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## Conference Paper

# Foreign firms in Portuguese manufacturing and retail sectors: a similar or different location

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**41<sup>st</sup> European Congress  
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Zagreb – Croatia**

**Foreign firms in the Portuguese manufacturing and retail sectors:  
similar or different location factors?**

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**Abstract**

The FDI has been responsible for most of the major industrial and consumer services investments which were realised in Portugal within the last few years. In this paper we aim to identify the similarities and differences between the location factors of industrial and retailing firms doing business in Portugal. Based on two surveys the results shows that for industrial firms the more important factors are those related with labour (costs, availability, qualification) and domestic market (enter new market, proximity to costumers). In retailing firms the main factors are opportunity to enter new markets (similar to industrial firms), market size (growth rate, income per capita) and country's image.

**Introduction**

The Foreign Direct Investment (FDI) has been held responsible for most of the major industrial and consumer services investments which were realised in Portugal

within the last few years. In what regards industry, the automobile sector was the one which has been the most benefited one due to the set up of the *joint venture* between Ford and VW in Portugal in the year of 1991. It represented an investment of about 134 million dollars. Other projects followed, for example the COFAP (Brazil), Sommer-Allibert (France), Neste and Valmet (Finland), Samsung (South Korea), Pepsico (United States of America) and Siemens (Germany) which, except for the last two ones, are related to the automobile industry. As for the retailing sector, the most important international distribution groups, like the french Promodés, Hipermarket, Carrefour and Leclerc, the dutch Ahold and Makro, the german Lidl and the british Booker, have established partnerships with national firms or they operate individually in the market.

In this study we aim at designing the general framework for this phenomenon. It is then sought to outline a brief retrospective analysis of the FDI flows within the portuguese economy throughout the last two decades. The second section seeks to display the analytical framework which supports the explanation of the foreign investment flows within the industrial and retailing sectors. The third and the fourth sections ascertain to materialise the location factors whose identification relies upon two surveys. These surveys have been carried out resting upon information as given by the managers of the foreign firms operating in the industrial and retailing sectors. It follows afterwards a comparative analysis of the location factors, whilst focusing upon the traceable similarities and differences as the study attempts to shed light upon its interpretation depending upon the theoretical framework. Finally, it is sought to design a few political measures which might be deemed useful for those countries interested in increasing foreign investment flows.

## **1. FDI in Portugal: the last two decades**

In the beginning of the eighties (1980/84) the net flows of FDI within the portuguese economy are relatively small and most oriented towards the manufacturing activity (37,7%), wholesale and retail trade (16,7%) and financial intermediation (10,4%). The ratio FDI/GDP attained a value around 0,6, except in the last year of the first period, when the FDI increased its importance to 0,97. At this time, Portugal was not a member of the European Community (EC) as of yet and it was then facing some problems regarding its political stability as well as economic difficulties related to the balance of payments.

The second half of the period (1985/89) may be characterised by the entry of the country in the EC (1986) and the increase in the net flows of the FDI, specially in 1988/1989 when the absolute values doubled, and the ratio FDI/GDP reached significant values (2,0 and 3,46). In the orientation of these investments it continued to prevail the manufacturing activities, although the financial intermediation surpassed the wholesale and retail trade. The increase in the net flows of financial intermediation was attributed to the liberalisation of the financial activity in Portugal, followed by the process of privatisation of the domestic banks and the subsequent entry of foreign financial firms.

