Mexico.

Table 2 Key takeaways from first interview group

Political environment and trade policy	Market potential and business environment	Cultural differences and business culture

• Keeping trade barriers low crucial for future commercial exchange
• EU has a crucial role on trade between Finland and Mexico --> No need to operate through USA
• Renewal of FTA between EU and Mexico vital for future trade
• Key determinants on market entry dependent on target market --> cheap labor for US market and market size for domestic market
	• Key challenges
	  • Finding reliable business partner
	  • Corruption and bureaucracy
	• Competitive advantages of Mexico
	  • Cheap and skillful labor force
	  • Ease to establish business
	  • Location and demographics
	• Success of energy and fiscal reforms will influenc e the trade outlook
	• Raising awareness of opportunities in Mexico important
		• Mexicans more motivated on relationships rather than written word
		• Personal relationships compulsory before conducting business
		• What is perceived as corruption in Finland might not be considered as corruption in Mexico
		• Trade union issues in Mexico --> discrepancies in the labor legislation

The opinions on the future implications of Finnish FDI to Mexico were slightly divided. While most interviewees believed that the amount of foreign trade between Finland and Mexico will not vary significantly in the near future, certain individuals believed there will be more variance in the near future due to the economic fluctuations and profound changes in the legal environment (fiscal and energy reforms). Three interviewees believed that Finnish investments to Mexico would certainly grow in the future, while one of the interviewees had an opposite view due to the cultural and geographical distance of the countries. Concerning the business culture and business environment of Mexico, the researchers had their worries on the integration of Finnish companies in to the Mexican business environment because of the cultural differences and perceptions of corruption and work ethics. The example of the problems with trade unions shed light on the difficulties Finnish companies face in operating in Mexico, albeit not necessarily breaching the local legislation.

The interviews gave the researcher a comprehensive insight on the complex issues regarding the market entry of Finnish companies into Mexico. Although various issues still exist hindering the expansion of Finnish investments to Mexico, there seems to be more than sufficient ingredients for successful market entries for Finnish companies due to the economic benefits and the diverse spectrum of opportunities available in Mexico for Finnish companies. However, the biasness of the opinions on the commercial opportunities existing in Mexico must be considered due to the nature of the positions of the interviewees, as for example the core business of the trade centers is to promote foreign trade. The next section, the empirical findings of the company interviews, is a natural continuum to this section and will build on the findings of the first interview group in order to fulfill the primary objectives of the study.

4.1.2 Second interview group - Finnish companies operating in Mexico

All the companies interviewed for the research were globally operating Finnish companies with at least 5000 employees on a global basis apart from two middle-sized companies. (100-500 employees) The amount of employees working in Mexico was discovered in most company cases; however, this was statistically irrelevant, as the information was not available for all the companies in question. For the case companies, the importance of Mexico as a market was possible to assess from the ratios between the employees working in Mexico and to the total amount of employees working in the company globally. This ratio was highly variable and reflected on the market entry mode and operating modes of the companies. One of the companies has only 4-5 employees working in Mexico on a permanent basis in comparison to the total amount of employees being approximately 28000. On the other hand, another company has approximately 550 employees in total working in Mexico in the comparison to the total amount of employees being approximately 40000. These differences might have an impact on the market entry or operating mode of the company and this section will observe if any patterns exist on the operating mode and the size of the labor force in Mexico.

The industries of the case companies were dispersed, although the largest amount of companies was concentrated in machinery and manufacturing. The case companies were chosen partly due to the magnitude of the operations in Mexico, and partly due to the availability of companies for interviews and using the existing contacts of AGH Associates, who helped out on finding the key personnel for interviews. Apart from one company (two interviews), all of the case companies consisted of one single interview due to the nature of the study, where there was no specific industry-focus. The interviewees had a variety of positions in respect to the company's Mexican operations, including country managers (Mexico), regional managers (Latin America), vice presidents, business managers, sales directors, business development and marketing managers and directors of delivery chain development. Given the diverse set of different positions the interviewees were occupying in their respective companies, the opinions were also partly influenced according to their position. The common factor for all the interviewees was that they were key decision-makers inside the company in the Mexican context.

The findings of the interviews are divided into three sections, according to the research objectives and questions of the study, which are related to the operation and market entry mode choice and the operation and market entry determinants. In addition, the challenges and implications for the future of Finnish companies are discussed in the final section.

Key determinants on operating mode/market entry mode

The vast array of different market entry and operating modes in foreign markets was discussed to a larger extent in the literature review, ranging from equity- and non-equity participation entry or operating modes. As mentioned previously, this study focuses on the equity participation modes, as all the case companies have equity participation in Mexico. However, the empirical findings have revealed that the activities of the case companies in Mexico are not always solely dependent on one specific operating mode, as some companies have different operating modes for production and sales. For example, one of the case companies has a separate subsidiary for their own factory, while they organize their sales activities through a joint venture. On the other hand, a few of the case companies have changed their operating modes after the provisional market entry. One of the companies entered Mexico with a joint venture in 1998 because of two reasons: the lack of market knowledge and to share the economic risks. However, they acquired the joint venture partner company eight years later in order to form a wholly owned subsidiary. One of the companies was virtually forced to enter the Mexican market with their own subsidiary due to tax reasons and the local workforce; however, the Mexican operations are practically centralized to the Latin American headquarters, while they only have a few sales people in Mexico.

From the 10 case companies, every company has operated or currently operates in Mexico through a wholly owned subsidiary. However, as mentioned in the previous paragraph, many companies have separate operating modes for different areas or they have changed their operation after the provisional market entry. When considering the wide range of different market entry or operating modes companies are able to utilize on a global scale, it is slightly surprising how homogeneous the operating mode choices are for all the case companies. Out of the 37 Finnish companies operating in Mexico, the case companies were chosen on the basis that every company has equity-participation in Mexico. However, there was no distinction between the existing investment entry modes, which according to Root are new establishments (WOS), acquisitions, and joint ventures with equity participation. (Root, 1987) Only one company had entered the Mexican market with the acquisition of a local company, while another company acquired a local company in 2012 in order to strengthen their position in Mexico; earlier the Mexican presence was operated via a Mexican subsidiary. One of the nine companies entered the Mexican market with a joint venture with a local company; however, eight years later they acquired the partner company in order to form a wholly owned subsidiary. Table 4 shows the division between different market entry and operating modes of the case companies.

Table 3 Market entry and operating modes of case companies in Mexico

	Current operation mode	Wholly-owned subsidiary	Joint Venture	Acquisition
Company 1		X		
Company 2		X		
Company 3		X		
Company 4		X		
Company 5				X
Company 6		X		
Company 7		X		
Company 8				X
Company 9		X		
Company 10		X		
	Market entry mode	Wholly-owned subsidiary	Joint Venture	Acquisition
Company 1		X		
Company 2			X	
Company 3		X		
Company 4		X		
Company 5		X		
Company 6		X		
Company 7		X		
Company 8		X		
Company 9		X		
Company 10		X		

The theoretical framework presented in the literature review proposed the provisional key determinants on market entry or operating mode choice for Finnish companies. The determinants are divided in to three main categories: the company background, specific company mode concerns and foreign market influences. The fact that seven out of 10 case companies are globally operating corporations had a huge significant impact on the market entry and operating mode choice. The most important determinant on market entry or operating mode was the global strategies adopted by the companies. One of the interviewees mentioned that the market entry mode and the presence in Mexico depend on the attractiveness of the market and how the target market fits in to the global strategy of the firm. In this specific company, the global strategy is more focused towards Asia than Latin America, and therefore, if they would find an equally attractive market that fits their international strategy better, they might consider shifting their presence to that specific country. In the context of this research, the global strategies of the case companies have mostly shifted the market entry and operating mode choices towards establishing an own subsidiary in Mexico. For many companies establishing a subsidiary aligned well with the global strategy, especially as Mexico is seen as a long-term investment. According to one of the interviewees, establishing your own subsidiary enables higher control on the local activities.

Other key determinants on the market entry and operating mode choice were the tax factors, control and the partner. Tax factors were the primary determinant for establishing a subsidiary for one of the case companies despite the small magnitude of the company's global operations taking place in Mexico. In three case companies, finding the right partner had a direct impact on the market entry mode. The company representatives emphasized the importance of finding trustworthy partners when entering the market, and added that this has a direct impact on the market entry mode. One of the interviewees, who represented two of the case companies after spending over 15 years in Mexico, believed that finding the right partner was a decisive factor in entering the market. The interviewee believed that establishing an subsidiary is a braver solution while entering the market with a joint venture or acquiring a local company is more risk-averse due to a higher degree of market knowledge and risk-sharing with the joint venture partner.

