

PORTUGAL'S COMPETITIVE ADVANTAGES TO
RECEIVING FOREIGN DIRECT INVESTMENT FROM TECH
COMPANIES – A CASE STUDY

Naim Samje Tajdin

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Supervisor: PhD Pedro Fontes Falcão

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Abstract

With the global economic crisis as a backdrop, companies and institutional investors began to withdraw their investments both domestic and internationally leading to stagnation in the economy and, in turn, shrinkage in private consumption. However, businesses are more likely to survive building up their strategy on solid investments, particularly in this sensitive period we are experiencing today.

Considering that the investments are a huge source of income for countries and an “open door” to reduce national unemployment without any public investment, Foreign Direct Investment is generally seen regarded as a strong commitment of governments to generate income and employment for their citizens. Therefore, policymakers have improved or created new competitive advantages in order to attract foreign investors to invest in the country's different sectors as well as in its national resources.

Following a literature review, this study aims to explore the motivations leading multinational companies to invest in foreign countries, the decision-making process underlying their choice of a given country and the measures taken by the recipient countries to attract these multinational companies.

In order to relate the theory on the fundamental multinational companies seek when investing abroad, a technology-based multinational company was chosen for this case study. The study will reveal the motives and the whole decision-making process that led this internationally renowned company to invest in Portugal and keep their confidence in the competitive advantages Portugal offers.

Resumo

Tendo a crise económica global como pano de fundo, as empresas e os países começaram a retrain os seus investimentos quer nacionais quer internacionais provocando uma estagnação na economia e, por sua vez, uma retracção no próprio consumo privado. Contudo, é com base em investimentos sólidos feitos anteriormente que as empresas tendem a sobreviver neste período tão delicado que se vive actualmente.

Considerando que os investimentos são uma enorme fonte de rendimento para os países e uma porta aberta para a redução do desemprego nacional sem qualquer investimento por parte do Governo, o Investimento Directo Estrangeiro apresenta-se como uma forte aposta dos países para gerar rendimento e emprego para os seus cidadãos. Por isso, os Governos Nacionais aprimoraram ou criam novas vantagens competitivas para que possam atrair investidores estrangeiros a apostar no país e nos seus recursos nacionais.

Este trabalho pretende expor as motivações que levam a uma determinada empresa multinacional a investir num país diferente da sua origem, o processo de decisão para apostarem num determinado país e que medidas são tomadas pelos países receptores desse investimento para atrair as empresas multinacionais de acordo com a literatura.

De forma a relacionar a teoria encontrada sobre os fundamentos que as empresas multinacionais defendem para investirem no estrangeiro, foi elaborado um estudo de caso sobre uma empresa multinacional do sector das tecnologias para revelar as razões e todo o processo de decisão que conduziram para que uma empresa reconhecida internacionalmente tenha decidido investir em Portugal e manter a sua tenacidade e confiança nas vantagens competitivas que Portugal apresenta.

Abbreviations

Abbreviation	Meaning
Bn	Billions
CEO	Chief Executive Officer
CSI	Cisco Systems Inc.
FDI	Foreign Direct Investment
IBM	International Business Machines Corporation
NEI	National Statistics Institute
Km	Kilometers
M&A	Mergers & Acquisitions
MIT	Massachusetts Institute of Technology
MNE	Multinational Enterprises
R&D	Research and Development
SME	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats analysis
VWA	Volkswagen AutoEuropa
€	Euros
\$	United States Dollars

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1. Introduction

Nowadays, globalization is an unmistakable reality. In fact, it is crucial that businesses create opportunities to get into international markets in order to survive in this competitive environment. With progresses in internet and global communication systems, the idea of a global market becomes common and very attractive to increase companies' willingness to invest abroad.

Multinational enterprises (MNE) are both a symbol and a driving force of the unmistakable reality of the globalized world we live in today. Globalization brings unique opportunities for businesses to enter international markets, but it also show us the threat of increased global competitiveness which make some companies constantly look for economies of scales by reducing general costs (e.g. labor costs). Therefore, it is increasingly important for companies to take advantage of the opportunities brought by international markets and absence of borders in order to survive in this competitive environment. A good strategy of internationalization brings MNE increasing market share and, consequently, extra revenue. But why is it that some companies choose the “MNE way” and others do not? What factors lead to their decision of going abroad? What is this decision-making process like? These questions are important to understand how Foreign Direct Investment (FDI) is originated from the MNE perspective. However, to fully grasp FDI and its underlying causes, we need to look at the perspective of national countries when receiving the FDI from MNE. More specifically, we need to understand what countries have to attract and retain FDI. The objective of this thesis is to seek answers to these questions in the form of a case study. Based on the scientific findings on FDI and nations comparative advantages literature (David Ricardo was the 1st to give this perspective) we propose to study Microsoft's investment in Portugal in order to understand whether the theory is actually put into practice.

The present report is structured in six main chapters where the first presents the literature review about FDI theory and nations' comparative advantages in order to identify the factors MNE's look for in a country when they decide to invest abroad. One of most important frameworks on this subject is Porter's National Diamond, which was argued on Nations' Competitive Advantages article. This framework was created to understand how countries identify their own competitive advantages to attract FDI. Porter (1990) explains that the National Diamond is important for countries to focus on their competitive advantages to be able to attract foreign investment. In addition, this report intends/aims to make a parallel between Porter's National Diamond and the competitive advantages offered by Portugal. In

fact, FDI provides major positive externalities to society that MNE's could not claim as their property. One of them is access to up-to-date technology because when countries are importing technology directly from abroad it turns to be more expensive, riskier and difficult to use than technology brought from companies established in the country.

The second chapter covers key advantages Portugal presents, from the perspective of a foreign organization, in the development of a FDI strategy. With AICEP Portugal Global's cooperation¹, this paper enumerates some facts that foreign companies pointed out as being very attractive in Portugal comparing to other countries. This section encompasses some statistics, information and data about Portugal that make it an eye-catching economy for technological companies to invest in. It also identifies the policies Portugal implements to avoid relocations and thus retaining companies like Microsoft, Cisco, IBM or Toshiba in this country.

The third chapter goes through the presence of MNE's in Portugal in the technology industry. The major purpose of this chapter is to identify some MNE's that invested in Portugal and how their businesses positively impacted the country's economic, social and cultural development. In this chapter, this paper briefly describes the cases of the following companies: Cisco Systems Inc., IBM and Volkswagen Autoeuropa which became references in the Portuguese economy.

In the fourth chapter, the paper provides a case study about the presence of Microsoft in Portugal. This case study identifies the major objectives that brought a worldwide known MNE to setup their R&D and sales activities in Portugal since 1990. For this purpose, two interviews were conducted with Dr. Victor Freitas, Business Solution Partner Group Manager, and Dr. Diogo Andrade, Microsoft Dynamics Lead, both from Microsoft Portugal to answer some questions raised by the theory as presented in chapter 2. In fact, this section is one of the most important since it presents some conclusions about the effectiveness of the theory studied. The excerpts of interviews can be consulted in the attachments section.

Finally, the last section presents the overall conclusions regarding the importance of national competitive advantages to receive foreign direct investment in technology industry. This chapter intends to summarize what was analyzed before and how the theory could be applied in the current business environment.

¹ Aicep Portugal Global is a government business unit focused on encouraging the best foreign companies to invest in Portugal and also contribute to the success of Portuguese companies in external markets.

2. Literature Review

Over the years, the opening of countries' boundaries along with their modernization has enabled MNE's to seek other markets in order to get added value for their own company. Having said that, it is important, first of all, to define foreign direct investment itself, FDI could be defined as a firm's objective to obtain interest in another entity resident in a different economy, which means invest in a different economy from the investor's origins².

There is considerable literature that demonstrates the factors MNE's seek for from foreign countries, in fact the main classic factors pointed in literature to attract general investment are lower wages as well as abundant and cheap natural resources. However, there are new authors suggesting that FDI is driven by economies of scale and agglomeration effects. (Campos and Kinoshita, 2003)

Throughout the years there has been a change to what concerns inward and outward FDI stocks across the globe. In the late 1980's the destination of FDI were mainly industrial regions, meaning that the international investors realized that developed countries had more conditions to receive their investment, although across the years we "*saw a redirection of global FDI inflows away from the industrial regions*"(Dunning, 2004), as we can see in Table 1.

Region	1985	1990	1995	1997	1998	1999	2000	2001	2002
World	14.2	19.2	20.5	23.6	27.8	34.0	38.9	41.6	43.9
Industrial countries	13.6	18.2	21.0	24.4	28.5	33.5	37.9	40.9	43.1
Developing countries	15.7	16.0	20.4	22.4	26.7	38.1	44.0	46.2	49.5
Central and Eastern Europe	...	1.8	6.0	9.5	13.8	15.1	21.1	22.2	24.1
... Negligible.									
Source: UNCTAD (1998, 2001, 2003).									

Table 1– Combined inward and outward FDI stocks

In late 1990's and early 2000's, we witnessed an increase of Mergers & Acquisitions (M&A) throughout the world, this was explained by the fact that companies recognized that by merging or acquiring other companies might put together and make an efficient use of technology, management and entrepreneurial features to create even higher added value to customers (Dunning, 2004). Dunning (2004) demonstrates that from all M&A's analyzed in

² See OECD Benchmark definition of Foreign Direct Investment (1999)

2000, at least 73 % were made on services sector which clearly reveals the “*redirection of global FDI inflows*”.

According to Borensztein, De Gregorio and Lee (1998), FDI had an important role in transferring technology from developed countries to developing countries leading the latter to achieve higher growth rates. As a matter of fact, recent literature has suggested that growth is closely linked with the state of domestic technology compared with the rest of the world (Borensztein, De Gregorio and Lee, 1998). However, countries can receive technology from several channels whether by importing high-technology products, by adopting foreign technology or by hiring high qualified human capital to «push» their own growth and development.

Keep on disclosure the question «What MNE's look for when they move abroad?», it is important to understand that these reasons vary from company to company. However, literature reveals four main reasons to understand why MNE go overseas: the first one is *market-seeking*, where the MNE only have the objective to serve the local market with their product/service. Basically the idea is to replicate their facilities (home country) on these markets. The rationale to use *market-seeking* by companies might be: existence of trade barriers, proximity to suppliers and customers, be present where the rivals are, and other reasons that could lead companies to get into a given market. The second aspect is *resource-seeking*, where MNE's want to acquire natural resources, raw materials or low-cost labor that do not exist in their home-country to reduce their operational costs. This kind of investment is largely common in oil drilling, tourism and construction where reducing production costs are an absolute priority. The third reason is *efficiency-seeking*, where MNE's can get two types of efficiency: endowments at the cheapest possible cost and rationalize MNE's corporate network (by agglomeration) in order to gain economies of scale. And the forth reason is *asset-seeking*, presented by Dunning (1993), in which MNE's are looking for local scientific and technological competences, so MNE's could acquire firms that already possess these skills or create subsidiaries close to where these competences are abundant. Jacinto (2005) also explains that some others factors are becoming important like marketing, management and organizational skills which should be developed. We conclude that the firms' objectives are based on having conditions to create added value efficiently, have availability of high quality resources and competences, and enough market openness to dispatch products and services.

Furthermore, it is important to understand what potential FDI's receptors are offering to receive international investment, taking the premise that every country understands the

benefits of receiving this kind of investment in their country in several aspects (technological development, economic growth, innovative image,...). In order to attract these investors, countries organize themselves to give incentive packages (whether financial or tax incentives) to guarantee that the country is selected by MNE (Pantea, 2007). Of course, MNE's become conscious that countries «fight» between them to receive MNE's investment, so they negotiate with the governments to receive the best conditions and incentives for their company, a negotiation process called “locational tournaments” (Mytelka, 2000).

Matei (2007) argues that inward FDI is, on the one hand, positively influenced by market growth, openness to trade, privatization and agglomeration and, - on the other hand, is negatively influenced by labor costs. Meaning that the more possibility there is to market growth, existence of openness to trade, privatization and agglomeration and lower labor costs, the more probability a country has to receive FDI from MNE's.