**Table I**  
**Foreign Direct Investment in Portugal (mean values in %), by Economic Activity**  
**(1980/1999)**

| Years   | 80/84<br>% (a) | 85/89<br>% (a) | 90/94<br>% (a) | 95/99<br>% (a) |
|---|----------------|----------------|----------------|----------------|
| Economic activity   |                |                |                |                |
| Agriculture, hunting, forestry and fishing                  | 2,6            | 1,8            | 0,8            | 1,0            |
| Mining and quarrying  | 4,4            | 2,8            | 0,4            | (b) -0,2       |
| Manufacturing   | 37,7           | 24,7           | 21,3           | 6,7            |
| Production and distribution of electricity, gas, water      | 0,1            | 0,04           | 2,2            | 5,7            |
| Construction  | 1,2            | 2,3            | 4,7            | 4,3            |
| Wholesale and retail trade, repairs, hotels and restaurants | 16,8           | 14,7           | 6,1            | 27,6           |
| Transports, storage and communications                      | 0,8            | 1,4            | 1,3            | 15,9           |
| Financial intermediation                                    | 10,4           | 24,5           | 54,3           | (b) -3,6       |
| Real estate, rentals and business activities                | 3,1            | 1,3            | 0,4            | 45,5           |
| Other activities  | 23,1           | 26,4           | 8,5            | 17,3           |

Notes: (a) The mean value in percentage was calculated by summing up the percentage values of FDI in the period, divided by the number of years of the period (5); (b) negative values represent desinvestment.

The first half of the nineties (1990/94) were the golden years to the portuguese economy in terms of FDI. As a matter of fact, the net flows have reached a historical absolute value in 1990 and the ratio FDI/GDP reached its peak of 4,44 in 1991. For the

first time the financial intermediation activity was responsible for more than a half of the total FDI (54,3%), while the manufacturing sector begins to decrease. The acceleration of the rhythms of the economic growth, the adjustment of the portuguese economy to the European market and the privatisation of some state companies have been used to explain part of this phenomenon.

As a result of an economic crisis which started in Europe and extended to Portugal during the second half of the nineties (1995/99), it experienced a decrease in the net flows of FDI, although the weigh of the FDI in the GDP still registered important values. As it can be seen in Table I, the financial intermediation suffered a strong desinvestment (negative value in the period), while the importance of the manufacturing activity in the net flows of the FDI was substantially reduced.

## **2. International location of foreign manufacturing and retailing firms: the theoretical framework**

The foreign firm is most certainly a common characteristic in the present international economic scenario, due to the products and services flows which are exchanged among countries and regions and the foreign investment they reciprocally realise. One highlights the interest in understanding the internationalisation of the firm using a first explanation as given by HYMER (1960). According to him, it would stem from the exploration of a set of assets (technology or knowledge) which, once patented, attains a status of public good and bestow the foreign firm with an advantage of monopoly or oligopoly in the host markets. Apart from these advantages of property, subsequent approaches would also add advantages associated with internalisation and location.

In what concerns the internalisation, BUCKLEY and CASSON (1976, p. 45) claim that the need for four groups of factors: i) industry-specific factors, namely the nature of the product, the structure of the external market and the relation between the optimal scales of the activities linked by the market; ii) region-specific factors, namely the geographical and “social” distance between the regions involved; iii) nation-specific factors, namely the political and fiscal relations between the nations involved; and iv) firm-specific factors such as the level of the management professionalism (management training)

Searching for an eclectic approach to explain the international presence of the multinational enterprise, DUNNING (1981, p. 79) refers the necessity to satisfy three cumulative conditions: i) it possesses net ownership advantages *vis-à-vis* firms of other nationalities in serving particular markets; ii) it must be more beneficial to the enterprise

possessing these advantages to use them itself rather than selling or leasing them to foreign firms; e iii) it must be profitable for the enterprise to utilise these advantages in conjunction with at least some factor inputs (including natural resources) outside its home country.

Whilst undertaking the literature revision of the location factors within the industrial sector, it is worth emphasising the importance of the market (size and potential of growth), the labour (cost, qualification and availability), the accessibility (geographical and infra-structural) and the incentives to foreign investment (FREITAS SANTOS, 1997).

