Almond, P., Gonzalez Menendez, M., Gunnigle, P., Lavelle, J., Luque Balbona, D.,
Monaghan, S. & Murray, G. (2014) “Multinationals and regional economies:
embedding the regime shoppers?” Transfer: European Review of Labour and Research,

Abstract

In a context in which multinational companies are increasingly able to choose their locations of production, this paper examines how social and political governance actors in host regional economies attempt to attract and retain foreign direct investment. Based on a comparative study of two regions in each of Canada, Ireland, Spain and the UK, it shows both national and in some cases sub-national variations in the nature of attempts to attract and retain foreign investment, as well as in the actors involved. The paper also discusses how these differences in policy interact with the characteristics of specific foreign investors. Our findings support arguments that attempts to embed regime-shopping firms are facilitated by active governance from social as well as state actors.

Introduction

This paper focuses on the ways in which social and political actors in local and regional economies attempt to organise themselves in order to make their geographical territories attractive destinations for foreign direct investment (FDI). This includes both the general effects of corporate international mobility on regions’ attempts to be ‘competitive’, and specific interactions between regional actors and particular inward investors. It seeks to highlight the conditions under which the activities of foreign direct investors become embedded in local and regional economies, and with what consequences on local social and political actors. Our analysis is informed by a comparative research project examining such
relationships in two regions in each of four advanced industrial economies (Canada, Ireland, Spain, and the United Kingdom).

We start by briefly presenting a perspective on host economies in the context of mobile FDI, before highlighting the local dimensions of this. We then give details of the comparative research project, before presenting summary findings. We do this first by summarising the approachess followed within the regional/national systems we encountered, and then by examining the different factors which combine to create different degrees of co-dependence between foreign direct investors and their host regions. Finally, the conclusions try to draw out practical implications for policy-makers and social actors.

“Host effects” and regime shopping

The literature on industrial relations and labour management in multinational corporations (MNCs) frequently discusses ‘host country effects’ (e.g. Ferner et al 2001; Bae et al 1998; Edwards and Zhang 2008). This type of research deals with two slightly different concepts, albeit often within the same research projects.

Firstly, studies have examined the existence of legal/collective regulation which might be seen as ‘constraints’ on foreign multinationals acting within the host nation(s) under investigation (e.g. Muller 1998; Schmitt and Sadowski 2003). These might impede or prevent the transfer into particular host countries of country-of-origin, or global ‘best practice’ inspired labour management policies. This literature looks at whether and how MNCs, or particular types or nationalities of MNCs, conform with, seek to avoid, or seek somehow to negotiate, the nature of host country constraints. Equally, it analyses the pressures foreign multinationals place on historically-established national systems of industrial relations and labour market regulation.
Second, some researchers examine how MNCs may attempt to use institutionally embedded resources. These may include potential advantages derived from skills institutions, research and development infrastructures, or the presence of clusters of competent firms which may engage as suppliers (e.g. Kristensen and Morgan 2007; Lam 2003; Saka-Helmout and Geppert, 2011). Such resources have for some time been seen in this literature as the domain in which older, higher cost industrialised economies compete for FDI, through what is sometimes termed institutionally-derived ‘societal comparative advantage’ (Sorge 1991).

Trying to make any realistic assessment of host constraints and resources requires an understanding of the contemporary context of international business. Clearly, as other papers in this issue reflect, neo-liberal globalisation has strengthened the hand of MNCs in relation to host business and employment systems. There are of course many factors at play here, but it is worth briefly highlighting the following:

i) the additional locational flexibility of FDI brought into play by single market legislation, as well as broader international trade agreements;

ii) in Europe in particular, the possibilities for ‘brownfield’ investment which emerged in processes of privatisation (see for example the internationalisation of ownership of the European steel sector);

iii) the multiple ways in which technology, often allied to product market liberalisation, has enabled markets to be serviced remotely (in Anglophone countries at least, the Indian call centre has been one of the core public images of economic globalisation);

iv) the multiple ways in which corporate financialisation, and the related ideology of the lean enterprise, have made MNCs increasingly unwilling/unable to tolerate redundancy of capacity, leading in many cases to intense competition between different geographical sites of
the same MNC for investment (the auto industry is the emblematic case in point here, see Delteil and Dieuaide 2012);

v) the broad transition at state level from protecting national productive capitalisms to securing positions in international contests for mobile investment.