Dunning (2000) had stated the tendencies that countries should take to receive FDI, i.e., the competitive advantages a country should have to be an attractive target, as shown in the table below:

Likely decreased significance	Likely increased significance
General availability of and cost of natural resources and unskilled labor.	Targeted resource capability.
Wage related costs.	Availability and quality of skilled labor force.
Transport Costs.	Presence of L bound assets to complement the O advantages of investing firms.
Tariff barriers.	Regional markets
Fiscal incentives of national governments.	Quality of cross-border communications, hard and soft infrastructure
Macroeconomic policies of national governments.	Some non-tariffs barriers and organizational capabilities.
	Innovatory systems and entrepreneurial ethos.
	Presence of agglomerative economies: the role of sub-regions as part of macro-regional or global networks.
	Market facilitating policies of governments; partnerships for growth.

Table 2– Competitive advantages of countries or regions

According to Dunning (2000), labor and transport costs as well as tariff barriers are decreasing in importance given by MNE's and is becoming imperative to offer quality in human capital and infrastructures; have agglomeration economies, incentives by Governments, and innovative and entrepreneurial environment. These four factors are becoming the most influencing criteria upon choosing a location to invest.

Back to governmental incentives, according to Encarnation and Wells (1986), governments should steer two competitive strategies to attract FDI: by giving price to locations and then we assist a price competition; or they differentiate from other governments. Jacinto (2005) argues that companies that look for price competition among countries (like giving subsidies, tax free, etc.) may turn against each other because the governments could put in practice diplomacy to relieve competition. To avoid subsidy costs, governments are using the differentiation strategy to attract MNE's to their countries. This strategy is based on creating an image of an attractive economic climate, i.e., an image where the business rolls up and where they will find other companies to create opportunities among them. An excellent example is the technological parks, city-marketing, national promotion agencies (e.g. AICEP in Portugal) or even go abroad to «sell» the country. As a matter of fact, every day we witness governments receiving MNE's to discuss the future of local economies.

Blomstrom and Kokko (2003) presented an article where they argued that FDI incentives by governments are only «profitable» if the country has the ability and motivation to absorb spillovers that could come from foreign countries, like technology, management skills, among others. They also claim that governments play policy tools regarding FDI, i.e., governments give higher incentives to MNE's than the benefits that they get from them, because spillovers are not an automatic consequence of foreign investments. In political terms, the attraction of foreign investment by governments will increase their reputation and votes among population despite the fact that subsidies costs increase public debt, notwithstanding these costs incurred by countries, which is spare across years, may not achieve the spillovers expected (Blomstrom and Kokko, 2003). Therefore, governments should make efforts to modernize their infrastructures, promote education and development skills of their labor force and improve the overall economic climate to be attractive to MNE's.

The most important asset for tech companies is knowledge assets. Tech companies should have the ability not only to create but also should know how to deploy and use it (Teece, 1998). Teece argues that there are different knowledge natures: Codified/tacit, Observable/Non-observable in Use, Positive/Negative Knowledge, Autonomous/Systematic

Knowledge and Intellectual property regime. The brief description of each knowledge nature is shown ahead:

Codified/tacit knowledge nature is the most difficult to articulate between individuals, i.e., usually you know more than you can convey so you need to codify your knowledge in order to be conveyable to other people. So, the more knowledge and experience are codified, the easier it is to convey the message. Moreover, messages are more structured and less ambiguous when they are transferred by code (e.g., when computers pass information between them) (Teece, 1998).

Usually, the Observable knowledge can be physically «seen» when it is purchased, like a printer, a scanner, a computer, etc, although the technology process to construct these items is Not Observable and perhaps the most important. Taking the example of Coca-Cola, the technology process to create the drink is Not Observable, however the technology is Observable when the final product is produced.

The Positive and Negative knowledge concerns the success or not of a new discovery, for instance. Companies need to keep their failures and successes in secret to guarantee added value to their products or services before entering into the market.

Autonomous knowledge does not need major modifications in systems and can be embedded in constructing a new product or service, e.g. the fuel injection of cars. This kind of innovation does not need critical modification, so it is known as autonomous knowledge. On the other hand, Systematic knowledge is one which needs some modifications to be ready to use, this kind of knowledge requires modifications in other sub-systems to be used.

Intellectual property is an intangible asset created when companies develop a product or service which is unique, not-invented yet. Intellectual property must be protected by intellectual property laws. Firms can sign patents, trade secrets, trademarks and several other forms to protect their business from being copied by someone else. This intellectual property legislation is not perfect because some companies create new products or services similar to a patent at lower cost. Intellectual property plays an important role in technology industry since this is the main competitive advantage of these companies.

Porter (1990) found the importance that competitive advantages have on nations. In fact, these competitive advantages will mark the decision of a given foreign company to invest in a country over another because these factors might bring better benefits to the company.

Accordingly to Porter (1990) there are some characteristics that provide success to both foreign companies and countries that receive investments:

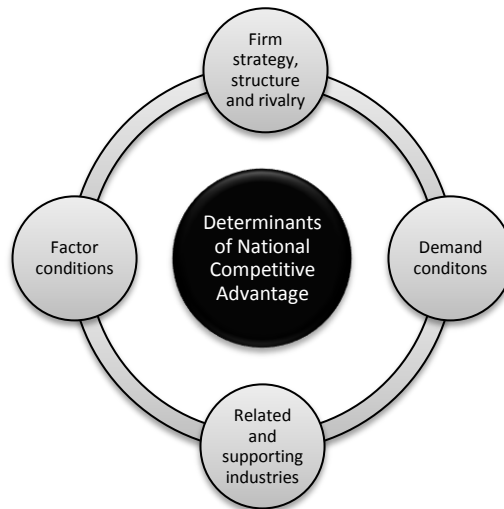


Figure 1 – Porter's national diamond
Source: Porter (1990), "The Competitive Advantage of Nations"

In his article "The competitive advantages of Nations" (1990), Porter argues that there are some forces that when combined could be strong to receive foreign investment:

- Firm strategy, structure and rivalry – This force is about how companies are organized and managed and how high bureaucracy is. In addition it is important to understand the domestic rivalry level that is essential to determine the national competitive advantage.
- Demand conditons – Level of demand for determined home-market products and/or services.
- Related and supporting industries – Existence of suppliers industries and other related industries that are internationally competitive in the nation.
- Factor conditions – The position of production factors, like skilled labor or infrastructure required to compete in a given industry.

With this national diamond of Porter, it is clear that nations should consider their efforts on all four factors mentioned above. The nation will play an important role to stimulate the innovation and competitiveness in order to give the basis for foreign companies to establish in their country, i.e., if a given nation guarantees suppliers with high standards of productivity and quality, for instance, the MNE will have support to proceed with their operations because they understand that it will have local companies to supply their daily operations.

On the one hand, the more dynamic a nation is, the more likely it is that some companies go down as a consequence of their lack of competencies or resources to supply, but on the other hand there is a probability to come winning companies on international environment.³

- **Porter's national diamond framework in the Portuguese reality**

Taking into consideration the national diamond argued by Porter (1990), the viability of these forces in Portugal's conditions to receive technology-based companies will be described in next paragraph. As Porter said, there are some forces that unlock conditions to receive foreign investment and lead to economic success for both companies and countries that receive these/their investments.

Regarding *Firm strategy, structure and rivalry*, it is clear that there is a high level of bureaucracy among companies and people in Portugal. This bureaucracy creates inertia in companies and lead to inefficiencies to what concerns creating business and free movement of products or services, mainly when the transactions are made with government or public companies. However, in IT industry, Portugal has a high level of domestic rivalry since universities generate great entrepreneurial talents with know-how and willing to generate their own business. Many Small and Medium Enterprises (SME) started from scratch and created a professional market image strong enough to consolidate their position in the domestic market. This willingness and courage demonstrate the level of rivalry in domestic market as a national competitive advantage.

Concerning *demand conditions*, it is complex to assess the level of demand for a given product or service in a given market. However, it is possible to understand the interest and importance given to some product or services in Portugal, for instance. In relation to IT industry, the importance given to this industry can be measured by the number of access internet in a household, number of computers per household, or number of new computers purchases. The graph below shows the updated internet coverage in Portuguese households. In 2010, internet covered 53.7% of all households in Portugal showing their openness to technology and a great market to explore.

³ Coester (2002), "*Estudo de ações estratégicas para empresas de base tecnológica no ambiente globalizado*"

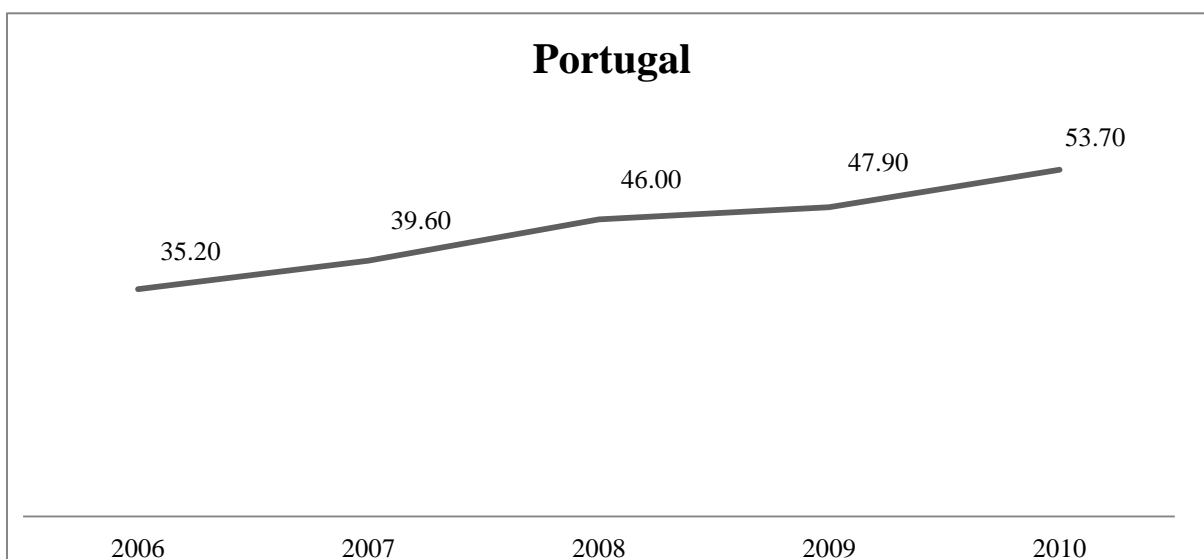


Figure 2 - Percentage of households has at least one person with internet access.
Source: NEI

To what regards *related and supporting activities*, Portugal has developed many companies on IT industry mainly due to internationally recognized universities which enforce the entrepreneur spirit as well as create talents to leverage IT companies. In fact this issue, pointed by Porter, is important for any MNE to develop their business in the destination country. Without qualified partnerships, MNE's cannot deliver their product or service with same quality standards as in their home-country. So they need support from these suppliers to give the final customer what they really expect. Examples of IT companies which offer quality products and services and which are 100% Portuguese are for example YDreams where the main focus is redefining the concept of interactivity and specialized in Augmented Reality.⁴ Other example is WeDo Technologies which develop systems to improve operational effectiveness and manage risk together with companies giving *Business Assurance*⁵. And also Lógica, a London and Euronext listed company, which provide systems for management consulting and provide outsourcing services in systems integrations.⁶

Last but not the least important, the *factor conditions* which include existence and quality of infra-structures as well as qualified labor to use on developing MNE operations. These factors are mainly the reasons MNE's look for when they are seeking to develop their

⁴ Taken from www.ydreams.com

⁵ Taken from www.wedotechnologies.com

⁶ Taken from www.logica.pt

operations in a foreign country since this will mark their ability to continue their quality standards as in their home-country. The conditions in Portugal will be explained in section 4.