Although formerly oriented toward the explanation of the FDI flows within industry, the eclectic paradigm has also been used to analyse the services sector. This explains the reason why some analytical adjustments have been made regarding ownership, internalisation and locational advantages (DUNNING, 1989; 1993). Thus, the ownership advantages may not only spring from the brand image associated with the quality consistency, reputation and the product differentiation, but they also seem to display themselves in their ability to generate economies of scale, scope and specialisation or, yet, in the favoured access to inputs and/or markets. The internalisation advantages spring from the difficulties to control for the quality regarding the provision of services, thereby focusing upon the highly idiosyncratic nature of the services, which are based upon tacit and non-codified information, whose legal protection fails to be feasible. The location advantages are then inherent to the services provision, which require physical presence, a personal contact and an adjustment to the legal framework of the host country.

The highly diversified typology of the services has somehow led and advised researchers to gather empirical evidence within the activities which would represent a certain homogeneity among them. The banking sector has inspired a wide range of studies (SAUVANT and MALLAMPALLY, 1996), although the advertising firms (TERPSTRA and YU, 1988), and hotels (DUNNING and KUNDU, 1995) the insurance, commerce, distribution, consultancy, construction, advertising and car rental (LI and GUISSINGER, 1992) have also been object of analysis, using different methodologies. One sheds light upon these studies by focusing upon the interest in the host market dimension, the follow the leader strategy as practised by the services firms related to their clients and the market environment (cultural, legal). Regarding the commercial sector, the location factors which seem to gather a major consensus were

(ALEXANDER, 1995): i) political stability, economic, social, cultural and regulatory environment of the host country; ii) opportunity to enter new markets; iii) market attractiveness; e, iv) underdeveloped and less competitive retail structure in the host country.

### **3. Survey of foreign manufacturing firms in Portugal: location factors**

The methodology used in the study of the location factors of the foreign manufacturing firms was a survey, based upon a structured questionnaire. In this questionnaire we asked, among other questions, the classification by importance (between first and fifth) the factors of location that interfered in the choice of Portugal. The interviews started in January 1996 and ended in June of the same year. The sample accounted for 37 manufacturing firms, with a foreign share of 100% in most of the cases, located in Portugal between 1990 and 1994.

The sample reflects some of the FDI characteristics which convey to the portuguese economy, namely its concentration in the coastal areas of the country (especially Lisbon and Oporto) and its sectorial specialisation (Textile, apparel and footwear; the manufacturing of metal products and machines; and the manufacturing of equipment and transport materials) [FREITAS SANTOS, 1997].

The results of the survey show that the international location of the foreign industrial firm depends upon a wide range of factors, though only some of them seem to play a significant role in the firm location choice. As one may observe in Table II, the labour costs kept on being a critical factor for choosing Portugal: it has been pointed out by 27 of the interviewed managers, being a main factor for 16 of them. This decision is generally made when the weigh of this input is sufficient to make up for the increase in the transport costs from a more distant location. Nevertheless, it might also be of paramount importance to underline that the distribution and production control is maintained by the parent company, whilst the portuguese subsidiary simply receives the finishing products or the manufacturing spare parts. Finally, the portuguese subsidiary finishes or fits the product, and the final product is afterwards sent back to the country of origin where the parent company headquarters are located.