All these interrelated factors both enable and encourage increasing proportions of productive capital to engage in ‘regime shopping’ between the institutionally-derived constraints and resources of different places.

*Regime shopping and its local dimensions*

Regime shopping was a phrase popularised in the industrial relations literature by Wolfgang Streeck (Streeck 1991; see also Traxler and Woitech 2000; Mueller 1996). It has been used mainly to draw attention to the ways in which some MNCs have sought to avoid labour-friendly elements of host country regulation, the consequent risks of social dumping if investment decisions are made on this basis, and thus the risks of a race to the bottom as erstwhile social democracies compete for productive investment with regimes that offer fewer protections for labour. All of this is still relevant. But regime shopping is now more endemic, and goes beyond host country industrial relations (although beyond our scope here, recent controversies around the dubious tax strategies of many MNCs reinforce this point).

To extend the ‘shopping’ analogy, those firms whose investment is mobile are quasi-customers of the business and employment systems of different geographies, balancing host resources and constraints within a context in which geographies are constrained to conceive of each other as rivals for investment. Within this, not all MNCs shop in the same way.

Broadly speaking, there is a continuum between, on the one hand, firms that attempt to select the most appropriate locations a la carte and then attempt to act pretty much in isolation from
institutional actors in the host economy, and, on the other, firms where subsidiary managers choose to engage with host institutional actors in order to construct a more desirable environment for themselves through continuing relationships.

Another important part of our argument is the need to fully integrate the fact that regime shopping is not purely about competition for productive investment between nation states. It is also, and often primarily, between specific places or regions (e.g. Rutherford and Holmes, 2008; Phelps and Fuller 2001).

One dimension of this occurs where there is formal sub-national variation in the nature of labour market regulation. The best known case of this is the contrast in the USA between the, largely Northern, states that continue to recognise the core features the New Deal industrial relations system, and those states, initially in the South, that pursue anti-union “right to work” legislation. Indeed, the American industrial relations literature has dealt prominently with the role of threats to relocate in both organising campaigns and collective bargaining rounds (Logan 2002, Godard 2004). In most other advanced economies, variation is less formal, but still has been argued to have effects on investment decisions. For example, the fact that 1980s inward investors in UK manufacturing who sought union avoidance or Japanese-type collective relations typically located in areas remote from the traditional sectoral or occupational strongholds of British industrial relations (Hudson 1994), can fairly easily be interpreted as a sub-national variant of a Streeck-type vision of regime shopping.

Outside this dimension of ‘union avoidance by location’ however, we need also to consider the fact that most MNCs (with obvious exceptions in customer-facing services) are heavily geographically concentrated in one or more local sites within nations. From a managerial point of view, their concerns in the area of labour market resources/constraints are therefore logically mainly local. That is, they are concerned with the specific human resources
available in the local/regional labour market (or from people that can be attracted to the region), as well as the local conditions under which the human resource is exploited (for a more detailed discussion, see Almond 2011).

Equally, the impacts of specific MNCs – on patterns of employment relations, on other businesses and on employment levels – are most keenly felt at local and regional levels. A major industrial plant closure may be bad news for the national economy, but it can be near-catastrophic for local economies. Because of this, local actors, whether trade unionists, or local/regional politicians and civil servants, are to a fairly large extent constrained to be inducted into the local subsidiary unit’s efforts to compete. This gives significant foreign investors whose investment is at least somewhat mobile significant power to negotiate the nature of labour market governance as it applies to them at these more local levels (Elger and Smith 2005). Equally, the various direct and indirect subsidies/financial supports available to new and existing investors are often awarded by decision-makers at regional levels, while the inward investment orientation of regional economic development agencies further reinforces ‘tailoring’ local systems to the needs or desires of inward investors.