Control of operations was a significant factor in market entry and operating mode choice for four of the case companies. To be more specific about control, many interviewees stated that *"Mexico is too big of a market to be handled outside of the country"* The interviewees who mentioned control being a key determinant on market entry all work for global companies with a long-term global strategy in Mexico. As in many company cases the local market in Mexico was the target instead of the United States, having a high degree of control is extremely important in order to penetrate the market. The high degree of control does not necessarily relate to any specific entry mode, as a joint venture might assert more control in industries, where the expertise of a local partner is invaluable, while other industries might require establishing a subsidiary in order to assert higher control because of bureaucracy and administrative reasons. Table 5 demonstrates the key determinants on market entry and operating mode choice. In addition to the determinants visible on table 4, other factors mentioned as key determinants for market entry mode were labor factors, the macroeconomic environment, global experience and geographic factors. From the provisional framework, there were two determinants, which had no recognition from the interviewees: The general political stability of the target market and the speed of foreign market entry.

Table 4 Key determinants on market entry and operating mode choice

Key determinants on market entry and operation mode choice	# of case companies	Comments
Global strategy	7	"Establishing your own subsidiary enables higher control on the local activities"
Tax factors	4	"For own sales, a subsidiary is compulsory due to tax and administrative reasons. For production, joint ventures are possible"
Control	4	"Mexico is too big of a market to be handled outside of the country"
Partner	3	"Finding the right partner is absolutely crucial; if you can find a trustworthy partner, entering the market is less risky due to market knowledge and economic risk-sharing"
Government policy towards FDI	3	"The company was established with the idea to manufacture the products in Mexico. This was a project of the partner (JV), because during those days the government protected the local manufacturers"

Key determinants on market entry

When focusing on the key determinants on the market entry and presence in Mexico irrelevant of the market entry or operating mode, the range of different determinants was considerably higher. As over half of the case companies were established over 30 years ago in Mexico, the exact determinants on market entry were challenging to determine in certain cases. However, the interviewees were able to offer more insight into the current determinants on the market presence and the future prospects of the company's operations in Mexico. According to the theoretical framework, the primary determinants on market entry and presence are also divided into three sections: host country market and input related determinants, external trade related determinants and background conditions. On a general note, the most significant determinants in relation to the market entry and presence were the inputs (labor, natural resources, land), market factors (size, potential, familiarity), competition and the geographical location. Although there is a difference between determinants on market entry and market presence, the two categories are handled together. Table 2 shows how the operating modes have not changed in many cases after the provisional market entry, while table 6 depicts the key determinants on market entry and presence more extensively.

Table 5 Key determinants on market entry and market presence

Key determinants on market entry and market presence	# of case companies	Comments
Market factors (size, potential, familiarity)	10	"Mexico has a huge growing middle class of over 100 million people"
Competition	7	"We need to be in the front, we can not afford to leave the market for competitors"
Inputs (labor, natural resources, land)	6	"The price/quality ratio of the labor force in Mexico is very good. In China, labor might be cheaper but Mexican employees are highly educated and are more efficient"
Geographical location/distance	5	"Mexico can be seen as a gateway to the US market. The perfect location for assembly lines or manufacturing to the US market"
Safety	3	"The biggest challenge of Mexico from our point of view is safety issues. No-one wants to live at the area of our operations due to drug trafficking issues"
Bureaucracy	3	"Mexico is a very bureaucratic country, you have to be Mexican to understand the fiscal policies"
Linkages/Availability to distribution	3	"Logistics is more expensive in Mexico than in the United States" "The logistics works surprisingly well, however, it is very expensive, perhaps due to bureaucracy and ineffeciency. For example, some unions only allow us to use their personnel"

One determinant stood out as the key determinant on market entry and market presence for the Finnish companies operating in Mexico. All of the 10 interviewees stated that market factors were key determinants on the provisional market entry and current market presence of the case company. More specifically, the most important factor for Finnish companies was the proximity of the US market. However, the growing size and purchasing power of the Mexican market were also key determinants in various companies. One of the interviewees stated that their company has different companies or operating modes for two separate markets. Their Mexican subsidiary serves the Mexican market in terms of sales, implementation and maintenance, while the local factory in Mexico is purely serving the US market. The growing market of Mexico is not only visible in terms of the growing middle class and the increasing purchasing power. Many interviewees believe that the proposed fiscal and energy reforms will create a huge amount of opportunities for Finnish companies, for example in public infrastructure, machinery and wastewater treatment.

Competition was also a key determinant on market entry for most of the case companies. Most of the interviewees simply stated that *"we cannot afford to leave the market for competitors"*. In direct relation to the market factors, many companies operating in different industries were practically forced to enter the market in order to not lose the huge market share of Mexico to competitors. Most of the companies mentioning competition as a key determinant on market entry entered the market already in the 1970's or 1980's, before the market started to open up through the NAFTA. However, one of the company's presence in Mexico at the moment is crucial for future competition. According to one interviewee, the expansion of the Panama Channel will create huge opportunities in their industry, and he stated that they must be present and ready for competition for new projects once the expansion is ready (estimated completion time 2015). Competition also worked in another sense for one of the companies. One interviewee stated that the lack of competition in their industry was a huge advantage for their company. With a high-technology product, they were able to sell their products with relatively high margins, prompting the company to stay in Mexico.

Over a half of the interviewees believed that the inputs, including natural resources, land and labor, were key determinants for market entry. The good quality and cheap labor force, which was a key strength of Mexico according to various sources mentioned in the literature review, was considered to be a significant advantage for the abovementioned case companies. One of the interviewees offered an interesting observation on the competitive advantage of the Mexican labor force. As opposed to the status quo in the past two decades, when various MNC's have outsourced production to China and other cheap South-East Asian economies, Mexico is gaining a competitive advantage in terms of the region due to relatively competitive prices and superior quality. The interviewee believed that production from China might as well shift to Mexico in the future. Another interviewee believed that it is easy to find quality labor force in Mexico if you have a trustworthy source of information. In respect to natural resources, the presence of natural resources was the key determinant for one interviewee. The interviewee stated the primary reason, the only decisive factor, was the presence of ore. However, most of the companies were not directly related to extraction of natural resources, therefore, leading to a situation where the amount of natural resources was not a key determinant in market entry. One interviewee stated that their company has decided against establishing own production facilities in Mexico due to the challenges in the land ownership system, the *ejido* system. In their specific industry, the control of raw ingredients is extremely important in order to avoid the shutdown of factories and, therefore, relying on the production in Mexico would be too risky.

The geographical location was a key determinant for half of the case companies. In these cases, the importance of the location was mostly the proximity to the US market. However, for one of the case companies, the geographical location between Europe and Asia was the key determinant. According to the company representative, the infrastructure opportunities in the ports on both coasts of Mexico determined the presence of the company in Mexico purely because of the excellent geographical location. One of the interviewees also mentioned the proximity to the Central American and Caribbean countries was an advantage, however not as important as the proximity to the United States. As the proximity of the US market was the most important geographical determinant, this is also reflected in the location of the facilities of the Finnish companies. In terms of production and manufacturing, practically all the plants are situated in the north of Mexico, close to the border of the United States. On the other hand, if the target market of the company was in Mexico, the facilities were centrally situated, for example in Mexico City. Sales offices were also mostly situated more centrally, including cities like San Luis de Potosi and Irapuato.

Figure 11 Location of Finnish case companies in Mexico

Safety issues, bureaucracy and the linkages to distribution were key determinants on market entry and market presence for three companies each. Safety issues were obviously determinants that would have an impact against investment or presence. All of the interviewees who mentioned safety issues as a key determinant brought up the challenges of deploying workforce to their manufacturing facilities. One interviewee mentioned that they were thinking of assembling their products in safer locations inside the country, despite being more challenging and perhaps more costly. Another interviewee mentioned that their company was in dire need of host country back up, however, this was practically impossible because of the the safety issues in the north of Mexico as no-one wanted to be located in that region. All of three interviewees agreed that the safety issues might have implications of the future of the companies' Mexican operations.

