THE LONG PATH TO THE IBM-MEXICO AGREEMENT:
AN ANALYSIS OF THE MICROCOMPUTER
INVESTMENT NEGOTIATIONS, 1983-86

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Abstract. Studies of negotiation have proliferated, but few, especially in international business, have systematically detailed the complexity of negotiations in situ. This paper describes and explains the widely publicized, controversial talks between IBM and the Mexican government that followed IBM’s proposal to establish a 100%-owned personal computer assembly plant near Guadalajara.

In July 1985, the Government of Mexico approved an IBM Corporation proposal to assemble personal computers in a wholly owned plant near Guadalajara. President Miguel de la Madrid praised the plan as an “expression of faith” in the country’s economic progress and a “most significant milestone on Mexico’s road to self-sufficiency in electronic technology” [MEU 1986]. Approval had come after seventeen months of negotiation reported in news headlines such as “IBM threatens Miguel de la Madrid’s Government” [Martinez 1984] and “Mexico Rejects I.B.M. Control For New Plant” [Meislin 1985b] and after widespread debate over whether Mexico’s review of the IBM proposal constituted a “test case” or “special case” of its treatment of foreign investors [Economist 1985a, p. 62; Orme 1984b].

Such observations raise questions about the process of the negotiation and the determinants of the final outcome. How did the parties interact? Why did they agree upon those terms? These queries apply to most cases of negotiation, but they are reinforced here by the prominence of the parties and the publicity that attended their talks.

There is additional impetus for studying this case. The issue of its generalizability aside, the case offers researchers and managers a vehicle for

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insights into multinational enterprise (MNE)-government relations, international corporate strategy, contemporary government attitudes toward national computer industries and the bilateral, U.S.-Mexico relationship. More directly, the literature on international business negotiation to date comprises large-scale, statistical studies of MNEs' capabilities and achievements vis-a-vis governments (e.g., Fagre & Wells [1982]; Kobrin [1987]) that do not evidence the intricacies and dynamism of such negotiation; strategic analyses focusing on organizations as units (e.g., de la Torre [1981]; Lecraw [1984]) that neglect aspects of individual negotiator's behaviors (e.g., Graham [1983]; Tung [1982]), and vice versa; and a few case studies (e.g., Stoever [1979]; Young & Hood [1977]) whose dissimilar or unspecified analytic frameworks hinder cross-case comparisons. This article attempts to complement and extend this literature as well as deepen understanding of the IBM-Mexico negotiation itself.

EXISTING LITERATURE

Research on international business negotiation includes studies on three areas pertinent here: MNE bargaining power, governmental review of foreign investments, and cultural aspects of negotiation. The "bargaining school" of MNE-host government relationships (see Grieco [1982]) asserts that terms of these relationships, at point of market entry and over time, are negotiable. Often these researchers examine MNE bargaining power. For example, in their study of U.S.-based MNEs in Latin America, Fagre and Wells [1982] found that an MNE's percentage ownership of foreign subsidiaries (a proxy for overall outcome of negotiation) positively, albeit weakly, correlated with the MNE's level of technology, product differentiation, product diversity, and access to foreign markets. For subsidiaries in Mexico specifically, these variables combined with size of the MNE's investment, which carried a negative but not significant value, explained 25% of the variation in actual foreign ownership.

Lecraw [1984] modified Fagre and Wells' approach, obtained consistent results and demonstrated further that the relationship between percentage MNE ownership of a subsidiary and subsidiary success (or effective control) is J-shaped, not linear. Thus he advised MNEs and governments to consider joint ventures that do not evenly split ownership. Discussions of international corporate strategies, such as the worldwide integration strategy [Doz 1980], bear upon these findings and suggest additional MNE bargaining objectives and sources of power (see also Holt [1978]).

De la Torre [1981] stands out from the aforementioned studies, while still remaining within the bargaining school, by exploring entry negotiations from both sides—for governments and MNEs. In his view, an MNE that perceives high market attractiveness (or great fit with corporate strategy) and a good investment climate should commit maximum resources and pursue establishment of a wholly owned affiliate. For governments, de la Torre recommends explicit statement of national development objectives,