Finally, MNC subsidiaries vary in the extent to which managers have the capacity and competence to pursue autonomous strategies (Morgan and Kristensen 2006, Bélanger et al 2013). In many cases, the survival of individual subsidiary units depends on the ability of their managers to win international mandates – for a particular type of product, for research and development, for back office services etc. Where this is the case, subsidiary-level managers are likely to use whatever institutionalised resources are available that may give them some kind of advantage in competition with other subsidiary units. This may involve active engagement with a variety of local actors, rather than simply a passive use of existing localised comparative advantage. More optimistic accounts (e.g. Kristensen and Morgan
2012) stress ways in which local actors may, through experimenting with forms of governance, develop international competitiveness in this process.

The sub-national governance, multinational corporations and human resources project

To summarise the material above, our argument is that discussions on the relations between foreign multinationals and host economies are incomplete if they do not take account of the ways in which governance actors have mobilised in order to compete for new and repeat inward investment. Therefore, on top of the relatively well established literature on the relations between national industrial relations institutions and foreign multinationals, it is necessary to take account of a wider range of actors involved in the governance of the relevant local economy and labour market.

Our comparative research, across two regions in each of Canada, Ireland, Spain and the UK, seeks to add to this developing literature. It has three broad research questions. Firstly, we seek to explore the extent to which there are place-specific (whether national or regional) differences in the strategies that governance actors have developed in mobilising around the attraction and retention of foreign direct investment. Second, and relatedly, we examine the extent of differences in the actors involved; for example, whether industrial relations actors are included or excluded in the local coalitions that try to attract and retain investment. Finally, we attempt to offer evidence on the extent to which regional and national governance relate with other, more firm-specific, factors, which would be expected to affect the local embeddedness of multinationals’ subsidiaries. Our eventual aim is to help build a more adequate picture of the relationship between multinationals and host business systems, and of how this varies across different business and political systems.

Methodology
Canada, Ireland, Spain and the UK were selected for their broadly comparable positions within the international competition for foreign direct investment (FDI). Each has become relatively highly dependent on FDI over the course of the last three decades, although clearly not to identical extents, as we reflect below. Equally, they were previously able to compete for FDI with their geographically closest trading partners – the USA, in the case of Canada, and the European Union (EU) in the other three national economies – at least partially on the basis of relatively low labour costs, light labour regulation and/or low corporate taxation.

However, due to the various changes in the global political economy of FDI, each has come under pressure to offer more positive advantages, in the areas of infrastructure, innovation and skills ecosystems.

Two regions were investigated in each country in order to permit intra-national comparisons. We attempted where possible to choose regions with different characteristics regarding economic governance, and, across the international comparison, degrees of regional identity and autonomy. The regions selected were Asturias and Madrid (Spain), regions of Ontario and Quebec (Canada), and the NorthWest and East Midlands (England – note the use of England rather than the UK is intentional here, as the institutions of the other countries of the UK are somewhat different). The two regions of Ireland are anonymised as the Sigma and Gamma regions. In practice, for our purposes in this paper, intra-national differences were not particularly significant in England or Ireland, and thus here we concentrate on the overall national picture.

Initial interviews were held with key institutional actors within each region, predominantly inward investment/economic development agencies, as a pilot study had confirmed these as nodal actors in region-MNC relations. Following these interviews, actors were asked to identify other institutional actors within the region who engaged with FDI. These were added to a provisional list of forms of governance actor (regional state actors, employer
associations, trade unions, skills and education institutions, etc.) drawn up on the basis of prior related literature. This process aimed to ensure that all active regional institutional actors were identified. MNCs of interest were identified through initial interviews, and sometimes through secondary material (investment agency publications or websites, etc.).

Prior to the data collection stage, a standardised semi-structured interview format was collectively designed by the international research team, pertaining to the interaction of institutional actors with FDI within the region. Two broad interview formats were devised to account for the different perspectives of governance actors and MNC unit directors/managers. The interview format also provided sufficient flexibility to explore unique region or nation-specific issues which arose during the course of the interviews. Interviews were recorded for accuracy and transparency. A standardised coding structure for qualitative interviews was also verified by all research teams prior to data collection. A total of 189 interviews have been held across the eight regions (51 in England, 57 in Ireland, 43 in Spain and 38 in Canada). While the substantial majority of these were with regional-level governance actors or with regionally established MNCs, some interviews were also held at more local levels, and at national level, where initial interviews had revealed such actors to be active agents.