Using Porter's diamond to illustrate the importance of nations' competitiveness and how Porter predicted the globalization, it is clear that the destination country of foreign direct investment is a significant starting point to decide on one country over another and MNE should balance Porter's forces and understand if there is enough strength to transfer their operations to a country. However, it is important to highlight that it is not enough to apply Porter's national diamond to decide whether to shift or not their operations, there are other aspects such as the political system, the democratic environment or social tension (among others) that should be taken into consideration when MNE's go abroad. Porter's national diamond is also a useful tool to balance the strengths and weaknesses of a specific country.

3. The Portuguese context

Portugal is the western most point of continental Europe and so it is a geo-strategic position between Europe, America and Africa. In fact, for several years Portugal was a port for receiving and delivering products, brought by sea from America and Africa to the rest of Europe.

- **Summary of general aspects**

Portugal has 92,152 km² of land and counts with 10.6 million inhabitants where half of them are economically active and where the highest population density can be seen in the coastal area. (NEI, 2011)

The mother language is Portuguese (which is spoken by 200 million people in several countries around the world, e.g. Angola, Timor, Mozambique, Brazil, Macau, among others). In addition, due to higher qualification of the labor force the second language is English and 42% of the population speaks both languages. (AICEP, 2010)

Lisbon is the capital with 2.1 million inhabitants and it is the centre of commercial and business. Also it is important to refer that Portuguese GDP *per capita* reaches €15,176 (NEI, Bank of Portugal, 2009). The main religion is Catholic, but the government is secular and it absorbs many other religions. (AICEP, 2010).

EDP (energy sector), Brisa (infra-structure sector), Parfois (fashion sector), Logoplaste (plastics sector), OutSystems (technologies sector), Pestana Group (hotels sector), Amorim Group (cork sector) among others are international well-known companies set up by Portuguese people and capitals which demonstrates the vast Portuguese capacity to produce diverse products with added value.⁷

In general, Portugal is an attractive country to invest whether for its culture and language or its qualified labor or even for its telecommunication infrastructure, as is shown on following graph taken from a broader survey by Ernst & Young.

⁷ Source: <http://pme.aeportugal.pt/>

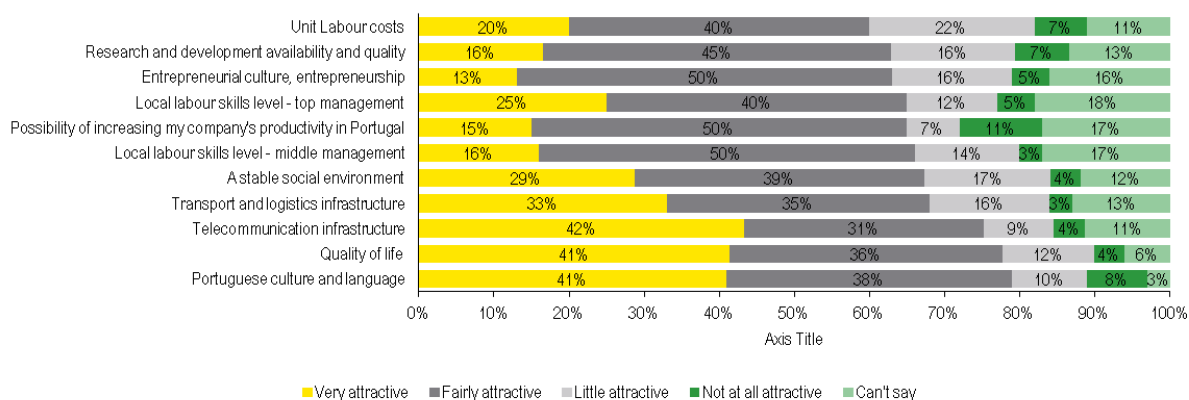


Figure 3 – Attractiveness criteria for Portugal

Source: Ernst & Young Portuguese attractiveness survey 2010

As a matter of fact, the investment map (which is in attachment “Investments upper €100m by location”) shows the foreign and national investments made in Portugal where new technologies lead the investment value followed by energy and tourism.

- **Infra-structures**

To what concerns roads, Portugal has one of the most developed roads networks in Europe with 12,990 km of roads across the country of which 1/5 are highways, meaning more flow between locations by land.

Regarding air transportation, Portugal counts with 14 airports that transport both passengers and cargo. Three of them are international and are situated on the Continent (Lisbon, Oporto and Faro) and 11 are on the Islands (Madeira and, mainly, in Azores). Due to growth in tourism and businesses traffic, Portela Airport (Lisbon) is overcrowded and is becoming too small to receive many passengers, the reason why the government is considering building another airport in Lisbon.

Portugal counts with 3,600 km of railway road and ensures North and South connection. These railway roads are both for passengers and cargo. Apart from that, it also guarantees connection with international railway stations.

Last but not the least, the shipping transportation counts with 9 main harbors spread from North, Centre and South and also secondary ports in Madeira and Azores. It should be noted that the Port of Sines (located in Alentejo) receives 40.1% of all cargo entered in Portugal followed by the Port of Leixões, in the North (23.4%) and the Port of Lisbon (19.3%). Furthermore, Portugal has two main containers terminals in Bobadela (near Lisbon) and inside the Port of Leixões.

In addition to the referred infra-structures, it is important to underline the efforts of Portugal in investing on renewable energy (solar energy, wind power or wave energy) and this is an opportunity for more environment-friendly transportation alternatives.

- **Human resources**

According to the figure below, Portugal's wages are lower than the majority of Western Europe and this can be used as a competitive advantage for MNE's to reduce their labor costs.

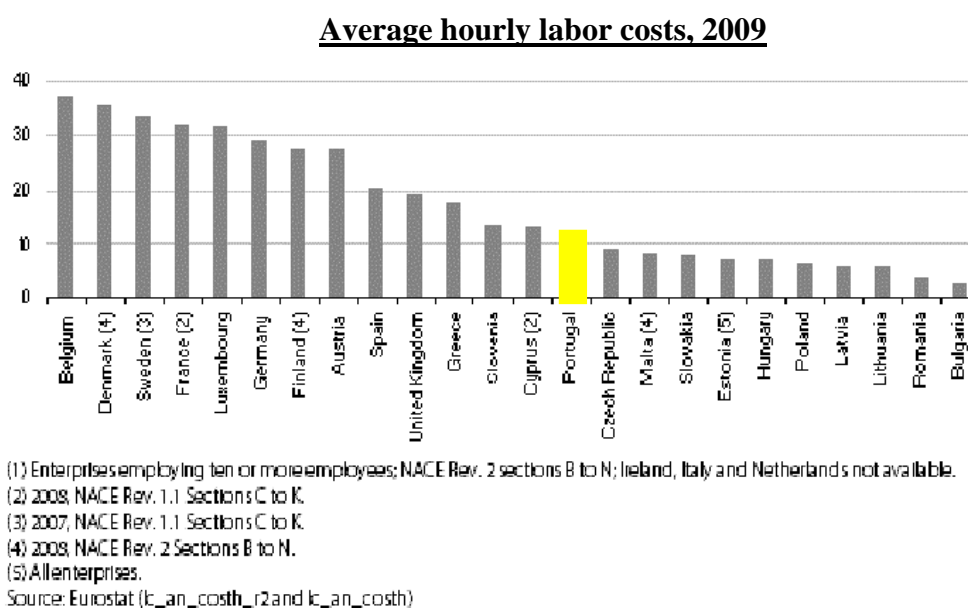


Figure 4 – Average hourly labor costs in 2009
 Source: Eurostat

Also Portugal has recently agreed to cooperate with Massachusetts Institute of Technology (MIT) to expand the R&D and training on new domains in engineering. This will have impact on the development of some areas like energy (where Portugal is betting on renewable energy), transportation, IT and telecommunications. Notwithstanding, Portugal has developed some other partnerships that will bring added value to Portugal's human capital: International Iberian Nanotechnology Laboratory (INL) in Braga, Information and Communication Technologies Institute, ICTI (in partnership with Carnegie Mellon University), Collaborator for Emerging Technologies, CoLab, (in collaboration with Texas University in Austin) and Fraunhofer Portugal Program (in collaboration with Fraunhofer-Gesellschaft) are some partnerships Portuguese universities have established and that may create value to the Portuguese human capital. (AICEP, 2010)

- **Political**

Portugal is a parliamentary democracy with elections to parliament every five years, being it in a politically stable situation which makes it possible for foreign companies to establish in this country. Portugal has history in the attribution of incentives packages (both economical and tax incentives) which promoted foreign investment in earlier 1980's.

The main political parties are the Socialist Party (PS) and the Social Democratic Party (PSD), and these two parties alternate their position in the government. However, there are other parties which are increasing their importance in political life and becoming a great opposition to the Government: at the right side CDS-PP and the left side BE and CDU (communist party)⁸.

It should be considered that Portugal is facing the worst «nightmare» in its early years of democracy. Due to the growth of public deficit, Portugal has been forced (by their creditors and opposition) to appeal to foreign financial assistance as their default rating has become excessively high. This situation rushed a political crisis leading the Socialist government to resign as a result of discontent by the Portuguese citizens towards the current situation. In this matter, the European Commission (EC), European Union (EU) and International Monetary Fund (IMF) made their diligences in order to investigate how they could help the Portuguese government. The decision to help Portugal resulted in borrowing €78bn as well as creating a rigorous austerity plan with the objective of reducing public deficit and also to boost Portuguese economy (*“Público” newspaper, 2011*).

⁸ Source: www.prospects.ac.uk/portugal_overview

- **International recognition of national universities**

According to the THE World Universities Rankings, none of the Portuguese universities is ranked in the first 200 best universities that created companies in the world.⁹ This demonstrates the lack of recognition of national universities on international paradigm, and this could be explained by few companies created by students along with brain export to other countries with better opportunities. However, it is important to recognize that this paradigm is moving out because had appear some national technological companies which were created by national technology universities' students such as YDreams, Novabase, Link Consulting, SISCOG, Critical Software¹⁰, between others which have already international dimension.

- **National productivity**

Analyzing the graph below concerning European productivity in 2010, Portugal appears well below their peers the European average. As it is shown on the graph, Portugal has less than 20% of productivity than the average European Union, and this could be explained by the high social protection as well as low compensation level in overall industries. Even Greece which is going through a very difficult economic time has higher productivity rates than Portugal.

Notwithstanding, with the increase of unemployment it is expected that these levels increased because of employee's fear of losing their jobs. On the other hand, this fact may have a perverse consequence; once the workers may not produce as was expected since they probably will lose their jobs anyway.

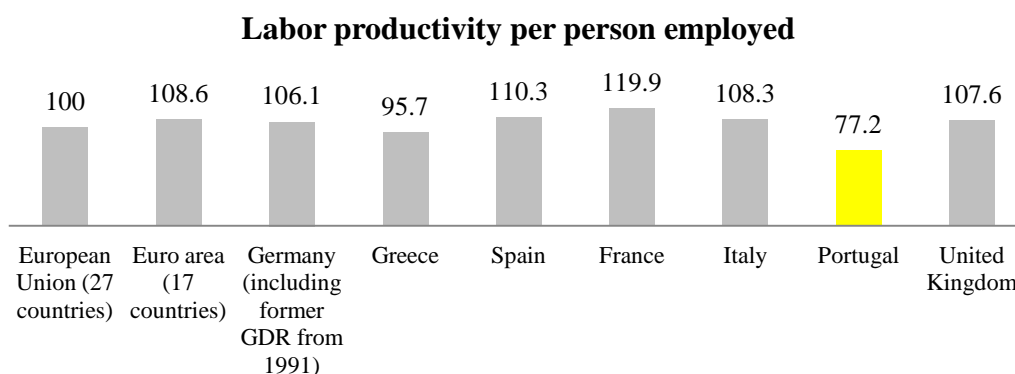


Figure 5 – Labor productivity per person employed relative to European Union 27
Source: Eurostat

⁹ <http://www.timeshighereducation.co.uk/>

¹⁰ <http://www.umic.pt/> - Agência para a Sociedade do Conhecimento

- **«Made in Portugal» technology developments**

Portugal has not changed their mindset where the imported goods are much better than the Portuguese-made goods including the technology market itself. This could be explained by weak mass media dissemination about national technology developments and creations. In fact, there are few people that recognize there are Portuguese-based companies supplying the biggest MNE's in technology industry as Microsoft, IBM or even Apple and this is only possible with national talent and resources. While it remains a consumer culture to buy non-national technology, it becomes complicated for domestic companies to consolidate their position in the global context.