**Table II**

#### **Location factors of foreign manufacturing firms in Portugal**

| Factors of Location                              | Mentions |          | Choices |     |     |     |     |
|--|----------|----------|---------|-----|-----|-----|-----|
|  | Total    | Mean (a) | 1st     | 2nd | 3rd | 4th | 5th |
| Cost of labour                                   | 27       | 4,26     | 16      | 4   | 5   | 2   | -   |
| Availability and qualified labour                | 16       | 2,81     | -       | 3   | 8   | 4   | 1   |
| Transport costs                                  | 15       | 2,60     | -       | 3   | 6   | 3   | 3   |
| Access to natural resources                      | 4        | 4,50     | 2       | 2   | -   | -   | -   |
| Size of market                                   | 18       | 4,94     | 17      | 1   | -   | -   | -   |
| Access to other markets                          | 12       | 3,58     | 1       | 8   | 1   | 1   | 1   |
| Political and social environment                 | 14       | 2,50     | -       | 3   | 4   | 4   | 3   |
| Labour regulation                                | 3        | 2,00     | -       | 1   | -   | -   | 2   |
| Geographical and cultural proximity              | 12       | 2,50     | -       | 2   | 4   | 4   | 2   |
| Country favourable image                         | 18       | 2,16     | -       | 4   | 3   | 3   | 8   |
| Favourable exchange rates                        | 2        | 4,00     | 1       | -   | 1   | -   | -   |
| Corporate taxation                               | 1        | -        | -       | -   | 1   | -   | -   |
| Country industrial tradition                     | 8        | 2,75     | -       | 3   | 1   | 3   | 1   |
| Interest of a local partner                      | 2        | 2,50     | -       | -   | 1   | 1   | -   |
| Country's origin of the foreign investor         | 1        | -        | -       | -   | 1   | -   | -   |
| Customs taxes                                    | 3        | 1,66     | -       | -   | -   | 2   | 1   |
| Favourable attitude to foreigners                | 3        | 1,66     | -       | -   | -   | 2   | 1   |
| Quality of life and environment                  | 1        | -        | -       | -   | -   | -   | 1   |
| Proximity to components or parts                 | 1        | -        | -       | -   | -   | 1   | -   |
| Increase of production capacity                  | 1        | -        | -       | -   | -   | 1   | -   |
| Technician with knowledge of Portuguese language | 1        | -        | -       | 1   | -   | -   | -   |
| Proximity to customers                           | 3        | 3,33     | -       | 2   | -   | 1   | -   |
| Follow the competitors                           | 1        | -        | -       | -   | 1   | -   | -   |
| Not answer                                       | 18       | -        | -       | -   | -   | 5   | 13  |

Notes: n= 37; (a) In a first stage we transformed a scale of preferences in a metric scale, where the first choice was allocated a value of 5, the second a value of 4 and so on until the fifth choice, which was attributed the value of 1. The mean is the relation between the total number of available choices and the total number of references as made by the interviewed directors/managers.

Other of the factors deemed of crucial importance is the domestic market, which is pointed out by 18 of the interviewed managers, from which 17 have referred as the most important factor. This fact finds explanation in the foreign firm's need to be placed near its customers, in order to provide technical assistance to the sold equipment, meet very short deadlines, follow up the domestic market evolution in terms of competitiveness, or even satisfy its customers' expectations the best they can. The other one springs from the foreign firm's nature itself, as it considers internationalisation like an enlargement trend of his own market and the attraction of new customers.

The opportunity of entering other markets is thought to be strongly associated with the foreign investor's interest in the domestic market. This interest has been considered of prior importance to 12 managers. In this case, Portugal would be seen as a spinning platform whilst allowing other foreign firms to enter the European Union market (without any tariff and non-tariff barriers) or launching the European firms to enter portuguese speaking markets.

Although it does not appear to be the first reference, 16 managers have thoroughly underlined other factors associated with the availability and qualification of the home labour, which seem to be associated with our nation's international image regarding certain areas of industry (textile and automobile) and finds roots in its industrial tradition (8 references). This fact would then make feasible labour supply and adjust it to the foreign firm's needs. In addition, the transport costs do also play an important role for 15 managers as compared to more distant countries (China) or to countries which usually represent bigger problems in terms of accessibility (Ireland), although distance-time appears as a variable which does require to be planned under the present framework.

Although they are traceable more as the last choices, other factors which seem to be worth being referred are the good image our country mirrors abroad alongside with its political and social stability, thereby disseminating the country's identity whose main characteristic is cheap labour, used to perform industrial labour, whilst displaying an increasing level of economic growth and which represent a quite acceptable risk for the foreign entrepreneur.

