



ISSN: 1934-4244

## **Electrolux: A Case Study of Plant Relocation from Michigan to Mexico**

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## Executive Summary

This report provides an analysis and evaluation of the incentive for and affect of firms relocating their manufacturing plants from Michigan to Mexico; using the case of the Swedish manufacturer, Electrolux, as evidence of all points discussed. The method for analysis employed will be to explore the historical stock price of Electrolux to match stock performance at specific times with the firms strategic decisions of those same points in time. This will be used to aid in showing economic incentives for multinational firms to relocate to low labor cost countries. For the intents and purposes of this study, the dates of most interest will be those just before and immediately after Electrolux announced that the Michigan plant was to be closed and relocated to Mexico, with January 16<sup>th</sup> being the date the announcement was made (Share Price Development, 2004). After analyzing the economic incentive for plant relocation, the lasting effect left on the state of Michigan in terms of laid off workers and economic downturn will be reviewed to illuminate the detrimental effects that firm relocation from the United States to Mexico can have.

The information gained from the data and information analyzed shows that Electrolux's decision to relocate from Greenville, Michigan to Juarez, Mexico provided the firm with the most economic return, but at the cost of lost company goodwill, a highly trained and experienced workforce, and a deteriorated economic environment left for the newly unemployed.

Personal recommendations based on the financial information gathered is that the company still relocate to Mexico to maintain its competitive position in the market, but do so in a way that has a more socially responsible and less crippling impact on the local economy. This means doing what it did when it closed plants in Vastervik Sweden, which was donate substantial funds to the development of start up businesses in the area before leaving (Rutenbeck, 2009).

## Problem Statement

Decisions pertaining to the economic prosperity of the firm can at times have a very detrimental affect on certain economies, especially as the firm's operations are restructured and relocated in harmony with global competitive trends. This is precisely what happened when Electrolux relocated its refrigerator production operations from Greenville, Michigan to Juarez, Mexico. The problem that is made apparent in this case study is that as firms relocate to cheaper labor cost countries there is an over emphasis placed on the shareholders' wellbeing and an under emphasis on the the wellbeing of the stakeholders. This inequity of consideration for the shareholders and stakeholders alike, in terms of the externalities created by such firm decisions and their effects, represents a strong void of necessary firm social responsibility.

## Case Assumptions

It is assumed that the goal of a publicly traded firm is to create shareholder wealth, through socially responsible market action. The solutions proposed in this case also depend on the assumption that a firm should not provide preferential treatment to only the workers in the company's home country, but rather treat the employees in all of its markets equitably. This means that since the firm contributed funds to stimulate economic growth to compensate for the loss of work created from moving a plant out of Sweden to a lower production cost country, it should do the same in other markets as well.

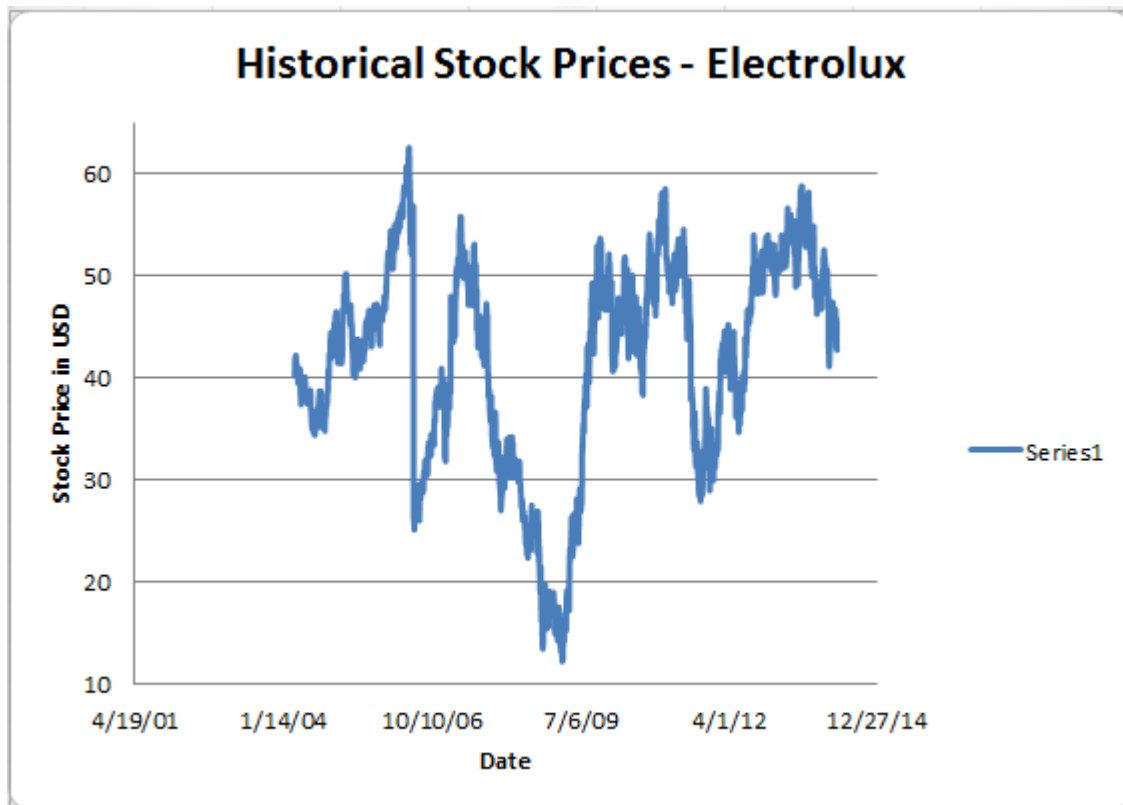
## Decision Criteria and Case Alternative Solutions