- **Portugal's SWOT analysis**

In order to summarize the pros and cons of Portugal regarding attractiveness to invest, it a SWOT analysis was created. A SWOT analysis is a strategic technique to evaluate a project or a business venture and this creation owes to Albert Humphrey which led a research project in 1960s-1970s based on Fortune 500 from United States¹¹.

Portugal's SWOT analysis created in this paper is a summary of all issues pointed out in this section regarding Portugal's attractiveness to receive FDI as well as opportunities and threats that Portugal posed in the external environment. The summary is shown on the follow figure:

¹¹ Hill, T. & Westbrook, R. (1997), "SWOT Analysis: It's Time for a Product Recall," Long Range Planning



Figure 6 – SWOT analysis
Source: Author

4. Presence of MNE's in Portugal

Throughout the years, Portugal has received thousands of Euros from Foreign Direct Investment, mainly by multinationals who have the bargain power to invest across borders. Portugal has been open and has given incentives to bring even more multinationals with the objective to stimulate the economy by creating jobs and developing the country, once Portugal is still behind compared to other developed countries in Europe.

Due to the financial crises some developed countries have lost their attractiveness as Ernst & Young 2010 study demonstrates: 40% of inquiries are definitely not considering establishing or developing activities in Portugal. However, the foreign investment present in Portugal do not have in their strategy to move all or part of their facilities to another country, as 58% responded they definitely will not reallocate their facilities or part of them from Portugal to another country as is shown in the graphs below taken from *Ernst & Young, Portuguese Attractiveness Survey, 2010*:

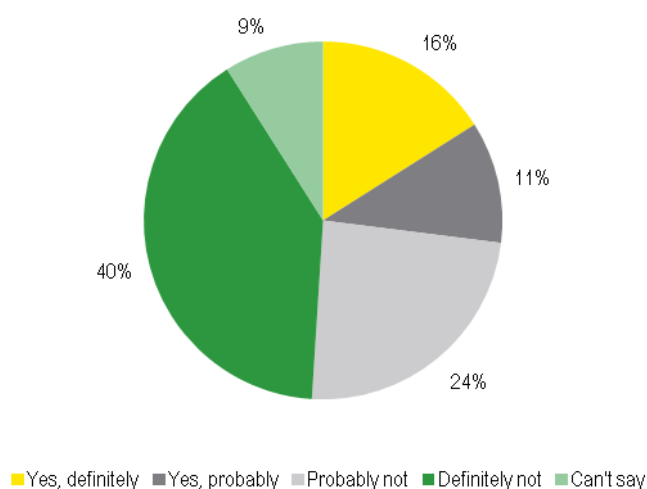


Figure 7 – Consideration to establish or developing activities in Portugal
Source: Ernst & Young Portuguese attractiveness survey 2010

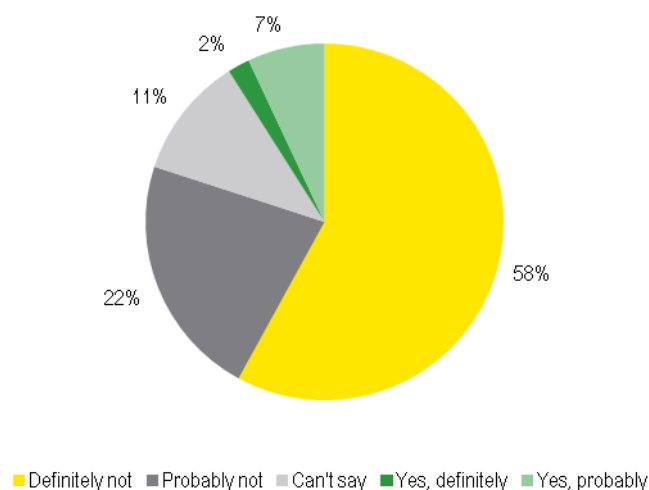


Figure 8 – Consideration to relocate part of its activities from Portugal to another country
Source: Ernst & Young Portuguese attractiveness survey 2010

In the following section, a summary of some companies which created impact in Portugal's development will be presented, whether in technologies sector or in any other.

- **Cisco Systems Inc.**

Cisco Systems Inc. (CSI) is a well-known MNE founded in 1984 by a group of computer scientists from Stanford University, and quickly became worldwide leader in networking for the internet. Plus, the Cisco brand has become synonymous with the Internet, as well as with the productivity improvements that Internet business solutions provide.

Run by John Chambers (CEO) and John Morgridge (Chairman), their main competitive advantages are their unique hardware, software and service offered to clients that make of CSI leader in the sector. The revenues in the first quarter of 2011's fiscal year amounted to \$10.75 bn and head count were on 72,600 employees, so, not surprisingly, their 58th Fortune 500 magazine's position¹² shows the strength in this hard and large global economic environment.

In Portugal, CSI entered in 2007 to launch a brand new program, the "Hercules project". Basically, this project was built to support all commercial areas in Europe, under the "Field Sales Representative Manager" who is a dynamic, multifaceted, multilingual and technical expertise employee. CSI has 65 Field Sales Representative Managers who successfully support 20 European countries. Cisco also launched a new project in Portugal called "Liberty Project", in 2008, aiming to unify and centralize an operational support centre to all

¹² <http://money.cnn.com/magazines/fortune/fortune500>

commercial teams from CSI. The idea was to create a team able to provide assistance in sales processes, services contracts maintenance with customers, and coordination of external and internal activities to ensure high level of support services to customers. Cisco and PlantIT Valley¹³, a Portuguese valley, announced an alliance to develop new business models for Smart Communities, in 2010. Finally, also in 2010, CSI implemented, in Lisbon a Recruitment Centre for Europe, Middle East and Africa. The project involved the scheduling of interviews with candidates from all countries present in Europe, Middle East and Africa. Cisco announced in their website that the choice fell on Lisbon because of their multilingual skills and quality of human resources, apart from the tremendous success of previous projects in Portugal.

These projects demonstrate that Portugal is part of CSI's investment agenda and demonstrate what Portugal could gain from this Foreign Direct Investment. CSI in Portugal offers several services such as operational efficiency, innovation, MNE's customer experience, networking warehouse, surveillance as well as security and communication network to SME's.

- **International Business Machines Corporation**

The International Business Machines Corporation known as IBM had their beginning in 1924 when Thomas J. Watson Senior joined CTR (processor of IBM) and changed the company into a growing leader of innovation and technology never seen before. At that time, IBM was not focused on strategy or specific services but they wanted to have forward-thinking culture and management practices based on innovation and creativity values.

They started to develop the tabulating system (created by Dr. Herman Hollerith) and spread throughout all regions like the United Kingdom, China, Germany, Canada, among others and began IBM's legacy. After some years, IBM invented the electric typewriter that was a success until late 1980's, when computers started to become well known among people.

When Thomas J. Watson Junior became IBM's president, in 1952, the company had transformed into a more modern oriented one. He focused IBM's strategy *toward the development and commercialization of electronic computer technologies, created and institutionalized professional corporate management practices, and codified unwritten IBM*

¹³ PlanIT Valley is a research platform including several technology companies aiming to implement a sustainable tools to daily lives

*philosophy and behaviors into formal policies and programs*¹⁴. This new mentality brought brilliant results since in 1960's IBM was the world's leading high-tech company.

In late 1980's, when the new computer era was happening, IBM turned Personal Computers (PC) into a indispensable device for everyone since schools, hospitals, banks, universities and enterprises around the world started to create some subsidiary products (like floppy disks) to create added value. Also IBM was responsible for the magnetic-stripe technology on credit cards that is used nowadays.

In late 1990's, IBM went through the most challenging period ever, not only because the world suffered some IT revolutions, but also because of the appearance of competition, which was not so common some years before. The internet had also an important role on the IBM's reshaping culture; they moved from creating software and services into open standard computing which required them to refocus on customers in order to be more agile, responsive and collaborative.

IBM established in Portugal on 4th November 1938 under the name "Sociedade de Máquinas Watson (Portugal) SA" and changed their brand name in 1949 to "Companhia IBM Portuguesa SA" joined IBM corporation and network. Before changing the actual name, IBM had installed the first factory of mechanographical cards and during 1980's allowed the connection between Portuguese universities and research centers with European researchers through EARN (European Academic and Research Network), during the creation of Internet along with US National Science Foundation. During 21st century, IBM created a Business Transformation Outsourcing (BTO) in Braga aiming to provide outsourcing services like accounting, finance, human resources, customer relationships, among others, to guarantee new customers from all over the world. According to Russel Hughes, general manager from IBM BTO Portugal, the decision to settle in Portugal was based in airport proximity, language issues (where, as mentioned above 40% of Portuguese people speak English) and costs (less costs in renting offices). In 2010, IBM created an Advanced Studies Centre (ASC) in partnership with Engineering College from Oporto University having as the objective to promote collaboration between universities, government and IBM research labs as well as to create innovative projects and solutions capable of being integrated in realistic solutions with

¹⁴ Excerpt taken from www.ibm.com/ibm/history

practical application and commercial potential. This ASC represents the recognition of Portuguese human resources and capacity to innovation and creativity.¹⁵

- **Volkswagen AutoEuropa**

Volkswagen Autoeuropa (VWA) represents the highest foreign direct investment made in Portugal also far. The VWA is an automobile manufacturer located in Palmela, Setúbal, and the majority of Volkswagen cars are built on these premises.

VWA was initially a joint-venture between Volkswagen and Ford, where both parts had the deal to split responsibilities on vehicle production, i.e., Volkswagen would be responsible for car development and Ford would lead the planning of manufacturing facilities. Accordingly, at the beginning (1991), they started to built some known vehicles like Volkswagen Sharan, Seat Alhambra and Ford Galaxy.

In a 2-million-square-meters- area they were recognized worldwide by their particular assembly line in building cars. After seven years, Volkswagen bought 100% of VWA's capital and the strategy did not suffer any changes. They had been organized in such way that, in 2003, they reached 1 million units produced and a new investment of 600 million Euros was made in their facilities. After a while, Volkswagen had come up with a new line (Volkswagen Eos) which was decided to be constructed in Palmela plant. Until late 2006's VWA were responsible to produce only one line of cars, however, with the increase of production level Volkswagen changed their strategy and decided to give opportunity to VWA to build luxury cars; subsequently, in early 2006's VWA had two production lines running at the same time at 24/7.

More recently, in 2007, Volkswagen made 541 million Euros investment which allowed major restructuring and technologies improvement that prepared VWA to build 1.5 million units and become flexible enough to receive different production lines.

Nowadays, VWA is still known for their particular facilities and labor work conditions, and as so Volkswagen still considers Palmela plant as one of the best investments ever made by the company.¹⁶

¹⁵ <http://www.fe.up.pt/>

¹⁶ Information taken by <http://www.volkswagenautoeuropa.pt/articles/historia>

5. Methodology

The starting point of this study was to create an interesting topic that could lay a hand on the theoretical approach and use it in a business environment. Taking this into account, a literature review regarding foreign direct investment and attractiveness factors within countries was carried out in order to understand the reasons for large technology companies to invest in different countries as well as to evaluate the attractiveness of a given country to receive Foreign Direct Investment. In this chapter, the process which until the choice of Microsoft's case study will be described.

- **Research strategy**

Going through literature, we realized the existence of considerable studies about foreign direct investment as well as papers demonstrating the classic reasons pointed by large companies to go overseas (Encarnation and Wells (1986)). In fact, new authors have come with new studies which prove that other factors like marketing or management could also influence the decision-making process of MNE to invest in a country rather than other (Jacinto, 2005). Dunning (1981), cited by Castro (2004), and created an investment development path that suggests the interaction between a country's level of development and its international investment position. Dunning (2000) wanted to classify countries in development stages which could be used as an instrument by a company to decide whether to invest in a given country.