Bureaucracy was a key determinant on market entry due to different reasons. One of the interviewees bemoaned the bureaucracy between the borders of the United States, stating that the NAFTA is not as smooth as the FTA between EU and Mexico. When quipped on the reason of the high level of bureaucracy despite the massive amount of trade between the two countries, the interviewee replied that both countries are still somewhat protectionists. One of the interviewees mentioned that the Mexican legislation is very complicated and that entering the market without understanding the complicated bureaucracy is extremely challenging. The interviewee added that you have to be willing to accept the inefficiencies in the bureaucratic legislation if you want to succeed with your activities in Mexico. The linkages to distribution were considered to be a key determinant especially with the companies with their Mexican activities dispersed around the country. One of the companies has no production in Mexico, but they have an extensive supplier network in Mexico. The interviewee stated the fluency of the national infrastructure has great bearings on the costs on production, as they are dependent on external suppliers. One of the interviewees mentioned high prices of logistics compared to the United States being a hindrance, yet not a decisive factor.

Future challenges and prospects for Finnish companies

As one of the main research objectives was to construct a Mexican market entry model for Finnish companies, the company representatives were also asked to comment on the future prospects of the Finnish companies operating or contemplating investment in Mexico. The interviewees were asked to look at the perspectives both from the view of the company, its specific industry, and the Mexican market potential as a whole. Many interviewees emphasized that they have more reliable insight in their specific industry; however, many interviewees also had vast knowledge of the Mexican business environment and potential irrespective to the industry.

In comparison to the empirical findings from the first interview group, the most potential industries mentioned by the second interview group were pretty much in line with the experts, researchers and authorities. As the interviewees from the first group already mentioned, there is a vast array of potential industries for Finnish companies in Mexico. This was also reflected in the answers of the company representatives, who offered a wide set of different potential industries for Finnish companies, including the already mentioned energy industry, manufacturing, forestry, infrastructure opportunities, mining and wastewater treatment and distribution. First interview group mentioned the same industries; however, one of the interviewees mentioned that there would be huge potential in all kind of consumer products regarding the growing middle class in Mexico. The interviewee admitted that consumer products might not be something Finnish companies are especially renowned for, apart from the Nokia mobile phones, but he urged Finnish companies to look into that sector also.

The biggest future challenge for Finnish companies in Mexico according to the interviewees is the safety issues. 50 % of the interviewees mentioned safety being the biggest future challenge for Finnish companies contemplating investment to Mexico. The ongoing “drug war” has direct impacts on the manufacturing industry, especially as the manufacturing facilities tend to be situated in the most critical zones regarding the controversies, especially in the north of Mexico. According to one of the interviewees, the biggest issue with the safety concerns is the difficulty in bringing in host country workforce to the *“danger zones”*. Luckily, most Finnish companies operating in Mexico are mostly utilizing local workforce, which obviously decreases the dependency on expatriates. One of the interviewees reminded that the safety situation in Mexico is not as bad as the media is conveying, however, this has a direct detrimental effect on the willingness of employees moving to the companies’ Mexican offices. In addition to safety challenges, the other challenge that stood out was bureaucracy. One interviewee emphasized that in addition to being extremely time-consuming; bureaucracy has a direct impact on the costs. Another interviewee mentioned, somewhat surprisingly, that bureaucracy is one the key reasons why transport logistics is more expensive in Mexico than in the United States.

Other challenges mentioned by the interviewees were the fiscal policy, unmet social requirements (health care, salaries, weak democracy, etc), education, finding the right business partner and competent labor force, the energy cost of industry, Mexico's dependency on the United States and corruption. While some of these challenges were explained more thoroughly in the context of the specific industry, it seems that all of these challenges are applicable to any industry. Interestingly enough, finding competent labor force, which has been mentioned being a key strength of Mexico by interviewees from both interview groups, was mentioned as a challenge by one the interviewees. There are no doubts that this fact is highly industry-dependent, however, there is a good reason to consider the remarks. The interviewee emphasized that while Mexican labor force is still very cost-efficient and hardworking, there might be some challenges in high-tech products: *"The employees are motivated, hard-working and enthusiastic, but they lack the skills and know-how".* This is an interesting remark, especially when considering that the Mexico produces nearly as many engineers as the United States on an annual basis.

Even though the market entry determinants partly go through the strengths and opportunities of the Mexican market, the interviewees mentioned the key strengths of the Mexican respective both in relation to their specific industry and irrespective to the industry. There was a wide range of different strengths mentioned, including the market potential, manufacturing costs, the control of operations (in comparison to China as an example), the strategic location, and the wealth of Mexico. In addition to the potential industries mentioned earlier, many interviewees emphasized the opportunities that will arise from the fiscal and tax reforms, which include improving the national infrastructure and various opportunities in the oil and offshore industry, as the state-owned petroleum company PEMEX is set to open up to foreign investors to a certain extent.

Conclusions

The empirical findings from the second interview group have proven that a significant amount of the determinants on market entry, market presence, market entry modes and operating modes are dependent on the specific industry, which is hardly a big surprise. However, there were also a big set of common determinants irrespective of the industry. Market factors were by far the most important determinants for market entry and market presence for the Finnish companies, as all of the 10 case companies mentioned that either the proximity of the US market or the growing domestic market in Mexico were key factors for both provisional market entry and current market presence in Mexico. Another key takeaway from the interviewees was the unanimous long-term focus of the investment in Mexico the Finnish companies were adopting. The market entry was related to the global strategy of the corporation for most of the case companies. When considering that these aforementioned companies were all globally operating corporations, the importance of aligning the market entry to the international strategy seems logical. For many companies, the market entry was related to the company having strategic focus in Latin America. Consequently, most of the case companies operating in Mexico also had operations in other Latin American countries, especially in Brazil. The global strategy had a significant impact on the market entry or operating mode choice of the case companies, as there was a tendency to establish an own subsidiary in the long-term investment targets, in this case being Mexico.

As the case study was conducted with companies who are already present in Mexico instead of companies planning to enter the Mexican market, the key determinants on market entry were consequently mostly on the positive note. On the other hand, when considering the future prospects in Mexico for both the case companies and future Finnish market-entrants, there were more determinants mentioned with possible negative influences, notably safety issues, bureaucracy and challenges in finding the suitable business partner and competent labor force. However, all of the case companies were planning to stay in Mexico despite the negative determinants, as on a general note the future prospects were positive in terms of profitability and market growth.

Overall, it can be summarized that the determinants for market entry, market presence, market entry and operating modes can be divided in to industry- and market-specific determinants according to the interviews. As the study has no industry focus, the most relevant determinants are related to the market (Mexico), and therefore, can be applied to any given industry. However, the industry-specific determinants should be highly considered, albeit not necessarily being a part of the final market entry mode for Finnish companies. The next section will analyze the implications to be made from the empirical findings in order to create a feasible market entry model to Mexico for Finnish companies.

5. DISCUSSION AND ANALYSIS

This section will introduce the reader to the analysis and discussion of the empirical findings and the implications of the findings to the Finnish companies. The section has been divided into two parts: the market entry and market presence determinants, and the determinants for market entry and operating mode choices. The two sections focus on the three research questions of the study: *"What are the key factors influencing the market entry of Finnish companies to Mexico and why?"*, *"What are the key determinants influencing the market entry and operating modes of Finnish companies in the Mexican market and why?"* and *"Has there been significant changes in the operating modes of Finnish companies in Mexico? Why?"* In the end, the discussion and analysis part aims to fulfill the final research objective: "*Construct an adjusted Mexican market entry model for Finnish companies",* in order to form the market entry model for Finnish companies contemplating investment in Mexico. The market entry model will be presented in the results section.

5.1 Determinants on market entry and presence

When considering all the determinants that have been mentioned during the interviews and the existing literature on market entry and market presence determinants, they can be roughly divided into determinants that can be utilized on a global basis and country-specific determinants to Mexico. Although most of the global determinants can also be applied into the case of Mexico, the country-specific determinants to Mexico can be considered to be unique determinants that cannot be applied to other countries, such as the unique safety situation in Mexico concerning the drug wars. This section starts by comparing the differences between the key determinants mentioned by both interview groups and the existing literature, and concludes by situating the determinants in their relevant categories.

The market entry and market presence determinants have been discussed in different forms during the study. The literature review and the interviews have gone through the strengths, weaknesses, opportunities and challenges of Mexico as a market. All of these aforementioned factors can be defined as determinants. These determinants will be divided into external trade-related (global) and host country market and input related determinants (Mexico), as portrayed in the framework of Wilska. (Figure 1) As the first interview group did not consist of company representatives, the interviewees have not been directly involved with the decision-making process of market entry. Therefore, the interviewees were talking mostly about strengths, weaknesses, opportunities and challenges. On the other hand, the company representatives could refer to the key determinants affecting on the entry-related decisions. In the context of Mexico, the existing literature also focused on the strengths, weaknesses, opportunities and challenges of Mexico, while in a global context the literature covered the key determinants affecting on the market entry or FDI process.