The geographical and cultural proximity has been pointed out by 12 of the interviewed directors/managers whom claimed that these factors have indeed interfered in their decision making process. Nevertheless these were not referred as the most important ones, thereby suggesting a markets' identity and a reduction of the transport costs which may favour the choice of a country.

#### **4. Survey of foreign retailing firms in Portugal: location factors**

The methodology used in this study was also the survey, although the questionnaire was send by mail during October and November of 1999. The database was from the fourth census of *Franchising*, directed by the "*Instituto de Informação de Franchising*" in 1998 gathering data published in 1999. From a population of 308

franchisors operating in Portugal, the database collected 264 (domestic and foreign). For the purpose of undertaking this study we have sent out 196 questionnaires, from which 122 were foreign franchisors and 74 were domestic. In the end of January 2000 we were sent back 83 questionnaires (from which 50 were from foreign franchisors). It is important to note that 7 of them have been excluded due to the fact that parts of the questionnaire remained unanswered. The response rate was good (approximately 50% for the foreign franchisors) if we compare it to similar surveys made to foreign firms (FREITAS SANTOS, 1997, p. 169).

The profile of the sample by sector, shows that firms belong mainly to retailing (38,5%) and services (44,2%). The headquarters of the firms are mainly located in Oporto and Lisbon. However, the shops are disseminated all over the country, with more emphasis in the coastal cities. The franchisors' country of origin is mainly Spain, (25%), followed by the United States (23,1%) with some brands very popular in the world. Countries of the European Union, like France, Italy and the United Kingdom are less representative.

The franchising regime considers that it is the franchisor whom has the power to select the franchisee having in mind, among other factors, the shop location, which, right from the start, offers some credibility to the answers supplied. The questionnaire required the responsible person (franchisor manager) for conceding the franchise to indicate for each of the 18 factors of country choice, its relative importance in a scale ranging from 1 to 5 (from less important – 1 to most important – 5).

If we proceed and analyse the results as displayed in Table III, one understands that the opportunity of entering new markets was considered of major importance by 21 of the interviewed managers and the franchisor's international experience was pointed out by 19, being the factors which seemed to gather a higher level of consensus when choosing the country. Under these circumstances, the portuguese market appeared as another phase for the franchisor's international expansion, based upon a gradual process for entering new markets.

Other variables, which seem to strengthen the quantitative component of the potential demand, are the economic growth rate (3,81) and the income *per capita* (3,04), while the country's favourable image (3,61) unveils some concern which is associated with the investment risk.

**Table III**  
**Location factors of foreign retailing firms in Portugal**

| Factors of Location   | Statistics |      | Choices |     |     |     |     |
|---|------------|------|---------|-----|-----|-----|-----|
|   | Mean       | S.D. | 1st     | 2nd | 3rd | 4th | 5th |
| Geographic proximity of franchiser's country of origin to Portugal                          | 2,71       | 1,52 | 9       | 8   | 8   | 9   | 16  |
| Country income <i>per capita</i>  | 3,04       | 1,13 | 5       | 11  | 20  | 8   | 6   |
| Country population density  | 2,91       | 0,99 | 2       | 11  | 25  | 6   | 6   |
| Country economic growth rate  | 3,81       | 1,07 | 16      | 15  | 15  | 2   | 2   |
| Cultural proximity to Portugal  | 2,85       | 1,33 | 3       | 20  | 7   | 8   | 12  |
| Opportunity to enter new markets  | 4,04       | 1,04 | 21      | 14  | 10  | 4   | 1   |
| Contacts in international trade shows of franchising and other related events               | 3,06       | 1,10 | 5       | 14  | 17  | 9   | 5   |
| Franchiser's international experience   | 4,00       | 1,02 | 19      | 16  | 11  | 3   | 1   |
| Favourable legislation to FDI   | 2,55       | 1,24 | 3       | 9   | 14  | 11  | 13  |
| Anticipation to potential new franchiser's competitors                                      | 3,02       | 1,46 | 10      | 10  | 12  | 6   | 12  |
| By invitation of the franchisee   | 3,00       | 1,56 | 13      | 5   | 16  | 1   | 15  |
| Country inflation rate  | 2,38       | 1,22 | 2       | 10  | 13  | 8   | 17  |
| Country legal system efficiency   | 1,85       | 1,00 | 1       | 1   | 12  | 12  | 24  |
| Country unemployment rate   | 2,40       | 1,25 | 4       | 4   | 16  | 9   | 17  |
| Country international favourable image  | 3,61       | 1,13 | 12      | 15  | 17  | 1   | 5   |
| Portuguese laws to enforce the protection of intellectual knowledge (brands, patents, etc.) | 2,67       | 1,33 | 4       | 12  | 10  | 10  | 14  |
| Portuguese tax system   | 2,32       | 1,28 | 4       | 4   | 14  | 9   | 19  |
| Contacts with public (ICEP) and private (IIF) institutions in Portugal.                     | 2,59       | 1,45 | 6       | 10  | 8   | 8   | 18  |