Due to the existence of several studies that demonstrate factors that could influence the investment process and in order to approach literature on business context, a case study was designed to verify if theoretical factors were actually taken into consideration by a given company in a given market. We decided to focus our study on technology industry in Portugal. The objective of this study is to analyze and verify whether Portugal's attractiveness factors pointed by literature were taken into account on a technology-based company perspective.

Portugal, as was previously explained, presents numerous attractiveness factors which could influence a decision in an investment process. These factors gained importance as companies began to invest in Portugal and realized the unique production factors that could lead to economies of scales in a global market. For these reasons, Portugal phenomena drew our attention and we decided to study this country because it became clear that Portugal is on

the investment agenda of a significant number (26%) of multinational companies as Ernst & Young Attractiveness Survey 2010 suggests.

To what concerns a technology-based company, we decided to study Microsoft Corporation due to their historical developments in the technology sector worldwide and R&D investments made in Portugal. In fact, Microsoft Corporation has been responsible for several gadgets of our daily lives and this was only possible with talented people and considerable knowledge to respond to the needs of the market. As so, Microsoft is constantly in search for talent, knowledge and innovation capable of creating new gadgets for the market's needs.

Based on this objective that allowed the understanding of the reasons that influence a technology-based company to invest in a foreign country and to understand the flashy factors of Portugal, we tried to clarify the following set of question within Microsoft case study:

1. How was the decision process that brought Microsoft to Portugal developed?
2. Which were Portugal's advantages and disadvantages that Microsoft pointed with their experience in Portugal?
3. What role did the government have on Microsoft's decision process to invest in Portugal? And how satisfactory was their support to influence Microsoft's decision?
4. Did, at any time of Microsoft's presence in Portugal, the company consider moving out from Portugal? What were those reasons?
5. What could be changed to increase the Portugal's «magnetism» to receive more foreign direct investment?

- **Information collection techniques**

In order to create a case study analysis, research in the media about Microsoft in Portugal as well as their history since their first investment in the country was conducted. As part of this research, we considered important to conduct two interviews with Microsoft partners in order to confirm what has been researched and give new insights that are not known by the general public.

The two interviews were conducted in different timeline not be affected by the current and/or a specific event that could influence the answers of our interviewees. The first interview took place in Microsoft offices in June 2011 and the second was carried out in October 2011. These interviews were conducted in person and was later transcribed and sent to respondents in order to obtain their approval on the contents. The contents were approved as presented in attachment chapter. The interviews were performed in informal conversations which mean that open questions were prepared to encourage interviewees to give deeper insights, to present non-public information and to reach added value answers. Qualitative analyses were carried out to the responses given by interviewees.

After a considerable analysis of the literature and responses, we were able to discuss and reach to conclusions, which will be presented in chapter 7. It is important to provide a final note that this study aims to give specific insights for Microsoft case, which may not be applicable to other technology-based companies.

6. Case study: Microsoft Portugal

- **Overview**

Microsoft Inc. opened their Portuguese subsidiary in 1990. Since their beginning, Microsoft Portugal has promoted local hardware industry and enhanced the knowledge and use of Microsoft's software.¹⁷

These 21-years Microsoft's subsidiary has had a huge impact on Portugal since their launch, because Microsoft Portugal has boosted the domestic employment and is constantly looking for national talent. In addition, Microsoft Portugal is committed not only to invest in R&D in Portugal but also to coach national citizens to promote innovation, creativity and qualification. An excellent example is their Professional Certifications in different areas which the objective is to give further qualifications to their employees, dealers, retailers, distributors and other economic agents. The importance of Microsoft in Portugal is rendered on their 450 employees, all Portuguese, running this US-company.

Microsoft Portugal operates on seven business units that encompass Big Companies and Corporate Partners, Public Sector; Small and Medium Enterprises and Partners Channel, and Equipment Constructors¹⁸:

Product	Description
<i>Windows Server & Visual Studio Tools</i>	Servers and development tools
<i>Microsoft Dynamics NAV and Microsoft CRM</i>	Business solutions
<i>Windows</i>	Customer operating system
<i>Office system</i>	Productivity and collaboration solutions
<i>Windows mobile</i>	Mobility solutions
<i>Xbox</i>	Entertainment solutions and hardware
<i>Windows live and MSN</i>	Media online content services

Table 3– Services provided by Microsoft
Source: Microsoft website

Microsoft Portugal still have another exclusive department focused on their big customers called Microsoft Consulting Services which consists in developing an operational plan (focused on technology), only possible with their knowledge and past experience.

¹⁷ Microsoft website. (<http://www.microsoft.com/portugal/>)

¹⁸ Cotec Portugal. (<http://cotecportugal.pt/>)

Transversal to all these business units, Microsoft Portugal has created a new division called Support Team, which has 80 collaborators responsible for giving all technical support requested by customers, partners' network and consultants.

In November 2005, Microsoft Portugal installed a brand new Investigation & Development Centre, which aims at developing interaction between person and computer through voice. This first-centre-outside-US fulfilled the company's strategy: cover the language in diverse Microsoft's products, starting in Europe and then down to Latin America, focused in Portuguese language computational treatment. According to Fil Alleva, a Partner Engineering Manager of Speech at Microsoft, *the existence of a vibrant and internationally recognized R&D center in speech and natural language processing, as well as the long-term investment by the Portuguese Government (more than 10 years already) in research for these technological and linguistic areas, were instrumental in Microsoft's decision to place this R&D Investment in Portugal.*

Microsoft Portugal continued their investor's activities, in Portugal, by acquiring their first Portuguese company: Mobicomp. Mobicomp were the pioneer in developing mobile phones backup technology and also developing website contents for mobile phones. This acquisition has led to expand know-how on a state-of-the-art technology that meets the company's strategy.

- **Reasons to come to Portugal**

Dr. Victor Freitas, the Business Solution Partner Group Manager of Microsoft Portugal and Dr. Diogo Andrade, the Microsoft Dynamics Group Partner, were interviewed in order to understand what has motivated one of the biggest companies in the World to invest in Portugal since 1990. The excerpt of the interviews can be seen in attachment.

According to Dr. Victor Freitas, the reason which had the major weight on the decision process to come to Portugal was Microsoft's willingness to increase their market share and also to expand their business across Europe, an idea which was reinforced by Dr. Diogo Andrade. However, this reason was not the only one. In fact, human resources quality, low labor costs comparing with other European countries, creativity and openness to innovation where other reasons that were taken into consideration when it was decided to invest in Portugal.

The Portuguese human resources quality was recognized when Microsoft Portugal decided to establish their first R&D Centre outside the US. As matter of fact, the creation of

this centre was only possible with highly qualified human resources and a proper know-how capable of generating investigation and development processes. In line with this view, Dr. Victor Freitas confessed that Portuguese ability to speak other than their native language was important and the main factor in their decision process to set up this centre in Porto Salvo, Oeiras. Dr. Victor Freitas added that in this centre the majority of workers speak at least 2 languages (Portuguese and English) and this has helped to develop language recognition software, which is the major study area at Microsoft R&D centre. Good engineering schools which compete in capacity rather than quantity was another positive issue of Portugal pointed by Dr. Diogo Andrade. On the other hand, Dr. Victor Freitas stated that overall universities are open to innovation and this is an extra point in favor of Portugal. The proof is the agreements signed with universities to generate talents in order to continue giving quality outputs to the investigation process.

The openness and innovation capability were the two main competitive advantages that Dr. Freitas wanted to share as being, in their opinion, the catalyst for IT companies to keep investing in Portugal. Furthermore, Dr. Diogo Andrade pointed out the quality of work, efficiency and effectiveness of human resources as the main competitive advantages to attract foreign investment.

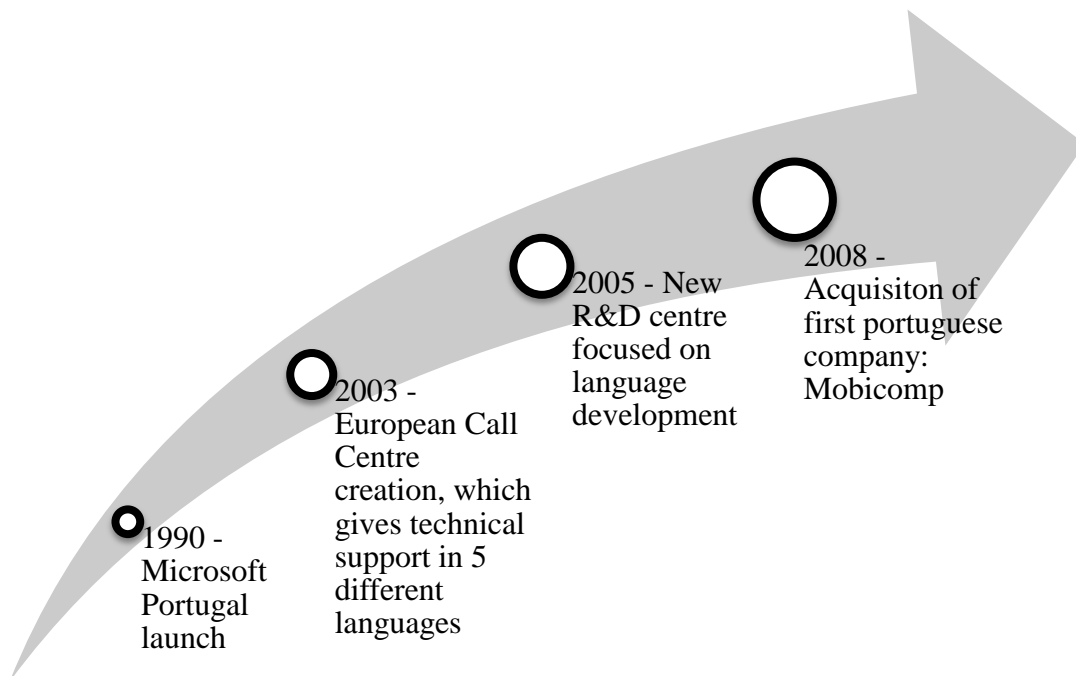


Figure 9 – Main events' timeline from Microsoft Portugal
Source: Microsoft website and interviews

- **Relation between practical and theoretical approach**

As referred in the literature review, the reasons that encourage MNE's to invest overseas vary from company to company but could be distinguished in four key factors. In Microsoft case study, it seems clear that the reason which moved Microsoft to invest in Portugal was the market motivation. The company was positioned in *market-seeking*, which means their willingness to enter in Portugal was to serve the local market with their own products and services and create a support branch as done in other branches in the world. They tried not to replicate their home country facilities in Portugal, instead they decided to use Portugal's competitive advantages to gain market share in Europe and stay close to customers with the final goal of client satisfaction. After market consolidation, Microsoft Portugal recognized that Portuguese human resources were underestimated due to their particular capacity to innovate and their lower labor costs.

After almost 15 years in the market, Microsoft Portugal decided to use Portuguese labor opportunities to explore, develop and deploy more know-how and products for the future of technology. As a matter of fact, the Portuguese competitive advantage as far as language skills are concerned, is something rare, compared for instance, the United Kingdom or France. In spite of their economic strength and huge market size, their languages (English and French, respectively) are universal and spoken everywhere, reducing the human resources need to learn another language besides their native. Therefore, Microsoft Portugal combines several competitive advantages in their decision process to invest in a R&D centre in Portugal.

As explained above, Microsoft Portugal acquired a Portuguese-based firm which was operating on backups and mobile phones software. This action met the fourth factor added by Dunning in 1993, where MNE's are looking for local technological and scientific competences, by acquiring firms that already possess these skills, in order to accomplish the company's strategy. This fourth factor is called *asset-seeking* and is applied to this particular activity.