There are two key decisions made in this case study. The first of which is that the firm is justified in moving plant operations based on the financial data examined. The second is that the firm has the social responsibility to not devastate the economy in which it closes a plant and lays off thousands of workers. The recommendation regarding this decision is not to alter the overall strategic plant relocation as it did, but rather do so in a more ethical way that aligns with past actions in similar situations.

The financial motivation of publicly traded firms is to increase shareholder wealth and to pursue projects with positive net present values, and for this reason Electrolux is justified in moving its plant from Greenville, Michigan to Juarez Mexico.

The data represented by the figure shows that immediately after the firm began operations in Mexico the stock price climbed consistently for an entire year, beginning at \$25.15 per share on 6/13/2006 and reaching a peak of \$55.65 on 4/25/2007 before the beginning of the great recession of 2008-2009. Also by reviewing the change in Electrolux's stock price before and after the announcement of the move on Thursday January 16<sup>th</sup>, 2004 it is made apparent that there is significant optimism from shareholders regarding this decision; which could be called shareholder pressure felt by the board of directors to make such a decision. Before the decision was made on January 8<sup>th</sup> Electrolux stock prices were holding steady at \$68.45 per share, and on January 19<sup>th</sup>, the Monday after the decision was made, the prices had jumped to a new high of \$73.80 per share (Share Price Development, 2004). These numbers make it easy to understand why there is such a large amount of outsourcing of labor to Mexico in recent years.

With all of that being said it is important to look at the relative information that cannot be found on a ledger. When Electrolux left Greenville, Michigan in 2006 it left behind it nearly 3,000 unemployed in a town with a total population of just over 8,000.



These employees were largely unskilled workers with low levels of education with no other place to turn but the unemployment office. When CEO Hans Straberg decided to lay off 500 workers in the company's hometown of Vastervik he donated \$3 million to stimulate new businesses that would help to employ those left jobless; which amounts to \$6,000 per laid off worker. When he decided to leave Greenville, Michigan however, not a penny was left for such causes (Rutenbeck, 2009).

For this reason the alternate decision proposed for this case is that the CEO implement the same donation practice to stimulate new economic growth. According to Richard C. Longworth author of *Caught in the Middle: America's Heartland in the Age of Globalization*, this move to Juarez will make the company as a whole more profitable by \$81 million dollars a year (Longworth, 2010). With that information at hand it appears to be completely reasonable that Electrolux endow the town of Greenfield with a donation equal in ratio to what was given in Sweden. Since \$3 million was donated for 500 unemployed workers, I propose that Electrolux donate \$18 million for the 3,000 employees that were laid off in Michigan. This number only represents 22.2% of the estimated annual savings that the firm is going to accumulate due to its move. Not only is the decision arguably much more socially responsible, but also more strategically sound in that it could greatly help in promoting an image of good will for the firm during volatile times. In this way the community is given a much higher probability of prosperity, and the firm would be able to build or at least maintain goodwill while making what it could claim to be an unfortunate but ultimately necessary strategic move.

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