Note: S.D. = Standard Deviation.

On the other hand, there appears a variable relative to the legal system efficiency which, in spite of being important when it is necessary to bring into action mechanisms to enforce the protection of property rights and to resolve conflicts between the involved parties, did not seem to play an important role (1,85). In addition, this is also the case regarding the general legal framework (fiscal, commercial and investment) which does not seem to materialise any sort of constraints for the location decision-making.

Some of the variables which might seem of importance for the purpose of choosing the country, but which the managers have not validated, were the population density (2,91) and the portuguese geographical and cultural proximity to the

franchisor's country of origin (2,71 and 2,85, respectively). In the first instance, one may envisage a higher interest in the consumer's power of acquisition than by its number, which is quite understandable if one considers the nature of the commercial activity. As for the proximity variable, it is important to determine as to whether the results associated with the geographical proximity were expected, given the fact that what was at stake was solely the concession of a property right. In what concerns the cultural similarities, one assumes that the franchise is subdued to an adjusting process which softens and mitigates the cultural differences one might encounter among markets.

## **5. Location factors: similarities and differences**

Once the most important factors have been identified by the foreign investors, whom have chosen Portugal to invest in the industrial and retailing sectors, we are now able to undertake a comparative analysis seeking to identify the most common factors and those which, on the contrary, underline the most relevant differences.

However, some methodological issues should be stressed before going any further into a comparative analysis. A first difficulty worth referring stems from the fact that surveys, which have been carried out, did not use the very same scale. In fact, while the survey undertaken in the industrial sector required the firms to classify, by preference order, the location factors as displayed until the fifth choice, the survey concerning the commercial sector has used a continuous metric scale between 1 and 5 (from the less to the most important one), allowing the managers to evaluate the importance of the variable in terms of location. This difference has led to the conversion of the scale of preference into a metric scale where the first chosen factor was awarded with a value of 5 and the last one with the value of 1. From this procedure onwards it has been estimated the mean for both cases, although their values had to be differently interpreted as in the surveys concerning the commercial firms the number of references did not change because the managers were expected to position themselves relative to all the factors. The same did not happen relatively to the industrial firm's survey, where the managers did not do other than ordering hierarchically the location factors they considered to be the most important ones. Therefore, this means that the number of references to each factor did not remain the same, instead it varied.

Another difficulty is the time period needed for accomplishing the studies. Indeed these studies have been carried out in different years. This circumstance might somehow have an influence upon the available answers, especially those whom have answered questions which relate to the economic performance of the country or the country's image.

Finally, the method which was used for collecting data from the foreign industrial firms, was a personal interview, while the one conducted in the commercial sector the questionnaire was sent by mail. Therefore, one may understand these methods comprise advantages and disadvantages, which are inherent to both of them.

Having in mind all these constraints, it is envisaged to engage in a possible understanding of the location factors and which insert common characteristics of the sectors under analysis (Table IV).