In order to consolidate their market share MNE can develop: i) a new product or service for the same market; ii) the same product or service for other markets; or iii) both in different timelines. Looking at Microsoft history, it may be stated that the company is seeking for new products and services, but also it appears to gain market share from their direct competitors in different markets of their head office. Taking Microsoft Portugal has a case study, it can be concluded that main objective when they decided to come to Portugal was to play, with the

same products, in a different market. Microsoft Portugal opened an office on a geographically strategic point in Europe, in order of gaining market share (*market-seeking*).

After their market consolidation, Microsoft Portugal decided to use disposal resources to increase their know-how (*asset-seeking*) through the acquisition of a Portuguese company that developed a technology (backup and internet on mobile phone software) which was not mastered by Microsoft. Microsoft Portugal also benefited from Portuguese innovation capacity, openness to innovation and human resources to develop an investigation and development centre to assist the improvement of language recognition software and to raise these mechanisms on person/computer dynamics. Taking into consideration Microsoft Portugal predictions, according to Dr. Victor Freitas and Dr. Diogo Andrade, it is very unlikely that the company displace their business for another cheaper market because of their *market-seeking* and *asset-seeking* mindset.

7. Conclusions

The aim of this case study analysis is to demonstrate the reasoning behind technology-based MNE's for choosing Portugal as their investment location and how policymakers' strategy has prevented them from exiting the country. For this purpose, previous studies were assessed in order to understand which factors these companies seek when they decide to move abroad as well the actual reasons for their willingness to expand abroad. In this research, several authors were cited with different perspectives regarding MNE's international strategies and regarding the capacity of countries to receive those companies. There are common aspects to several countries concerning MNE's reasons to go overseas, with Dunning (1993) being the most active:

- *Market-seeking* – Dunning argued that one of the reasons for MNE's to decide to go abroad is to serve the local market with their native product or service, not yet installed before for any company. The idea is to replicate home-country facilities in another country, increasing their net sales as well as their market share. In this factor, Dunning understands that MNE do not prepare procurement processes regarding national competitive advantages because they simply intend to obtain market share.

- *Resource-seeking* –in this case, MNE are looking forward and they want to capture national competitive advantages in order to gain economies of scale, i.e., when MNE's decide to invest in a given country and when they prefer a country because of their particular resources, it is called resources-seeking. In most cases, MNE's intention is to acquire national natural resources, raw materials or low labor costs that were not available in their home-country with the objective to practice lower prices than their direct competitors and increase their gross margin. MNE's from oil drilling, tourism and construction areas are the ones who seek more for national resources to reduce their high production costs.

- *Efficiency-seeking* – MNE's might go abroad to look for efficiency not reached in their home-country. This efficiency could be attained through, for example, cheaper products or core services to their activity to reduce costs; or through rationalizing the corporate network by acquiring several companies (agglomeration) to obtain economies of scale. The major difference between efficiency and resource seeking is related with agglomeration activity that MNE's could reach when they decide to go abroad.

- *Asset-seeking* – Dunning argued that MNE could also decide to go abroad to look for local technological and/or scientific competences to develop their R&D department. The idea is to increase their know-how in their core activity and to produce future gains. MNE's could

acquire firms that already have these skills or create other subsidiaries near to where these competencies are abundant.

After this exposure, some other authors improve these reasons argued by Dunning, although these improvements are not mutually exclusive. In fact, Jacinto (2005) argues that MNE's also look for national marketing, management and organizational skills that could create added value. Thus, the literature concludes that MNE's wants to create added value efficiently through finding other markets to serve their own interests.

In their turn, the investment receiver countries need to prepare themselves in order to receive those MNE's. In fact, countries cannot live only with domestic savings and even if they can it would become too hard to import foreign technology and have available skills to manage and use those technologies. As so, in this globalization economy, it becomes vital the ability to attract foreign investment that can contribute to the growth and development of their country. Porter (1990) mentions the existence of a national diamond that highlight the nation's competitive advantages; this framework was used to identify the nation's competitive advantages and their ability to attract foreign investment. This national diamond consists of four *pieces*: i) firm strategy, structure and rivalry, which consists in understanding the competition level between companies as well as how companies are organized and managed; ii) demand conditions, which is related to the level of demand for some home-made product/service; iii) related and supporting industries, which means the existence or not of internationally competitive suppliers in the country; and iv) factor conditions meaning the existence of production factors to compete in a given industry. Porter wants to demonstrate that nations needed to be aware of these «diamond pieces» to compete with other nations for foreign investment.

Actually, on in this case study analysis a deep study of how Portugal uses their strengths (competitive advantages) and manages the weaknesses to attract the potential foreign investment was carried out. To summarize the research, a SWOT analysis was done, which pointed out the strengths, weaknesses, opportunities and threats for Portugal, making a parallelism with a business environment since this analysis is only useful to evaluate projects or businesses. In this SWOT analysis, it became clear that Portugal has four great competitive advantages that are attractive enough to capture foreign investment:

- *Geographical location and infra-structures* – Portugal's location on the most western point of Europe provides a geo-strategic position between Europe, Africa and America. Also the infra-structures, typical of a developed economy as Portugal, allow

connection between all cities of Portugal whether by train, car, ship or plane. Portugal has two main harbors (Lisbon and Sines) which are, in some cases, used as connection harbors to transport products to Europe. Also Portugal's effort to invest in renewable energy (whether through the sun, the wind or waves) allows energy savings for all companies.

- *Highly qualified labor* – According to OCDE, Portugal has only 14% of people with higher education, however, it is important to highlight that Portuguese wages are one of the cheapest wages in Europe, which allow companies to have highly qualified labor at low labor costs.

- *Ability to speak other than the native language* – More than 50% of the Portuguese people has ability to speak more than their mother language and in most cases the second language is English, crucial for international companies that decide to implement their businesses in Portugal.

- *Political stability* – Portugal is a parliamentary democracy with elections to parliament every five years Portugal holds political stability which became attractive to foreign investment since there is no risk of riots, or any social issue that could affect operational business.

Some of well-recognized MNE's have settled in Portugal, acknowledging the competitive advantages mentioned above. In fact, Cisco, IBM or Volkswagen are perfect examples to understand that MNE's take these Portuguese competitive advantages in their favor to create more added-value to their companies and to enlarge their market, among other benefits taken from internationalization. Due to, Portuguese agencies' decreasing ability to attract foreign direct investment, since 2009 Portugal has witnessed a decline in foreign investment compared with the rest of Europe, as is shown on the graph below:

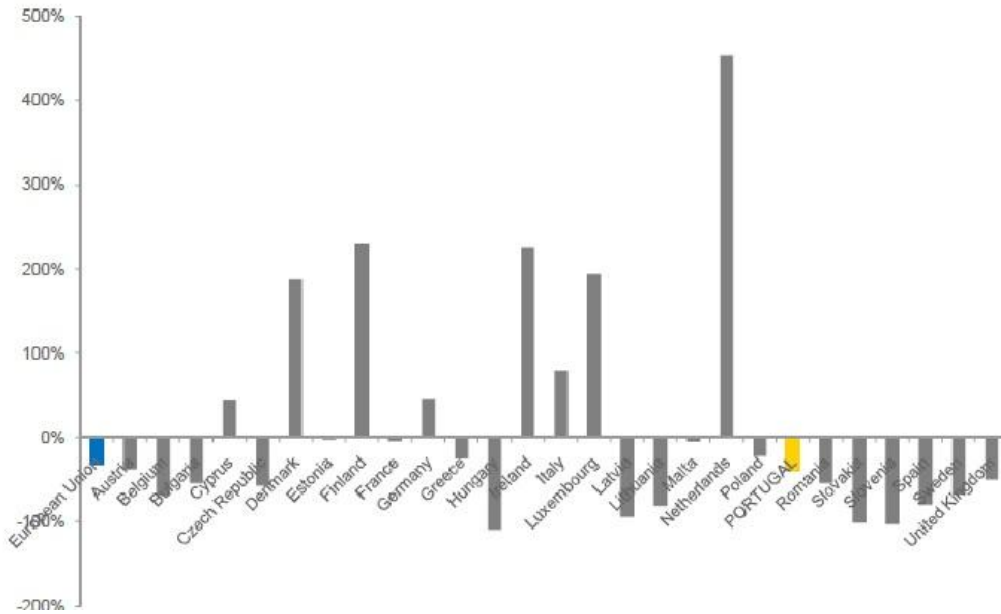


Figure 10 – Net variation of FDI in 2009 (in %)
 Source: Ernst & Young Portuguese attractiveness survey 2010

Taking into consideration the literature studied, a case study analysis was carried out to understand if the Portuguese competitive advantages presented were taken into account by a specific MNE when they decided to invest in Portugal. The chosen company was Microsoft Inc. and in order to understand their decision process to install the branch in Portugal, 20 years ago, it was interviewed two different partners from Microsoft Portugal. Microsoft Inc. is a company created by Paul Allen and Bill Gates in late 1975, in times when typewriters were the state-of-art technology, with the purpose of providing a computer “on every desktop and in every home”. In 1980, Microsoft hired Steve Ballmer a Bill Gate’s classmate formed at Harvard to help him running the company. Taking advantage of the gap in computers, Microsoft created a platform to link hardware with their programs (software), which was called “MS-DOS”. However, this first innovation movement revealed unsuccessful, since not all user knew how to use technical commands. As a result, Microsoft decided to invest in a brand new innovation: a user-friendly operating system. So, in 1985 Microsoft launched, with a tremendous success, Windows 1.0 in which users only needed to move the mouse, point and click through windows that were appearing on the screen. The following years, Microsoft developed more sophisticated “Windows” to please the final consumers and in 1995, Microsoft reached the peak by selling 7 million copies of Windows 95 in the first five weeks and revealed to be an incredible success in every corner of the world. With this original new operating system Microsoft leave their footprint in technology industry and consolidate their market share in the entire world. Fax, modems and e-mail are some examples of instruments

created to face a multifaceted operation system. With Windows 98, Microsoft created the first operating system designed specifically for individual consumers and was focused on the internet, on easily found information and capable of making “windows” faster. Since then, Microsoft has developed more sophisticated operating systems known everywhere: Windows 2000, Windows Me, Windows 2000 Professional, Windows XP, Windows Vista and Windows 7.

Meanwhile, Microsoft corporate considered to expand their physical presence in the World in order to faster respond the international consumer's demands; so they decided to create branches in several points in the world: not in a research and development software perspective but focused on commercial and technical areas to increase customer satisfaction and, consequently, market share. With this in mind, Microsoft decided to open a branch in Portugal in 1990 with the objective of promoting local hardware industry and enhance the utilization and knowledge of their software. Since the beginning, Microsoft Portugal has looked for national talent and commits themselves to coach and promote innovation, creativity and qualification among Portuguese citizens. In fact, their investment in Portugal lead to higher employment (Microsoft holds 450 Portuguese employees and 4,500 local partnerships), a vast value chain that enhances Portuguese firms and also higher investment in R&D. This can be exemplified by the creation, in 2003, of the European Call Center which was able to support, by phone and in 5 different languages in Europe, Africa and Middle East. In 2005, Microsoft launched a brand new research and development centre which focused on developing interaction between person and computer through voice. Since then, Microsoft has invested in Portugal mainly due to their openness to innovation, creativity, quality and still low labor costs, as pointed out by Microsoft partners, Dr. Victor Freitas and Dr. Diogo Andrade.

After this research about Microsoft, two interviews were conducted: one with Dr. Victor Freitas, Microsoft Portugal Business Solution Partner Group Manager and another with Diogo Andrade responsible for Microsoft Dynamics implementation in Portugal. These interviews allowed an understanding of the main reasons for a MNE like Microsoft to decide to invest in Portugal and analyze the reasons they remain in Portugal after 21 years operating in Portugal. According to Dr. Victor Freitas, Portugal presents in their favor their ability to innovate, the human resources quality, the low labor costs, and openness to innovation. Besides these competitive advantages, Microsoft decided to invest in Portugal, in the first place, to increase their market share and expand their business across Europe, making it a *market-seeker*

accordingly to literature. Notwithstanding, during their first years in Portugal, Microsoft realized the local high human resources qualification due to their ability to innovate, openness to creativity, high know-how and ability to speak at least 2 languages (Portuguese and English). These factors were taken into account when they decided to open, in Portugal, the first outside-US-R&D centre in to study the language components that could, for instance, activate computer through voice creating an advantage for their future products. Dr. Diogo Andrade said this was only possible due to the quality, efficiency and effectiveness of Portuguese work.

