



“Courting the Multinational”: Subnational institutional capacity and foreign market insidership

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Synopsis

The capacity for Ireland to continue to attract and retain foreign direct investment (FDI) in the current economic climate is a key area of interest for academics, policy makers, institutions and indeed existing multinational companies (MNCs). A particularly viable route to sustained investment may be the engagement of subnational institutions, which we define as the body of local regulatory and service-providing institutions with a functional remit to engage with foreign owned enterprise at a subnational level. This paper investigates the role and interaction of subnational institutions in shaping FDI attraction. Drawing on insights from two subnational regions within Ireland, our findings illustrate how customised coalitions of subnational institutions initiate, negotiate and accelerate insidership of inward investment to the foreign market both prior to, and during, formal entry. Key aspects of this dynamic include showcasing and promoting locational resources, initiating functional and relevant business relationships and facilitating access to localised knowledge.

Introduction and Background

The rise of globally interconnected markets and the impact of the global financial crisis present significant contemporary challenges for an internationalising firm. As such, greater emphasis has been assigned to the role of interactive business networks and relationships in generating and creating knowledge, trust and commitment opportunities and thus, minimising the risk associated with internationalisation and foreign market entry. The realised, successful entry of a firm in a foreign market has been conceptualised as foreign network ‘insidership’. Thus far, analyses of network insidership for inward investment has been largely limited to business networks - relationships with customers, suppliers, business partners - and knowledge networks. With an inherent role in delineating the rules of the game and managing uncertainty, the capacity of local institutions to actively engage with and advance inward investment insidership at a subnational level is a core aspect of firm-location engagement which is under-researched. Focus on this exchange has been largely supported by a growing interest in the geography of FDI which seeks to expose the contribution of the local, subnational context – relating to the units and structures organised

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A full copy of the paper can be obtained from the authors at:

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below the national tier, such as regions, states and provinces – in steering and facilitating international firm activity. In this paper, we consider the influential role and interaction of subnational institutions in actively shaping inward investment insidership to a foreign market.

Issues and Questions Considered

Accepting the premise that subnational institutional actors are active players in the internationalisation process, with both the capacity and resolve to shape inward investment insidership, we consider the specific mechanisms by which subnational institutions engage with an internationalising firm during foreign market entry. In particular, we explore two dimensions to the engagement of subnational institutional actors. First of all, subnational institutions offer the most proximate contextual and locational feature for FDI, whereby entry to a foreign market is often influenced by institutional attributes. In order to substantiate this, a structural configuration of the relative role of subnational institutions with internationalising investment is profiled using social network analysis to identify and highlight the key, central actors engaged with internationalising firms, prior to and during formal entry to a foreign market. Secondly, it is increasingly apparent that subnational institutions represent an additional and equally important network relationship for inward investment during foreign market entry, distinct from the business networks which have been extensively explored. The analysis of two components of subnational institutional capacity – role and interaction – provides substantially greater insight on the potential for subnational institutional networks to negotiate foreign market insidership by interceding entry to the foreign market network, shaping network position and reducing uncertainty.

Methodology

A multi-method research design was employed, whereby quantitative social network analysis was combined with qualitative semi-structured interviews. Over a three year period, 59 in-depth semi-structured interviews with 33 national and subnational institutions (development agencies (inward investment, indigenous and regional development bodies), educational institutions, local government, trade associations and skills bodies), established MNCs and local indigenous firms were conducted across two subnational regions in Ireland. All interviews included discussion with senior executives on the initial location decision-making process, engagement with national and subnational institutions, dimensions of subnational relationships, functional activity within the location and interaction between subsidiary and other units of the MNC. The quantitative dimension of this research involved a social network questionnaire which sought to both verify the qualitative output, but equally to provide greater exploratory evidence on the interaction of subnational institutions with internationalising investment. Empirical data was initially analysed separately to ensure robust analysis of the qualitative and quantitative data - NVivo was used to analysis and interpret the qualitative data, while Ucinet allowed the analysis of the quantitative social network data. Following this, a more rigorous integrated and triangulated analysis of the overall dataset was conducted.

Outcomes and Findings

Our findings illustrate how subnational institutions represent a potential intermediary vehicle between an internationalising firm and the foreign market, where they can actually initiate and accelerate insidership to the foreign market by effectively channelling locational, relational and knowledge

capabilities available to, and required for, inward investment. We find that foreign market insidership is effectively initiated and accelerated via coalitions of subnational institutions, which are tailored, shaped and mobilised in response to the needs of the inward investor. While the composition of these coalitions may vary depending on the nature and type of investment, the subnational offices of the national inward investment agency typically act as the fundamental coordinator and driver of the customised coalitions and are largely responsible for enlisting other institutions to comprise the subnational consortium for inward investors. These subnational institutional coalitions enable and enhance the route to insidership at numerous stages of pre- and post-entry to the foreign market. There is substantial evidence to suggest that this is a sustained process, whereby subnational institutions initiate inward investment insidership well in advance of formal entry and continue to develop and foster relationships throughout the internationalisation process. Access to and internalisation of exogenous locational, relational and knowledge capabilities substantially minimise the risk and uncertainty associated with internationalisation for the foreign entrant. Customised coalitions of subnational institutions showcase local resources, cultivate trusting relationships, enable learning and enhance the identification, and possible exploitation, of opportunities for inward investment. Illustrating the capacity of subnational institutions to effectively engage with inward investment insidership in an advanced economy, we broaden and embellish the discourse on subnational institutions within internationalisation. Overall, our findings advocate that subnational institutions must be considered as an endogenous feature of internationalisation for inward investment as they substantially contribute to reducing the uncertainty of MNCs within a growing non-ergodic investment climate.

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