**Features of the regional and national governance systems**

This section presents the core features of the governance systems we examined, as they affect the competition to attract and retain FDI.

*England*

The UK has long been the recipient of a large amount of FDI. While some of the factors shaping this are cultural/historic (e.g. English language, close relations to the USA) or structural (a relatively large domestic market), its FDI performance is also explained both by
financial globalisation, given London’s jealously-guarded status as a global financial centre, and by light regulation within a broadly liberal market economy. In the productive sector, the loss of the UK’s previous relatively low-cost status within the European market would seem, on the face of it, to drive a need for the creation of the ‘high road’ forms of institutional advantage.

However, the empirical picture is very mixed. In terms of knowledge-driven activities, the UK benefits from what remains, in a European context, a successful, and relatively entrepreneurial, higher education sector, and there is clear evidence of innovation-based clustering in certain well-known areas, usually around elite universities. But in terms of the more general picture, and of the formal governance both of FDI, and of sub-national business systems, more generally, attempts at the creation of non-market coordination have proved highly unstable.

England has a highly centralised system of political governance of the economy: there is no significant regional tier of political government. When the research for the current project began, this picture was partially mitigated by the existence of ten (non-elected) Regional Development Agencies (RDAs) in England, created by the New Labour government (1997-2010. These were specifically created to coordinate responses to ‘market failures’ at a regional level.

RDAs had a direct role in dealing with both the attraction of new inward investment, and in the retention and development of existing subsidiary units. In these functions, they worked alongside the national trade and investment agency UKTI. They had a particularly significant role as a ‘broker’ between MNC subsidiary units and the wider public sphere, particularly in their role as an intermediary between private firms and England’s complex network of skills institutions. Significantly, in an economy in which dialogue between employers on skills
needs has historically proved difficult to establish, they also served as interest aggregators in this area; our fieldwork shows several instances in which RDAs identified specific skills issues among neighbouring large firms, and played a role in the coordination of the skills provision required. Thus, although formal sub-national autonomy of the business system in England was limited, the presence of RDAs did provide MNC subsidiary units – particularly those which were regionally important employers – with a regional interlocutor with some decision-making powers over the distribution of public funding.

More recently, the Conservative/Liberal coalition in the UK has abolished RDAs. Formal public responsibility for FDI attraction and retention has been passed mainly to national level, with local support operating on something of a patchwork basis depending on what local authorities are able and willing to finance. Some of the roles of RDAs will be advanced by more localised Local Enterprise Partnerships. While it is too early to judge the effectiveness of these, their very limited funding is likely to limit their coordinating ability. UK directors of a number of large foreign-owned MNCs have highlighted potential problems arising from centralised actors’ lack of knowledge of regional economic issues, and of the lack of a recognised regional interlocutor for discussing strategic issues (Almond et al 2012). Local innovation, and MNC managers making active efforts to engage with local actors in the skills and education sectors, clearly does occur, but there are clear issues of resources, and of difficulties for private actors in understanding the dynamic complexity of the UK skills system without expert brokers.

In summary, within a liberal market economy and centralised political system, RDAs can be seen as an experiment in sub-national coordination, while the emerging arrangements are an experiment in the powers of local, largely unfunded voluntarism. Trade unions are essentially excluded from formal governance in both cases. In general, with some exceptions, MNC
subsidiary managers in England make fewer active connections with their surrounding local/regional business systems than in the other two countries considered here.

Spain

Spain is a notably less liberal economy than the other nations under comparison here. It also has among the highest degrees of regional political decentralisation in Europe. Spain is divided into 17 Autonomous Communities with directly elected governments. These have extensive competencies in planning, transport, culture and sport, agriculture, health, education and social assistance, as well as economic development. References by our interviewees to “the government” frequently meant the regional rather than national government. While we have some evidence, particularly from the Madrid region, of large multinationals seeking political deals with national governmental actors, the broader picture is that public responsibility for the attraction and retention of FDI is held at regional (Autonomous Community) level, with the national state having relatively little direct involvement.