Dr. Victor Freitas concluded that, in his opinion, the openness and capability to innovate are the main catalysts for IT companies to keep their investments in Portugal. Furthermore, Microsoft Portugal acquired a Portuguese firm (Mobicomp) due to its particular software, not yet developed by Microsoft, and the huge strategic position created, by diversifying their services and increasing their market share. This operation allowed Microsoft to consolidate their position in Portugal and realizing that society is prone to new technologies and confirm the innovation capacity of Portuguese human resources.

However, there are some issues that Portugal should improve in order to be able to receive even more foreign investment. According to Dr. Diogo Andrade, Portugal lacks a national guideline to focus on the factors that could differentiate Portugal from the rest of the market. As a matter of fact Portugal abounds in tourism competencies, wine or shoe industry, but is not specialized in none of these. Besides, Portugal needs to improve its industrial organization, economy transparency and increase the justice efficiency. Indeed, according to Ernst & Young's Portuguese Attractiveness Survey 2010, the level of corporate income taxation, the judicial system, and VAT rate are the less attractive aspects indicated by foreign companies (from several industries) which have their investments in Portugal. The following graph presents the less attractive aspects pointed out by companies:

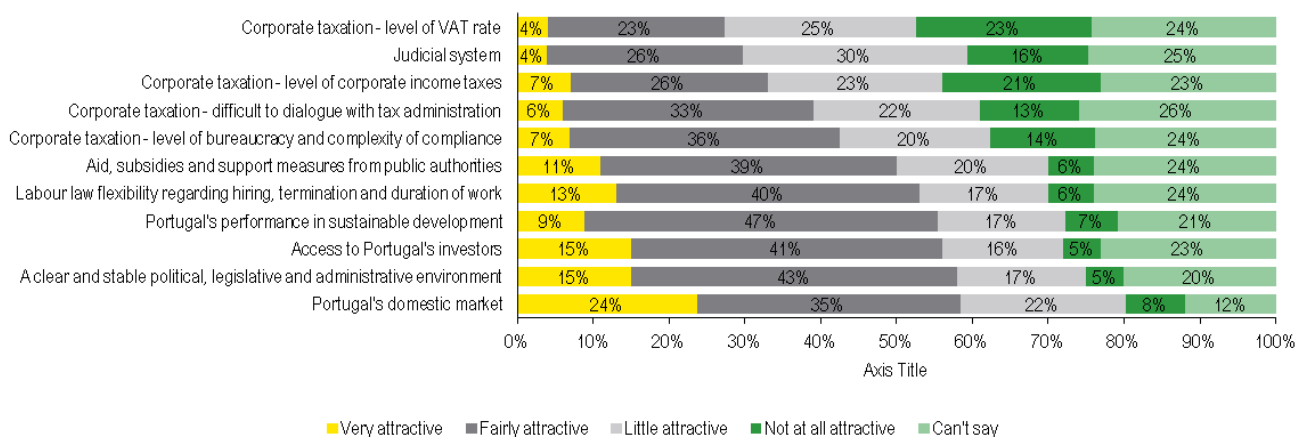


Figure 11 – Attractiveness aspects that should be improved by Portugal
 Source: Ernst & Young Portuguese attractiveness survey 2010

Relating theoretical and practical approaches, Microsoft's *market-seeking* and *asset-seeking* mindset can be highlighted when they decided to establish in Portugal. In fact, during their decision process to install a branch in Portugal their intention was to serve the local market with the same products which they already sold in their home country in order to increase their market share and create a strategic branch to enter in the rest of Europe. However, the predictions did not take into account the strength and know-how of Portuguese labor, which influenced them when Microsoft decided to open the first outside-US R&D centre in Portugal with 100% local employees and acquiring the first Portuguese-based firm, which competences Microsoft did not mastered. These examples are in line with Dunning's studies regarding *asset-seeking*; in fact, this fourth factor mentioned in literature says that MNE's go abroad to look for local technological and scientific competences through acquiring firms or hiring talented employees that already possess these skills, in order to fulfill the company's strategy.

Thus, in conclusion, this case study shows that Microsoft, one of the biggest information technology companies in the World, decided to invest in Portugal because they were looking to serve the local market by creating a commercial branch that could: 1) to sell their regular products, 2) to increase their market share and 3) give them an international presence. Microsoft has also found talented people with vast know-how among other important skills (speak at least 2 languages, low labor costs and openness to innovation) vital to conduct new research and develop new forms of creating products and services essential to keep the company updated and competitive in a changing market.

In addition, this study has also illustrated that Portugal does not actively promote their own competitive advantages to encourage investment in the country. Failure to grant tax incentives or others subsidies to foreign companies, as was mentioned by the interviewees from Microsoft; reduced AICEP's (national investment agency) funding and scope; and weak national brand¹⁹ promotion may depart investments from these companies from domestic investment and, in turn, not generate jobs, nor to stimulate the economy which are critical in this crisis season.

The last conclusion that could be taken from this study is that the implementation of a given MNE in a given country could generate several benefits not only for the company itself but also for the country which receives the investment. In fact, besides job creation and intern income generation, the foreign investment from a MNE could create a powerful value chain important to stimulate the economy, to generate jobs indirectly and to promote entrepreneurship. According to Dr. Diogo Andrade, the strong value chain created across Microsoft Portugal was an important vehicle to support Microsoft's success in this country: the openness to innovation, the ability for creativity and entrepreneurship itself are aspects pointed as generating added value to Microsoft products and services. Therefore, this study has also understood that foreign investment from MNE's could generate, in the receptor country, a value chain capable of generating new companies and new opportunities.

¹⁹ Country branding refers the use the right mix of marketing techniques and organizations to do the country promotion to attract foreign investment (<http://hbswk.hbs.edu/item/2153.html>)

8. Limitations

There are three limitations that need to be acknowledged and addressed regarding the present study. The first limitation concerns to documentation available; in fact the research findings are limited because not all the documentation available on the subject was checked. The literature reviewed in this study took account of the main authors known to have studied the foreign direct investment issue. Therefore it should be considered that findings of this study have drawn on the literature presented in second section. There is an apparent danger involved whenever concepts are borrowed from specific authors in their specific timeline and then applied to the present context that could be inappropriate.

The second limitation concerns with the number and nationality of the interviewees. We did not have the opportunity to access a Microsoft partner from headquarters to verify the success indicators of Microsoft Portugal pointed by the interviewees and understand the position of Microsoft Portugal against other Microsoft branches such as in Spain, for instance.

The third and last limitation is related to the generalization of study conclusions beyond the case studied. This case is too limited for broad generalizations. However, Microsoft's worldwide expansion represents the majority of information technology companies and for this reason IT organizations can benefit from the findings. Furthermore empirical evaluations are needed to replicate the findings in different contexts and surroundings.

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10. Attachments

- **Excerpt of Dr. Victor Freitas' interview**

On 17th June 2011, in Microsoft offices (Tagus Park), the Business Solution Partner Group Manager Dr. Victor Freitas granted an interview (in Portuguese) in order to understand the main reasons to install, 20 years ago, a Microsoft branch in Portugal and the reasons for their R&D investments in Portugal.

Question: How was the decision process to come to Portugal made?

Answer: Microsoft is in Portugal since 1991 (20 years) and the purpose to come to Portugal was essentially to gain market share within Europe. However, it was not only this factor that makes a multinational like Microsoft to invest in this country. There is another factor that makes Portugal attractive for us: constant openness to innovation, huge innovation capacity, lower labor costs and also the human resources quality.

The innovation factor is very important for an information technology company and to show how Portugal deals with innovation I could give an example: Portugal was the pioneer on changing the licensing form; while in other countries licenses were made perpetual, Portugal innovated and changed this procedure to a subscription model, working like a leasing system, with a timeframe that can be renewable after n years. In fact, Portugal has the highest percentage of licenses by subscription of all Europe. It is also important innovation on telecommunications and the proof is our agreement with Vodafone once their TV cable service is made with Microsoft's Xbox, so these synergies in countries are important to gain market share and also to innovate.

Regarding human qualification, it is very important to have human resources that speak more than one language and in Portugal more than half of human resources speak more than one language, and there is a great percentage that speak Portuguese, English and also a third language that vary from French, German or Spanish. And this ability is important in our global world. In fact, Portuguese human resources are so good that there are some of them that were «exported» to headquarters to occupy leadership roles.

Q: In your opinion, which are the advantages and disadvantages of Portugal in terms of foreign attractiveness?

A: As I said before Portugal's advantages to receive foreign investment are:

- Openness to innovation
- Huge capacity to innovate
- Lower labor costs
- Qualified human resources

Regarding the disadvantages, some of the points that I will focus are factors that are affecting us directly in our daily lives. The first one is discipline (or lack of it). After 20 years in Portugal our clients did not learn the lesson to comply with their obligations so, nowadays, we are being affected by liquidity problems because clients do not pay their bills within the deadlines agreed. This can be pointed as a cultural problem because there is a huge number of companies, in every sector, that disregard the agreed payment term, causing several problems in the companies' liquidity.

Another disadvantage I can mention is the small market dimension. Portugal is a small market not only because of its geographical size but also their companies' size (most are SME), which make it difficult to implement some products that are winners in markets that speak the same language like Brazil. Actually, we have in hands management software for big companies that are a huge success in Brazil but do not have a demand in Portugal and this could be a big disadvantage to attract investment.

The bureaucracy has been streamlined but the process is still slow, in Portugal. As an example, I can say that agreements with the government is so difficult because they cannot understand that, on sectors like information technology, products and services must be in constant change otherwise these products and services become obsolete (the Governments' Purchase Department does not understand the value and utility of having an agreement with Microsoft).

And finally, with the entrance of new European State Members, Portugal has no longer the low cost life as it had 10 years ago. And this could be a challenge to some companies, to relocate their businesses to Eastern European countries, although Portugal still has a good ratio of human labor costs and qualifications that could play in favor of Portugal.

Q: Was any deal made with the Portuguese government? If yes, do you think this deal is satisfactory enough to continue Microsoft operations in Portugal?

A: I don't believe that it had to do with any government incentives to invest in Portugal. It was much more Microsoft's willingness to come to Portugal than the government itself, so it did not make sense to ask for fiscal or any kind of incentives to the government.

But it is important to refer that there are some joint initiatives between Microsoft Portugal and the government to help on qualifying the Portuguese population through the "Novas Oportunidades" program.

Q: Did, at any time, your company think about moving out from Portugal? If yes, what were the reasons and why did you not move?

A: Microsoft is divided in geographical areas and Microsoft Portugal is allocated to an area called Western Europe Area and as so Microsoft Portugal has to report directly to this area. After compiling all information about Western Europe Area this area reports to Microsoft Corporation head office in Redmond, Washington. Although, in 2005, it was launched an R&D Centre, which studies language recognition for all languages in order to implement this technology on future software, this centre reports directly to Microsoft Corporation (even though its physical presence is in Portugal).

But responding directly to your question, I would say no, we did not think about moving out from Portugal because it is an important vehicle to reinforce our market and the levels of performance ratios are so high (much more than Spain, for instance), it would be no sense moving out from here. Of course we are in the middle of a global crisis and probably we have to cut down in some costs (like decrease wages), but it will not affect Microsoft policy to have branches/offices in each country to give support to the dealers.

Q: What do you suggest that should be changed in order to Portugal attract even more FDI?

A: I would say that Portugal should simplify acquisition/contracts processes with the Public Sector which, currently, create complications to the MNE's due to waste of effort in making them understand the importance of new technologies.

Another point that I would point out is that Portugal should have a faster resolution process to resolve payments/collections conflicts among creditors.