External trade-related determinants

In the framework displayed in the literature review, there were two external-trade related determinants offered, Geographical distance and transport infrastructure. Wilska's framework (figure 1), which was the basis of this study's framework, also offered the following external trade-related determinants: openness toward external trade, economic integration, exchange rate policy and promotional policies. The openness toward external trade and economic integration were both emphasized highly in both the literature review and the empirical findings in the form of free trade agreements. The exchange rate policy was not mentioned as a key determinant at any point during the research, while promotional policies were mentioned in the form of tax factors by a few of the interviewees. The representatives from the trade centers emphasized the importance of the stable and easy business environment, laws and openness, and the vast network of free trade agreements, which fit in to both sets of determinants: the openness toward external trade and economic integration. The company representatives reserved praise for the current free trade agreements. As mentioned previously, one of the interviewees bemoaned the bureaucracy between the border of Mexico and the United States, stating that the FTA between EU and Mexico is much more flexible than NAFTA. On the other hand, various interviewees emphasized the importance of the vast network of FTA's in giving the foreign companies a wide array of options and sales channels for their products in Mexico.

In Wilska's framework, the external trade-related determinants are categorized as secondary determinants in comparison to the host country related determinants. However, when considering the empirical results, the two "secondary determinants" on the theoretical framework were considered almost as important as the primary determinants. 50 % of the companies considered the geographical location/distances to be a key determinant, while the trade center representatives also echoed their opinion in the significance of the location. The transport infrastructure was considered to be a key determinant by three companies (one company had a negative notion), while the trade centers emphasized the fact that Mexico is an efficient logistics and manufacturing hub, with reports supporting the claims. The empirical results prove that the aforementioned factors can be accounted as primary determinants in the adjusted framework. The interesting part of FTA's being a key determinant on market entry to Mexico is that the only negative notion on the free trade agreements was related to the high level of bureaucracy of NAFTA. Even though the domestic market in Mexico is growing with a high pace and Mexico offers an excellent location and a manufacturing platform to export to Asia or other Latin American countries, the United States remains to be the largest market for foreign investors by a large margin. Therefore, although the vast network of FTA's was mentioned to be a key strength of Mexico, one must consider the negative consequences according to the empirical results.

Host country market and input related determinants

The theoretical framework includes a larger selection of host country market and input related determinants in comparison with the external trade-related determinants. As mentioned earlier in the findings section, input-related determinants (labor, natural resources, land), market factors (size, potential, familiarity) and the competitive situation in the target country were the most decisive determinants on market entry and market presence, with over half of the companies listing the aforementioned factors as key determinants. Regarding the theoretical framework, also the linkages to distribution were mentioned by three companies as a key determinant. The only determinant present on the framework that did not achieve significant recognition among the interviewees among the interviewees was the quality requirements. Only one company out of ten company representatives mentioned that the quality requirements of the local population was a key determinant on market entry or market presence. The interviewee stated that that the Mexican consumers are positioned in between the trade-off of quality and price requirements. This factor has been a key determinant for the company not to produce high-end products in Mexico. The importance of quality requirements was discussed during the literature review, where the researcher believed that the quality requirements of the local consumers would be important, therefore leading to a situation, where the quality requirements were added to the framework according to the study of Tyyri. However, according to the empirical results, it seems that the quality requirements are not as significant as believed before the interviews. These results might be a consequence of the industries, where the case companies operate. Only a few of the case companies is selling their products directly to Mexican consumers. On the other hand, even though the case companies did not mention that the quality requirements were key determinants on market entry, it is not to say that the quality requirements of Mexican consumers are not important for them. Even though it might be a stereotype, Finnish companies are renowned for producing high-quality products. Therefore, the quality requirements of the local customers might have no significance, as the companies are accustomed to produce high quality high-end products irrespective of the local market characteristics.

According to the empirical results from both interview groups, the key determinants for market entry and market presence are certainly the market factors. This was not a huge surprise, as the existing literature on the subject conveyed market factors being the most important reason for market entry and market presence for not only Finnish companies, but also all the MNC’s operating in Mexico. The combination of the US and Mexican market, together combining into over 400 million consumers, is and will most probably be the key attraction of Mexico in the future for foreign companies. The input related determinants (labor, natural resources, land), which were the second most significant determinant according to the company representatives, were mostly related to cheap and competent labor force in Mexico. One of the companies mentioned the presence of natural resources as being the key determinant while the land-ownership system, the *ejido* system, was actually a negative determinant for one company as they only have a sales office in Mexico due to the aforementioned reason. Perhaps somewhat surprisingly, the same company considered the labor costs being a negative determinant in Mexico. This might also be related to the *ejido* system, controlling multiple land areas simultaneously might be more cost-intensive in terms of labor costs.

The importance of the competitive situation in Mexico emphasized by the interviewees is also no surprise. Firstly, the competitive situation is directly related to the market factors, as most of the case company representatives mentioned that one of the provisional reasons for market entry was not to leave the huge market potential for direct competitors, referring to the aforementioned market exceeding 400 million people. On the other hand, one of the interviewees reminded that Mexico could still be described as an unsaturated market, at least in their respective industry. This is obviously dependent on the industry, however, especially in the manufacturing industry, a significant amount of companies is moving production from China to other emerging countries with competitive labor force and costs. Mexico fits this category reasonable well, and in this sense, first-movers or early-movers have a significant advantage.

Background conditions

The background conditions displayed on the theoretical framework were all added to Wilska's framework from other sources. Three of the four background conditions, bureaucracy, corruption and safety, were the researchers own additions to the framework according the findings of the existing literature. The fourth background condition, trade barriers and political risk, was an addition from the study of Tyyri. Corruption was considered as a key determinant on market entry only by one company, while the trade center representatives also mentioned corruption being a key challenge or weakness of the Mexican market. Bureaucracy and safety were far more pressing issues according to the company representatives, as three companies considered them to be key determinants on market entry. The trade centers also recognized them as being key issues and future challenges. The representatives of the trade centers were, however, more concerned about the image the safety issues related to the drug wars were creating in foreign countries, albeit recognizing the true dangers they behold in certain parts of Mexico. However, both representatives reminded that these safety issues are applicable in certain parts of the country. This has not prevented Finnish companies to establishing their subsidiaries in the so-called danger zones, especially as the main manufacturing and assembly line zones are in the north of the country. The map of Finnish companies operating in Mexico (figure 10) displays how certain Finnish companies are operating in the conflict areas (red zones), and this map only displays just over a quarter of the Finnish companies with presence in Mexico. The trade centers believe that, the safety issues are portrayed in international media in a worse way than things actually stand, and this has a direct effect on the attraction of Mexico as a market. However, safety remains to be a key determinant on market entry, especially for companies with the target market in the Unites States, as this normally means establishing your facilities to the north of Mexico closer to the more dangerous areas.

Both interview groups agreed on the challenges bureaucracy still creates in Mexico. Even though Mexico is considered to be an open economy on a Latin American standard, there is no escaping the fact that highly bureaucratic procedures still exist, and cannot be avoided by ethical means according to certain interviewees. One interview stated that the best way to adjust to the Mexican business environment in terms of bureaucracy and red tape is to accept all the compulsory administrative tasks, despite not agreeing on the usefulness on the activities. He stated that one only causes him- or herself extra problems while trying to argue with some authorities or officials on certain regulations. Despite being a relatively easy country in the context of Latin America to conduct business, according to the ease of doing business ranking of the World Bank, bureaucracy remains to be an issue in Mexico. It does not seem to apply in every sense, as for example, establishing a company in Mexico only lasts six working days. (World Bank, 2013) However, for companies operating in Mexico on a larger scale, it seems impossible to avoid the prevailing bureaucracy.