**Table IV**  
**Similar location factors to manufacturing and retailing**

| Manufacturing (Mean)                       | Retailing (Mean)  |
|--|---|
| Cultural and geographical proximity (2,50) | Geographical proximity to franchiser's country of origin (2,71)<br>Cultural proximity (2,85)                        |
| Corporate taxation (-)                     | Favourable tax regulation (2,32)  |
| Favourable exchange rates (4,00)           | Country inflation rate (2,38)   |
| Availability and qualified labour (2,81)   | Country unemployment rate (2,40)  |
| Country positive image (2,16)              | Country favourable image (3,61)   |
| Interest of local partner (2,50)           | By invitation of franchisee (3,00)  |
| Access to other markets (3,58)             | Opportunity to enter new markets (4,04)   |
| Size of market (4,94)                      | Country income <i>per capita</i> (3,04)<br>Country population density (2,91)<br>Country economic growth rate (3,81) |

Briefly speaking, it is worth focusing upon the following aspects. Firstly, although the theoretical frameworks of the industrial and commercial sectors are different, there can be found factors of common attractiveness, associated with the market or with variables which bring it nearer (income *per capita*, population density) and with the exploring of new markets as well (entry opportunity in/access to other markets). These factors spring from the nature itself of the activity developed in Portugal, where commerce lacks a threshold of sufficient demand for its feasibility and manufacturing is present in industries where the national supply is scarce (equipment, chemistry, for

example) or where there exists a market of intermediate products (automobile components, for example).

Secondly, and in what regards the market of inputs, it can be underlined a similar concern, particularly labour (availability and qualification, unemployment rate), although there can be made different interpretations. As for commerce, one cannot forget the unqualified labour, which it employs, often functioning as a shelter gathering employees whom ascertain to invest in commercial businesses, which permits self-employment. When the unemployment rate is high, one may infer that there is a higher interest in commercial businesses and, especially, in those which can be developed in franchising regimes. One highlights the case of manufacturing by not only realising that labour intensity is higher, but also that the required training advises the personnel recruitment possessing strong industrial work practices.

Thirdly, in spite of the similarities one may find between both sectors concerning the location factors, and that it cannot be denied the presence of most of the determinants which are theoretically valued, one can emphasise the existence of potential partnerships and/or the opportunity of establishing business partnerships in the retailing sector which does not seem to be the case in the manufacturing sector (which is not difficult to understand if one considers the model of organisation and the expansion of the business under analysis).

Fourthly, a set of environmental factors seem also to be most valued by retailing investors, for example the cases of the country image (favourable image of the country) and aspects of cultural and geographical nature (cultural proximity, geographical proximity of the franchisor's country). Regarding the image instance, this valorisation might be associated with a certain political, economic and social stability of the country, which ensures a sufficient demand volume and a reasonably acceptable level of risk concerning the realised investments. As for the cultural and geographical aspects, they are linked to the knowledge of the market either from the sociological point of view (adjustment of the business model to the consumers' tastes), or from the easiness of personal contacts point of view, which in the case of the commerce might require a more frequent attendance.

Concerning those factors that did not find parallel in the retailing (Table V), one should prioritarily refer to the cost of the production factors (labour) as well as the natural resources. This indication, changeable from industry to industry, depending upon the intensity in the use of the factors, dictates the establishment of the industrial

firm in countries where the cost of the labour factor is comparatively lower (including social duties) or where natural resources are abundant.

The same table does also allow for remembering several other factors which the FDI survey permitted to unveil. Some of them reinforce the understanding of the set of factors which the foreign investor values and considers when he has to decide where to locate and set up industrial units. Note, for example, the reference made to the industrial tradition of the country, the political and social environment and the labour regulation framework. Others might be associated with the location factors, which have already been mentioned (image and culture of the country, institutional and regulatory aspects).