- **Excerpt of Dr. Diogo Andrade's interview**

On 31st October 2011, in Microsoft offices (Tagus Park), the Microsoft Dynamics Lead, Dr. Diogo Andrade granted an interview (in Portuguese) in order to include a second opinion regarding the reasons which have motivated Microsoft to start their operations in Portugal and the factors which made Microsoft to keep their investments in the country.

Question: How was the decision process to come to Portugal made?

Answer: The decision process began when Microsoft opened a subsidiary in Spain, which then covered the Iberian market. Then Microsoft realized an opportunity window in Portugal and decided to split Microsoft Iberia in Microsoft Portugal and Microsoft Spain. This separation was made taking into consideration the existence of differences between both markets.

Furthermore, when Microsoft decided to come to Portugal, they were not looking to reduce operational costs but looking to gain market share and help to develop the Portuguese market through their vast value chain.

Q: In your opinion, which are the advantages and disadvantages of Portugal in terms of foreign attractiveness?

A: One of the advantages refers to the existence of good engineering and management schools in which Portugal do not compete in quantity (opposed to countries such as China, India or Brazil, for instance) but compete in capacity. I should mention the brilliant talent of these engineering schools marked by their quality of work. These local competencies encouraged the creation of a research center in language recognition and a permanent technical support centre integrated in a global strategy. Besides these competencies, I should also refer that their above-average preparation to adapt to new situations and their effectiveness and efficiency were the main factors to invest in Portugal. Other two advantages concern the excellent technological indicators, such as high penetration rate of broadband in households, and also the existence of a society prone to technology and to new gadgets.

Concerning disadvantages that should be improved, I would mention that a national guideline to focus on factors that could differentiate Portugal from the market should be created. In my opinion, Portugal should choose areas of expertise and aim to be recognized in the global world as best in class, in other words pick the industries where we can leverage our natural resources tourism and existing expertise and develop a plan. Our government should

then play a role in setting the right programmatic policies (i.e. tax, infra-structure, economical diplomacy, etc.) in straight articulation with the Portuguese entrepreneurs. Besides what I mentioned before, I would also refer the lack of industrial organization in Portugal, lack of transparency in the economy that dispels any investor and the justice system in Portugal should be less bureaucratic and be more unrelenting to avoid corruption cases that denigrate the Portuguese economy.

Q: Was any deal made with the Portuguese government? If yes, do you think this deal is satisfactory enough to continue your operations in Portugal?

A: Microsoft's operations started in Portugal without any governmental incentives.

Microsoft worldwide business model creates a measureless value chain since the creation of national hardware providers to business consultancies which generates added value for each member of the value chain.

Q: Did, at any time, your company think about moving out from Portugal? If yes, what were the reasons for that and why did you not move?

A: Since the separation of Microsoft Iberia in Spain and Portugal, the subsidiaries have been operational and financial autonomous which means the future of Microsoft Portugal is not decided by Microsoft in Seattle (headquarters). It is not in their thoughts to move out from Portugal and the reasons are their high operational ratios, the value chain created, and the research and development center to speech recognition created among other reasons. It would not be a wise decision to move Microsoft Portugal offices elsewhere. Moreover the final decision to move or close the offices and investigation centre in Portugal is responsibility of Microsoft Portugal.

Q: What do you suggest that should be changed in order to Portugal attract even more FDI?

A: In my opinion, the country should improve their transparency and promote an unrelenting justice system to avoid corruption cases. In addition, Portugal should bet on programs that could differentiate themselves from the rest of the economies and use a clear dialogue between public authorities and civil society to establish added value strategies to foster the growth of their economy. Also the government should create training programs at medium and long term to provide better qualification for their citizens and be able to compete with other economies.

The government should encourage the creation of value propositions through the promotion of local entrepreneurship which could boost the economy and give credit to Portuguese human resources. Finally, I would say that Portugal should improve their export capacity to balance the trade balance and disseminate the quality of Portuguese products and services.

In that sense, it's rewarding to observe today that among Microsoft's Partner ecosystem, several Portuguese companies are operating internationally and therefore contributing to Portuguese exportations. As a first and natural step, these companies are selecting countries where Portuguese is the official language (like Angola, Brazil, Mozambique, among others), but also in the European countries and South America in general.

• Investments upper €100m by location (translated)

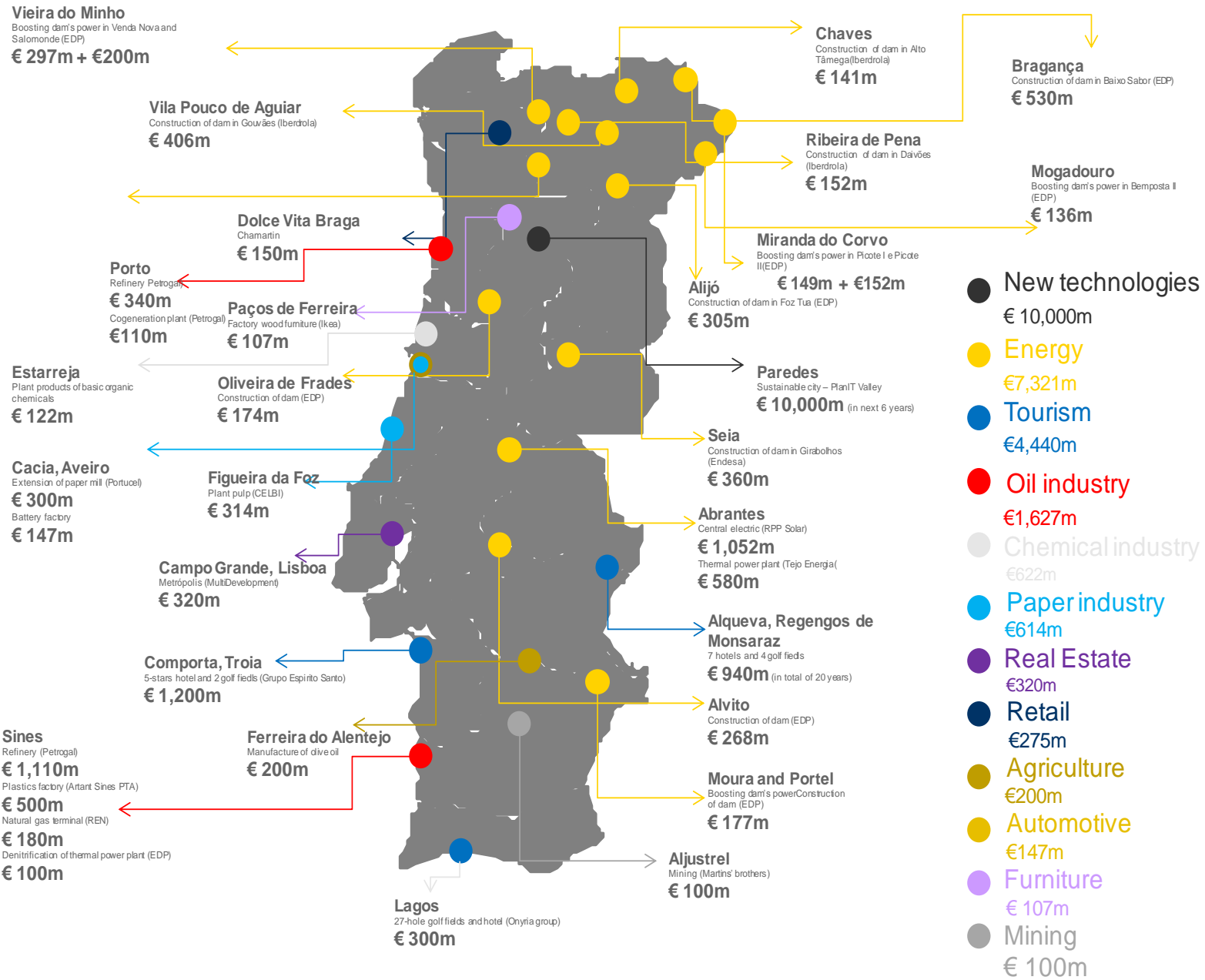


Figure 12 – Investments upper €100m by location made in Portugal (translated)
Source: Expresso newspaper, 2011

• Investments upper €100m by location (original)

Investimentos superiores a 100 milhões de euros

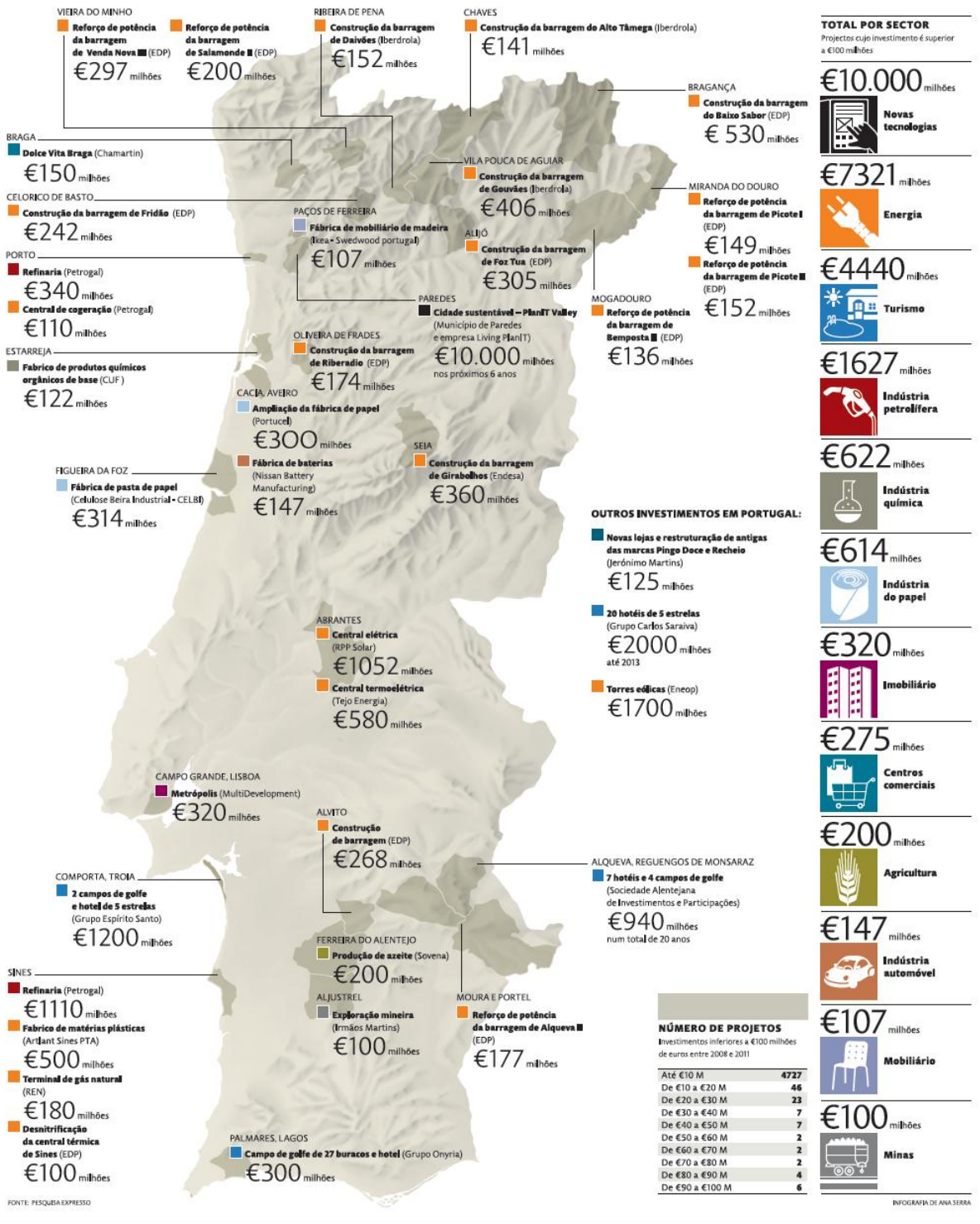


Figure 13 – Investments upper €100m by location made in Portugal (original)
Source: Expresso newspaper, 2011