5.2 Determinants for market entry and operating modes

The literature review covered a relatively large array of different market entry and operating modes feasible for companies operating in a foreign market, including 13 different market entry modes according to Welch et al. These 13 market entry modes were divided into three categories: contractual modes, exporting modes and investment modes. In addition to the large range of operation and entry modes, Welch et al stated that it is highly common to utilize various operating modes simultaneously after the provisional market entry and change the operating mode during the course of the investment due to changing market conditions or other determinants (ibid). When considering the high amount of operating mode options available for companies operating in a foreign market, it is slightly surprising how nearly all the case companies have opted to operate practically in the same method. As mentioned and displayed earlier in the findings section, (Table 2) eight out of ten of the case companies currently operate in Mexico through a WOS, while the remaining two companies have acquired a local company after their provisional market entry. Nine case companies out of ten entered the market through a WOS, while only one of the companies formed a joint alliance with a local company.

According to Anderson and Catignon, the market entry choice can be explained by a trade-off decision between control and the cost of resource commitment. (Anderson & Catignon, 1986) Rugman and Anderson state the FDI can be seen as an instrument to achieve or to maintain global competitiveness. (Rugman & Anderson, 1991) Although the sample amount of case companies is relatively small (10 companies), a conclusion could be made from the high tendency of Finnish companies establishing subsidiaries in Mexico. According to Dunning, if a company has only ownership-specific advantages, which refer to intangible assets, it will use other entry modes to enter foreign markets, such as licensing or exports. (Dunning, 1980) When considering the market entry and operating mode choices of the case companies, they are more interested in assuming control of operations rather than being risk-averse towards resource commitment. This could be partially explained how Mexico is positioned in each companies' global strategy. On a general note, all of the companies have set long-term targets in Mexico, and the country also aligns well with the global strategy. In this type of situation, operating through a wholly owned subsidiary seems to be the most logical situation for the case companies. However, some of the interviewees also mentioned that there are administrative reasons behind the operating mode. In practical terms, one of the companies operates through an exporting operating mode (own sales office), however, officially they operate through a wholly owned subsidiary. As most of the interviewees pointed out, competitive reasons were key determinants in the market entry to Mexico. In these cases, FDI seems to be a suitable method to enter the market according to Rugman and Anderson. (Rugman & Anderson, 1991)

While Welch et al also state that, it is more of a rule than exception for companies to change their operating modes during their time operating in a foreign market, this cannot be reflected from the empirical results, especially as most of the case companies have been operating in Mexico for over 30 years already. (Welch et al, 2007) Even though the business environment has changed drastically during the last years, especially after the NAFTA coming in to practice in 1994, there has been no drastic change in the operating modes of the Finnish case companies in Mexico. According to Welch et al, firms switch foreign operations modes mainly due to two reasons: *"either as a correction of managerial misjudgments or as an adaptation to new circumstances as foreign operations evolve"* (ibid). They also believe that the adaptation to new circumstances is the more common reason for operating mode change.

If we consider the three companies that have had alterations in their operating modes during their time in Mexico (table 2), two of the companies entered the market through a subsidiary and have since acquired a local company, while one of the companies entered the market through a joint venture with a local company. One of the companies who entered the market through a Chile-based subsidiary, decided to acquire a local company in Mexico based on the importance of market presence in Mexico. The interviewee stated that if their business or feasibility plan would not have been successful, they would not have invested in Mexico. However, the prospects in Mexico looked good after the feasibility plan and they decided to acquire a local company. This acquisition can be categorized in to a mode switch as adaptation to new circumstances. The other company, which acquired a local company in the later phase of their stay in Mexico, has a more versatile operating mode combination in Mexico. In 1980, they entered the market through an own sales, and they acquired an Italian company five years later in 1985. 20 years later, in 2005, they decided to build their own assembly line in the north of Mexico solely focused on the US market, while the subsidiary situated in Mexico City serves the local market in Mexico. As in the case of the previously mentioned company, the operating mode change, or in this case a diversification, was carried out due to changing circumstances, not managerial misjudgments, at least according to the interviewee. The company that entered the market via a joint venture in 1998, ended up in this particular market entry form to share risk, according to the interviewee. He mentioned that they had the opportunity to export their own products to Mexico. However, two years later they established their own plant in Mexico after being accustomed to the market.

Finally, in 2006, they decided to acquire the joint venture due to successful operations and positive prospects in the market.

The empirical results from the case companies contradict the assumptions made by Welch et al. on the frequency on operating mode changes. There seem to be three reasons for this contradiction. Firstly, the sample size of companies is relatively small, which can obviously have an effect on the results. Secondly, the specific market characteristics can have a direct influence on the operating modes. The stable business environment, growing market and future prospects in Mexico have ensured that there is no need to change the prevailing operating mode. This is especially evident, as most of the case companies have entered the market through a WOS. Thirdly, the long-term strategy and size of the case companies might also have bearings on the unchanging operating modes. Most of the case companies are MNC's with a long-term focus in Mexico; it can be said that few or none of the companies have entered Mexico to "experiment" the market on a short-term basis. The combination of these factors has most probably led to the aforementioned contradiction. Although concluding that the operating modes of the case companies have been relatively stable, it is not to say that there have been no changes in the operating environment. There have been more additions to operating modes in the form of establishing new facilities, instead of direct changes in the operating mode. For example, one of the case companies established their own plant in the North of Mexico, which operates as a separate legal entity, however, without altering the prevailing conditions in the existing subsidiary. Other companies have also strengthened their presence in Mexico one way or another, without actually altering the operating mode in Mexico, for example by establishing new subsidiaries in Mexico as separate legal entities. Two of the case companies are both separate companies from the same corporation; both working as separate legal entities.

Despite the relatively homogeneous choice of market entry and operating modes chosen by the Finnish case companies, the mode choice might not be as straightforward as the empirical results might suggest for all Finnish companies. As mentioned in the findings section, the key determinants on market entry and operating mode choice were the global strategy of the company, tax factors, control of operations, finding a suitable business partner and government policy towards FDI. Some case companies also mentioned labor factors, the macroeconomic environment, global experience and geographical factors as determinants on market entry.

Despite the wide range of different determinants on market entry, the empirical results depict how the three key determinants are actually more significant to market entry, as the global strategy of the case companies, the government policies towards FDI, and tax factors have steered the companies towards establishing their own subsidiary in Mexico. The global strategy can be identified as an external determinant, as the host country has little or nothing to do with the global strategies of the entrant firms. On the other hand, tax factors and government policies towards FDI have lured foreign companies to establish their own companies to Mexico. Mexico is highly encouraging foreign companies to enter the Mexican market by offering various advantageous benefits for establishing a company in Mexico. The tax factors are actually interrelated to the government policies towards FDI, albeit being separate factors in the theoretical framework.

These three key determinants have directed the case companies to establish their own company in Mexico. When considering the size of the case companies and the magnitude of market presence they possess in Mexico, the operating mode choice might also seem logical. In addition, the fact that the operations of the case companies in Mexico are highly based on production and manufacturing might have an effect on the operation and market entry mode. However, when taking into consideration all the 37 Finnish companies operating in Mexico, the operating mode choices might be more dispersed. The spectrum of different industries is much more diverse, which might alter the importance of different determinants. For example, there are six Finnish IT companies operating in Mexico, who might have totally different operating forms in Mexico, due to the trend of outsourcing in the IT industry. Contractual modes such as licensing and subcontracting might also be more likely in the companies operating in the IT industry. As the study only covers 10 case companies, there are no specific implications on the possible alterations on entry and operating modes directly related to the industry.

6. RESULTS

This section will present the reader the concrete results of the study, which were depicted from the empirical findings and the existing literature. The results can be divided into two parts, the market entry model and the managerial implications. These results are intended to serve the Finnish companies contemplating investment to Mexico by pinpointing the key determinants on market entry and market entry mode and utilizing these determinants to form concrete suggestions upon market entry to Mexico.

6.1 Market entry model for Finnish companies

The market entry model for Finnish companies contemplating market entry to Mexico has been adjusted according to the theoretical framework and the empirical findings of the study. In practice, this means that some of the determinants present in the theoretical framework have been removed due to the lack of significance in the context of the study. On the other hand, certain determinants, crucial in the context of Finnish companies in Mexico, have also been added based on the notions of the interviewees of both interview groups. The decisions on removal are also based on the interviews, considering both the activities of the Finnish companies currently operating in Mexico and the prospects of potential Finnish companies entering the Mexican market in the future. While the company representatives have a more comprehensive overview on the industry, business environment and business processes in their specific fields, the first interview group offers an alternative point of view on the cultural characteristics and the political and business environment on Mexico.