**Table V**  
**Dissimilar manufacturing location factors**

| Factors                           | References<br>(1st choice) | Mean |
|-----------------------------------|----------------------------|------|
| Cost of labour                    | 16                         | 4,26 |
| Transport costs                   | -                          | 2,60 |
| Access to natural resources       | 2                          | 4,50 |
| Political and social climate      | -                          | 2,50 |
| Labour regulation                 | -                          | 2,00 |
| Country industrial tradition      | -                          | 2,75 |
| Customs taxes                     | -                          | 1,66 |
| Favourable attitude to foreigners | -                          | 1,66 |
| Proximity to customers            | -                          | 3,33 |

Note: n = 37.

From the references made to the commercial implementation characteristics as opposed to the industrial one, Table VI is perhaps a lot more interesting: i) as it unveils the franchiser's international experience as a decisive element for developing new ventures in foreign countries; ii) as it underpins the strategic behaviour of the franchisor's willingness to anticipate competition; and iii) as it highlights the presence and visibility which stem from the franchisor's attendance of fairs and exhibitions as a preferential operative mechanism regarding the identification of future partnerships or new businesses opportunities.

**Table VI**  
**Dissimilar retailing location factors**

| Factors | References | Mean |
|---------|------------|------|
|---------|------------|------|

|   | (1st choice) |      |
|---|--------------|------|
| Contacts in international trade shows of <i>franchising</i> and other related events        | 5            | 3,06 |
| Franchiser's international experience   | 19           | 4,00 |
| Favourable legislation to FDI   | 3            | 2,55 |
| Anticipation to potential new franchiser's competitors                                      | 10           | 3,02 |
| Country legal system efficiency   | 1            | 1,85 |
| Portuguese laws to enforce the protection of intellectual knowledge (brands, patents, etc.) | 4            | 2,67 |
| Contacts with public (ICEP) and private (IIF) institutions in Portugal                      | 6            | 2,59 |

Note: n = 50

Table VI comprises a list in which it is also displayed the country's legal framework regarding the industrial property protection and the efficiency of the judicial system. This finds explanation in the fact that the transfer of rights (knowledge, brand, *et cetera*) which the franchise agreement assumes beforehand and the eventual need to resolve conflicts and tensions which might occur as long as it lasts.

## Conclusion

When confronting with location theoretical models, the empirical studies do frequently unveil the multiplicity and variety of factors which influence the location decision making process. That is, the set of attributes the investor has to consider is wide and it includes diverse factors which can turn out to be tangible or intangible. The latter one outshines in both studies regarding the country image, the cultural identity, the social environment and the industrial tradition.

Seeking to shed light upon a perspective of development of policies designed to attract foreign investment, the results are deemed to be interesting and useful; namely, for what they unveil concerning the relative decrease of the input costs as an isolated attribute and for what they underpin which springs from others such as the international country image, the social and economic environment and the industrial tradition of the country. Thus, the prominence of a favourable image of the country in the investors' markets appears as a needful measure for attracting foreign entrepreneurs.

The size of the market and the perspectives of its growth raise as the most relevant ones regarding both industry and commerce, which ends up drawing

boundaries when designing policies to attract foreign investment, especially in small markets displaying lower levels of economic growth. These policies should then become more and more selective.

The problem of managing incentives to launch industrial growth, although it is not a major concern in this study, seems to be of paramount importance regarding the attraction of investment for the industry (FREITAS SANTOS, 1997), whilst functioning as a kind of pre-requisite when the entrepreneur considers various alternate locations. Nevertheless, one should not forget that the amount of the subsidy reduces the turnover timing, thereby increasing the risk of dislocation of the foreign firm. The higher regional mobility of the foreign firm should be used as an excuse for a higher intervention of the government whilst seeking to favour its location in the most underdeveloped regions of the country.

Finally, foreign investment in the industry should not be considered isolatedly. On the contrary, it should seek to i) reinforce its relationship with the existing productive units; and, ii) attract technology and innovating ways of the production organisation, which render feasible the betterment of the workers' professional competence and render more efficient the entrepreneurial practices.

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