The previous sections discussed about the key determinants on market entry and market presence in addition to the market entry and operating modes. The market entry model, has been divided into two parts: the determinants on market entry and presence in Mexico, and the determinants on the market entry and operating modes in Mexico. The market entry model (table 7) on market entry determinants has combined the key determinants from the existing literature and empirical findings, and ranked the different determinants according to the rate of significance. The rate of significance has been extrapolated from the empirical findings, considering the importance of every criterion in the context of Mexico. In addition, the entry model depicts the key considerations in relation to each specific determinant, which are partly explained more thoroughly in the managerial implications section.

Table 6 Market entry model on the market entry determinants

Rank of significance	Primary determinants on market entry Host country market and input related determinants	Author	Key considerations
1)	Market factors (size, potential, familiarity)	Wilska/Tyyri	Market size and growth (US and Mexico), market saturation rate
2)	Competition/competitive situation	Wilska/Tyyri	Presence of direct competitors
3)	Inputs (labor, natural resources, land)	Wilska	Manufacturing costs, labor cost and quality, availability of natural resources, land ownership
4)	Linkages/availability to distribution	Wilska/Tyyri	Cost of logistics and the proximity to key stakeholders, including partners, suppliers, customers and competitors
5)	Quality requirements	Tyyri	Quality requirements of customers (both end-users and corporate customers)
	External trade related determinants		
1)	Economic integration (free trade agreements)	Wilska	The network of free trade agreements, Pacific Alliance, renewal of FTA between EU and Mexico
2)	Geographical distance	Wilska/Tyyri	Proximity to US and Latin American markets. Strategic considerations as a hub to Asia and Europe.
3)	Transport infrastructure (internal/external)	Wilska	The quality of the host country's national and international infrastructure in relation to the companies activities (air, land, sea)
	Background conditions		
1)	Safety	Additional	Conflict zones in relation to drug wars. Manufacturing location to be considered carefully, emphasis on reliable source of information
2)	Bureaucracy	Additional	NAFTA, profund research on the administrative obligations and complicated legislation of Mexico
3)	Corruption	Additional	Bribery not only issue. Big differences in perceived corruption between Finland and Mexico. How to operate ethically
4)	Trade barriers and political risk	Tyyri	The future progress of the energy and fiscal reforms will might have high-magnitude consequences on foreign trade

The market entry model on the market entry mode decision is constructed in exactly the same way as the model on market entry determinants. This model (table 7) focuses specifically on the key factors influencing the market entry mode choice. Both entry models have ranked the determinants according to the importance by dividing them to different categories, such as company background, foreign market influences and specific company mode concerns in the case of table 7. All of the determinants visible on the entry model on the market entry mode have been utilized from the theoretical framework; therefore, the empirical findings section has not revealed any new determinants to the modes. However, the rate of significance can be useful for Finnish companies, as it gives them some perspective on what determinants have historically had the biggest influence on market entry mode decision for Finnish companies in the context of Mexico.

Table 7 Market entry model on the determinants on the market entry mode

Rank of significance	Primary determinants on market entry mode decision	Author	Key considerations
	Company background		
1)	Global strategy	**Welch, Benito and Petersen**	How Mexico aligns with the global strategy of the company. Operation mode combinations in Mexican context
2)	Experience (international and market in question)	**Welch, Benito and Petersen**	Experience in Latin American economies beneficial, yet not compulsory. Less market knowledge steers towards finding a local partner
	Specific company mode concerns		
1)	Control	**Welch, Benito and Petersen**	Trade-off decision between control and the cost of resource commitment. Applicable in a global context
2)	Partner	**Welch, Benito and Petersen**	Reliable source of information when looking for business partner absolutely crucial. In Mexico, the emphasis is on personal relations
	Foreign market influences		
1)	Tax factors	**Root**	Extensive study on the fiscal incentives available for different market entry forms
2)	Government policies towards FDI	**Root**	Extensive study on the favorable and unfavorable policies on different market entry modes
3)	Macroeconomic environment	**Root/Wilska**	The rate of inflation and exchange rates to be considered. Relatively high fluctuations on Mexican Peso during last years, having a direct impact on manufacturing costs. This could affect on the decision between exporting or producing in Mexico

Both entry models have been constructed considering the empirical results and the existing literature relevant to the study. While the empirical results have focused both on determinants on market entry and market presence, the market entry model has been constructed for future market entrants and therefore, has extrapolated the empirical results on market presence determinants to market entry determinants. The determinants on market entry and market presence, once a company already has presence in the target country, are obviously different. However, the essence of both determinants are similar: determinants on whether or not to have market presence in a specific target market, without considering the notion if the company is already present in the market or not.

The theoretical framework was based on the framework of Wilska, which depicted the host country determinants of FDI in Latin America. Wilska's framework was based on existing literature and the findings of one Finnish company case in Costa Rica; however, the determinants were not directed only towards Finnish companies, as the case company could have been from another country without changing the framework drastically. The market entry model offered here is targeted specifically for Finnish companies contemplating investment to Mexico; however, it is also applicable to a certain extent to other Latin American markets, just like in the case of Wilska's framework. However, the rate of significance can change depending on the country, especially in the market-specific determinants, such as corruption, bureaucracy and safety issues, which carry a special significance in Mexico. Serving as a market entry model for Finnish companies, the two models suggested above depict the key determinants on market entry to Mexico based on historical evidence and the business environment today.

To serve as a feasible tool for potential Finnish companies entering the Mexican market, the entry models displayed pinpoint the most important determinants to focus on upon market entry. Although every company have their own determinants upon foreign market entry and market entry mode, these models offer concrete suggestions on which determinants "normally" have the biggest significance in the Mexican market. Therefore, if a company has limited resources to conduct a market research, these entry models can serve as a benchmark on how to allocate resources on a possible feasibility study on the Mexican market. While the market entry models offer a basic framework for market entry to Mexico for Finnish companies, the following section, managerial implications, offers Finnish companies more practical suggestions based on the key determinants on market entry and entry mode selection.

6.2 Managerial implications

While entering the Mexican market will most probably require an exclusive feasibility or market research study for new market entrants, there are certain rules of thumb that are applicable to almost all companies and industries. The Mexican market characteristics are covered relatively comprehensively in the existing literature. However, the opinions of the key decision-makers of the foreign companies operating in Mexico are seldom at display, and this is where the empirical findings of this study come into place, especially in the context of Finnish companies and market potential in Mexico. According to the empirical findings of the study and existing literature on the Mexican market, the study offers implications on the potential industries for Finnish companies in Mexico, the future prospects of the Mexican economy and business environment, and rules of thumb for market entry in to Mexico for Finnish companies.

Potential industries and future prospects of Mexico

Mexico is a country where Finnish companies have no specific industry-focus up to date due to the vast array of opportunities Mexico has to offer for foreign companies. Therefore, the list of potential industries could be very large, as the empirical findings have depicted during the studies. When combining the characteristics of Finnish companies and the industry opportunities in Mexico, there are two industries or sectors the researcher wants to point out. Energy opportunities have always existed in Mexico; however, they have been more or less limited because of the state-owned petroleum monopoly PEMEX. The current presidential regime is planning to open up, however not privatize, the state-owned petroleum company for foreign investors. This opens up oil and gas opportunities for foreign companies, but the energy opportunities are not limited to fossil fuels. The energy reform will have a huge impact on the renewables sector, as the national energy strategy is planned to increase the share of renewable energy in the country (currently 4 % of electricity from green sources). Various foreign companies are already investing in the growing renewable energy sector and for example, the Italian renewable energy corporation Enel Green Power has invested approximately 160 million dollars on a wind farm project in the beginning of 2014. (Stargardter, 2014) The renewable opportunities are not limited to wind power, but Mexico has intentions to diversify its energy portfolio, offering opportunities in geothermal energy (Mexico is 3rd largest producer in the world) and biofuels. Especially biofuels is an area of expertise within Finnish companies. As one of the interviewees mentioned, huge potential exists in the waste-to-energy sector in Mexico, as recycling and waste treatment is a huge issue in Mexico. Finnish companies have expertise in waste treatment, and Mexico could offer huge opportunities for Finnish technology in the future.

Infrastructure development will offer huge opportunities in construction, logistics and machinery in the future. According to Finpro, the budget of the national program for investment in infrastructure and communications will increase by 50 % between 2013-2018, with the Mexican government investing 307 billion dollars in infrastructure projects, including road, railroad, port, and airport construction in addition to improvements to the telecommunications industry. (Finpro, 2013) Machinery is already the number one export product from Finland to Mexico and the biggest concentration of Finnish companies operating in Mexico are working in the machinery industry. One of the case companies is already exploiting the infrastructure opportunities in port construction, while another case company is involved with construction projects involving road infrastructure. As the infrastructure opportunities in Mexico will certainly attract worldwide interest to foreign investors, quick movers will certainly gain advantage to gather market coverage.

The study has pinpointed two potential industries in relation to market entry to Mexico for Finnish companies. However, these are only recommendations based on the empirical results and existing literature, and as the key focus of the thesis was not the potential industries in Mexico, a note of caution exists. The findings section has identified a wide range of potential industries in Mexico, which are all worthy of further research and possible exploitation. The two aforementioned sectors, infrastructure and energy were selected due to the opportunities existing today in Mexico due to the combination of different factors, mainly the political and economic changes Mexico is going through at the moment, for example the energy reform.

The proposed market entry model for Finnish companies contemplating market entry to Mexico is to a certain extent sensitive to changes in the political and economic environment in the near future. The market entry model includes the macroeconomic environment and government policies as key determinants on market entry, but they were not qualified as the most important determinants by the company representatives. However, when considering the continuously evolving business environment, Finnish companies should reflect the market entry model on the current political and economic atmosphere.

Rules of thumb on market entry decision

The market entry models displayed the key determinants in relation to both market entry and market entry modes for Finnish companies contemplating investment to Mexico. This section provides the reader rules of thumb on market entry to Mexico. Considering the key determinants depicted on the adapted framework, the next paragraphs offer managerial implications both on the market entry mode and market entry decisions.

Market factors were by far the most important determinant on market entry and market presence for the Finnish case companies operating in Finland. All of the 10 case companies considered market factors to be key determinants. The growing local market in Mexico combined to the world's biggest consumer market in the United States, totaling to over 400 million consumers with purchasing power, has confirmed the importance of market factors for foreign companies in Mexico. Although the US market still pertains as the most important market for Finnish and foreign companies, the market focus is shifting towards the local market in Mexico due to the growing purchasing power of the local consumers and other industrial opportunities arising from the proposed reforms. Therefore, the researcher suggests doing an extensive market research on both regions (United States and Mexico) before confirming the target market of the venture in Mexico. As the proposed reforms of the current presidential regime will have a huge impact on the business opportunities in Mexico, not only the current market size of Mexico should be assessed, but also the potential in the various industries proposed previously. The interviewees from both groups emphasized the importance on finding a reliable source of information. This is a key notion for the companies considering market entry to Mexico, and there are different options for finding reliable information. Bigger companies tend to have their own networks in Mexico, while smaller companies often turn to public trade centers, such as Finpro or ProMéxico, or private companies facilitating market entry to foreign markets. Whatever the means of finding market information, the key notion is to ensure the reliability of information and considering the long-term changes in the market.

Competition factors also carried great significance for Finnish companies for market entry decisions. For many of the case companies, the presence of global competitors has practically forced them to enter the vast Mexican market. On the other hand, one of the case companies mentioned that the lack of competition in their high-tech products has ensured success and good margins for their products in Mexico. While Mexico is famous for being a global manufacturing hub, it can be still describes as an unsaturated market in many industries. The fiscal and energy reforms will probably raise the level of saturation in the near future, and therefore it is important for Finnish companies contemplating Mexican market entry to execute a comprehensive competitor analysis, especially in the industries where the opportunities emerging from the reforms and growing purchasing power of the Mexican consumers will add competition in the coming years. The continuously changing competitive environment should also be considered when making the entry mode decision. In industries with high market saturation rates, such as the mining industry in Mexico, establishing a joint venture with an established local company might be best option despite the loss in control. The value of reliable information also has a crucial role in finding the key partner, and partnership decisions should not be made light-heartedly, as in Mexico, the probability of success is highly dependable on personal relationships. As it is challenging to penetrate the market as a new market entrant, the choice of business partner should depend on the networks the partner company already has in Mexico.

Mexico has a good reputation in the availability of high quality labor force with very competitive prices, prompting numerous foreign operators to outsource some of their manufacturing in Mexico. However, the empirical findings of the study proved that finding high quality labor force might be challenging in certain industries. The fact that the Finnish case companies operating in Mexico are mostly utilizing local work force proves that there certainly is high quality labor force available in Mexico. Mexico "produces" almost the same amount of engineers as the United States on a yearly basis. The biggest question is not the availability of workforce; it is how to find them. According to one of the interviewees, there are various options for recruiting local workforce, for example using local recruiters or the staff of the possible joint venture partner. The market entry should not happen on the presumption that an abundance of work force will be easily found after making the entry decision, but the availability of suitable employees should be confirmed before entering the Mexican market.

The background conditions regarding market entry to Mexico are very important considerations on the decision on market entry. Safety issues, bureaucracy and corruption are key issues in Mexico, obviously depending on the location, industry and market entry mode of the company. As the empirical findings have proved, the safety issues should be taken seriously when choosing the location of facilities. Benchmarking from existing contacts from Mexico or even competitors operating in the same location will facilitate the decision, while the amount of bureaucracy cannot be avoided in certain cases. Bureaucracy is best handled by having local legal advisors or utilizing the help of the honorary consuls of the Finnish Embassy in Mexico, who are specialists in the legal procedures of certain states or areas in Mexico. Corruption is a timely issue, which should be considered before making the market entry decision. Unfortunately, some business aspects cannot be handled without activities that might be perceived as corruption in Finland. Therefore, the company must ensure that they are able operate within the ethical means of their own company standards in Mexico before making the entry decision.

The aspect of quality requirements has not been discussed to a large extent during the course of the study, however, it is an important factor to consider upon market entry. The quality requirements, especially in consumer goods, might experience a vast increase in the coming years due to growing purchase power of the local customers. Hence, it is extremely important to have flexibility to change the product portfolio in the case that the target market for the investing company would be Mexico. Assessing the ongoing market trends in the specific industry is certainly worthwhile to be able to prepare for changing conditions.

Rules of thumb on market entry mode decision

The global strategy and international experience of the company tend to have a big influence on both the choice of target market and choice of market entry mode to foreign markets. Situations certainly exist where a highly potential market has been disregarded as an option of market due to the strategic direction or global strategy of the company. These are also determinants the case company representatives mentioned having an influence on the companies’ Mexican presence in the future. Mexico is such a geographically distant location for Finnish companies that it has to have a significant value for the overall operations of the company to be qualified as a feasible location for market entry. As mentioned earlier, most of the case companies operating in Mexico also have presence in other Latin American economies. In addition, in certain industries, Mexico could be considered to be an excellent hub between Europe and Asia. Therefore, when considering how Mexico aligns with the internationalization strategy of the company, the location and proximity of other strategic areas should be considered. Although the Mexican market per se might not be crucial for the company's foreign expansion, long-term prospectives in the close by markets, such as the United States, Canada or Central America, might improve significantly with presence in Mexico.

Finally, the macroeconomic environment and government policies towards FDI (including tax factors) should be taken into account upon the decision on the market entry location. The earlier mentioned issues on double taxation faced by foreign companies in the autumn of 2013 proved the government policies towards FDI are subject to changes in Mexico. The fiscal reform will certainly have effects, either positive or negative, on the policies towards foreign companies, which might make them consider other market entry alternatives. The Mexican economy is considered to be relatively stable, with no drastic changes on the exchange rates and currencies. However, the exchange rates will also fluctuate according to the currency rates of the US dollar and Euro. As the Mexican economy is highly dependent on the US market, changes in the macroeconomic environment in the United States have great bearings on the Mexican macroeconomic environment.

The managerial implications and the market entry model are directed towards the Mexican market for Finnish companies contemplating foreign market entry. However, while the managerial implications are only applicable to Mexico, the market entry model can utilized in other relatively homogenous markets in Latin America considering certain alterations. As mentioned earlier, the basis of the framework was retrieved from the study of Wilska concerning FDI to Latin American markets, with additional criteria added on the basis of different studies and the empirical findings in the context of Mexico. The researcher encourages the Finnish companies to consider utilizing the market entry model to draw a comparison between Mexico and other Latin American countries. The criteria displayed on the model should be analyzed on a country basis to be able to consider Mexico with other Latin American countries as a potential FDI target.

7. CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH

The two main research objectives of the study were to construct a market entry model for Finnish companies contemplating market entry to the Mexican market and offer managerial implications and concrete suggestions upon market entry. Both of the research objectives have been fulfilled to a certain extent as the two market entry models have been followed up with key considerations and suggestions related to the key determinants. However, due to the lack of industry focus of the study, the concrete suggestions on the key determinants upon market entry are not as in-depth as the researcher would have wished when setting the objectives of the study. The market entry model and managerial implications can serve as a solid benchmark for Finnish companies considering market entry to Mexico, but every company has to consider the industry they are operating in, which is a factor where the results of this study cannot help the companies in. As the objective of the study was set out to be more generalized than industry-specific, it can be stated that the research objectives of the study have been fulfilled in an expected manner.

The empirical findings and discussion sections clearly answered to the first two research questions: "*What are the key determinants influencing the market entry of Finnish companies to Mexico and why?*" and *"What are the key determinants influencing the market entry and operating modes of Finnish companies in the Mexican market and why?"*. Tables 5 and 6 summarize the answers of the two research questions directly, and therefore, the two research questions have answered thoroughly. The third research question, "*Has there been significant changes in the operating modes of Finnish companies in Mexico? Why?"* was also analyzed in the discussion section, giving direct answers to the first part of the question. Despite the analysis of the change in the operation modes of Finnish companies in Mexico, the researcher wants to note caution that the empirical findings on operation mode changes cannot be accounted as a trend due to the small sample size of 10 case companies. Therefore, although the third research question has been answered to, one must be careful in assessing the implications of the trend in operation mode changes of such a limited sample group.

The study has been conducted as a case study with 10 out of the 37 Finnish companies currently operating in Mexico. Albeit not being a particularly small sample size, the empirical results have revealed the lack of depth in certain areas of the study. As there was no industry-specific focus, the study aimed to create a market entry model for all potential Finnish companies entering the Mexican market. The most prominent suggestion for further research on the subject would be related to the specifically potential industries for Finnish companies in Mexico. This would require an extensive analysis on the potential industries in Mexico and how Finnish companies in these industries fit into the picture. As an example, the growing middle class and purchase power of Mexican consumers have created and will create huge opportunities for consumer products. However, this was not mentioned in the study, as Finnish companies are not particularly well known for producing or manufacturing consumer goods, perhaps apart from Nokia mobile phones. In addition to recognizing the potential industries in Mexico, the suitable Finnish companies should be pointed out in order to find out the "best fits".

Another implication for further research concerns the scope of the study. As mentioned in the discussion section, many of the Finnish companies operating in Mexico also operate in other Latin American countries, such as Brazil or Argentina. However, there are many companies who make investment decisions between Mexico and other Latin American economies instead of entering both or various markets. There is a need of further research in the comparison of Mexico to other Latin American economies in order to recognize the key determinants on market entry between Latin American economies and the strengths and weaknesses of the largest Latin American economies in the context of Finnish companies, being Argentina, Brazil and Uruguay. Argentina and Brazil are seen as more potential investment destinations for Finnish companies due to the prevailing forest industry and historical investments in the region. In order to raise awareness on the market potential of Mexico and the differences between the Latin American markets, future research is welcome on the aforementioned subject.

The third implication for future research could also be counted as a possible future limitation of the study. As many of the key determinants on the market entry model are highly country-specific to the Mexican context and volatile to change, the rate of significance might change drastically in the future. For example, bureaucracy, corruption and safety issues are huge issues at the moment in Mexico, however, they might lose significance in the coming years. Corruption and bureaucracy might be deeply rooted in the Mexican society, but the majority of the safety issues are related to the ongoing drug wars, which might overcome drastic changes in the near future. On the other hand, quality preferences might become more important in the context of the Mexican market in the future, as the wealth and purchasing power of Mexican consumers is growing substantially. Therefore, the researcher suggests that the market entry model should be updated in the future, as this model is specifically applicable today and in the near future of Mexico.

The final implication on future research concerns the historical market entry of Finnish companies to Mexico. As many of the Finnish case companies operating in Mexico entered the market over 30 years ago, the provisional determinants on market entry were extremely challenging to determine. Some of the interviewees had their own impressions and opinions on provisional market entry, but the results are not reliable, as most of the interviewees admitted their uncertainty. Further research on the historical reasons on market entry would help pinpoint the key determinants on the market entry for Finnish companies. The current conclusions are based on the determinants on the future presence of the case companies instead of the provisional market entry.

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9. APPENDICES

Interview questions for company representatives

Interview location and time:

Interviewee:

Interviewee’s position in the company:

1) What is your role in the company and what kind of experience do you have related to Latin America and Mexico?

2) When did your company start its operations in Mexico and what kind of market entry mode (acquisition, joint venture, wholly owned subsidiary, etc) did the company utilize?
    a. What were the reasons for the specific market entry mode?

3) Why did the company decide to invest specifically in Mexico? Were there any other alternatives in addition to Mexico?

4) What were the five most important factors when making a decision to enter the Mexican market?

5) What are currently the most important factors for the future of the company's Mexican operations?

6) What do you think are the greatest challenges and strengths of the Mexican market in the point of view of your company?

7) What do you think are Mexico's greatest challenges and strengths of the Mexican market independent of the industry?

8) Has your perception of the Mexican market changed after the market entry? How?

9) What kind of background research did you on Mexico before market entry? Was the gathered data accurate?

11) Where is the target market of your company’s Mexican operations? Why?

12) Do the Mexican operations play a key part of the global operations of your company? How does it fit the internationalization strategy?

13) What are the most potential industries for Finnish companies in Mexico in your opinion? Why ?

14) Could you describe your operations in Mexico more thoroughly?

15) Have the Mexican operations been profitable for the company and how do you see the future prospects of your company in the Mexican market?

16) Do you have anything to add?

Additional question asked during interviews

1) Did you have any alternative options for investment in Latin America?
2) Do you believe the role of Mexico in the global strategy of Mexico can change drastically in the future?

Interview questions for the first interview group

a. Authorities and government officials

1) What are the competitive advantages of Mexico in comparison to other Latin American economies?
2) What are the key determinants for Finnish companies choosing market entry between Mexico and other Latin American countries?
3) What are the most potential industries for Finnish companies in Mexico?
4) How do political factors affect on the commercial activities of Finnish companies in Mexico?
5) How do the safety issues affect on the commercial activities of Finnish companies in Mexico?
6) Do you believe the amount of Finnish companies will increase in the future?
7) Would you recommend Finnish companies to invest in Mexico? Why?
8) How do you see the future prospects for commercial exchange between Finland and Mexico?
9) How does the EU affect on the commercial activities between Finland and Mexico?
10) What are most important trade policy factors impacting the commercial activity between Finland and Mexico?

b. Trade center representatives

1) How would you describe the Mexican business environment?
    a. Strengths and weaknesses?
    b. Key factors to success?

2) What are the most important industries for Finnish companies in Mexico?

3) What are the deciding factors for Finnish companies when choosing a market entry form to Mexico (subsidiary, joint venture, acquisition, etc.)?

4) What are the competitive advantages and weaknesses of the Mexican market compared to other Latin American economies?

5) Are commercial relations between Finland and Mexico more important to Mexico or Finland? Why?

6) How big of a role does the Mexican government have on the foreign trade between Finland and Mexico?

7) Would you recommend Finnish companies to invest to Mexico? Why?
8) What are biggest strengths and opportunities of the Mexican market for Finnish companies? Why?
9) What are biggest weaknesses and challenges of the Mexican market for Finnish companies? Why?
10) Do you believe the commercial activity between the two countries will grow in the future? Why?
11) Are there a lot of Finnish companies contemplating investment to Mexico in addition to the currently operating Finnish companies in Mexico?
12) Where is the most significant market for Finnish companies operating in Mexico?
13) Do Finnish companies have more outsourcing activities or own facilities in Mexico?
14) What are the key determinants affecting the decision between establishing an own subsidiary or outsourcing activities?

c. Researchers and experts

1) How would you describe the state of the relations between Finland and Mexico?
2) How would you describe the business culture in Mexico and how does it compare the equivalent of Finland?
3) How would you describe the state of the commercial relations between Finland and Mexico?
4) How would you compare the relations between Finland and Mexico to Finland and other Latin American countries?
5) Do you believe the commercial activity between the two countries will grow in the future? Why?
6) How would you describe the business environment of Mexico for Finnish companies?
7) What are key determinants to consider when investing to Mexico?
8) What are the key factors for a successful partnership between a Finnish and a Mexican company?
9) Are the Mexican public and government favorable towards foreign investments?
10) How does the Mexican business environment differ from other Latin American countries?
11) How does the Finnish business culture differ from the Mexican business culture and how does this affect on the commercial relations between Finland and Mexico?