The modern competition for FDI dates from Spain’s entry into the European Community in 1986. Since then, there has been intense geographical competition for FDI. This competition has centred not only on new investment, but also, and in some peripheral industrial regions such as Asturias particularly, on maintaining employment within large privatised plants in the extensive formerly nationalised sector, which have been extensively rationalised as their ownership has largely passed into foreign hands. Regions generally have inward investment agencies which, while under the control of regional governments, have substantial day to day autonomy (although, towards the end of our fieldwork, the right wing regional government of Madrid partially abolished its agency, in a move which has some parallels with Conservative policy in England).
Given the substantial autonomy of regional governments, regions have been able to seek FDI through intra-national variations in elements of the sub-national business systems facing potential investors, and to adopt different approaches to wider coordination – Madrid is the epitome of neo-liberalism in a Spanish context, while Asturias has, since the 1980s, largely followed a form of ‘business-friendly social democracy’, with employers’ associations and trade unions having an important and institutionalised role in governance of the regional political economy. Asturias is unusual in that its economic development goals are ratified through a tripartite regional collective agreement, while Madrid minimises union involvement.

In Asturias, strategic initiatives at the subsidiary level seemed to receive fairly effective support from governance actors, either through regional inward investment agencies, or more directly through relations with regional Ministries. At least some subsidiary-level actors had been successful in attracting global or European-level mandates, including significant research and development activity, sometimes based on engineering skills derived from the region’s heritage and from the various governance actors’ attempts to reinforce this. The existence of clear and relatively powerful regional-level interlocutors was generally acknowledged as important here. Additionally, in a comparative perspective, the existence of strong regional identities did seem to be an important factor in creating consensus and relatively strong ties between the actors involved. This was somewhat less the case in the Madrid region. The latter competes for headquarters functions as well as industrial FDI, and has much more fuzzy economic boundaries, perhaps making regional actions harder to coordinate. Equally, its free market ideology leads to a rhetoric of preventing ‘exit barriers’, meaning the emphasis on the protection of existing industrial MNC units is somewhat lesser.

In general, though, MNCs, particularly those outside the group of foreign-owned formerly nationalised enterprises, were not very actively embedded with skills institutions. In other
words, the productive systems of MNCs were created at one remove from formal qualifications, and employment systems often at one remove from national and regional industrial relations actors, with a heavy reliance on firm-based systems. Thus, as previous research on employment relations in MNCs in Spain has found (e.g. Ferner et al 2001), the apparently densely institutionalised framework of Spanish employment is in fact very malleable as applied to MNEs; particularly among new entrants, regional or subsidiary-level compromises allowed for the creation of various forms of non-union HRM or of micro-level social partnership arrangements, both of which would be extremely difficult to establish in large Spanish-owned firms.

While the qualifications and skills of the Spanish workforce within MNEs were not generally seen as problematic, managers dependent on relatively localised supply chains did have concerns with entrepreneurial and managerial capacity within the ‘industrial tissue’ of smaller enterprises which often had previously fairly captive markets in nationalised enterprises. This was also a concern of investment agencies, particularly in the more industrial economy of Asturias. This did lead the managers of some subsidiary units to engage in quality initiatives with indigenous firms, through open days, membership of quality clubs, etc., going beyond immediate market needs, on a fairly ad-hoc basis.

Ireland

Ireland, perhaps partly because of its size, has strongly centralised political administration, with 94 per cent of public expenditure decisions made at a national level (O’Broin and Walters 2007), and a fragmented sub-national infrastructure. While both the regions in which we carried out fieldwork have economic development agencies, their remit no longer includes FDI. What is most distinctive about Ireland, however, is the weight of FDI within the economy. This is driven by a long-held political consensus over an FDI-driven industrial
policy, with support for low corporation tax and liberalised trade policies extending throughout the political class.

Thus, certainly compared to England, and despite fragmented sub-national government, Ireland has an articulated FDI-oriented business system. Thus the attraction and retention of FDI in Ireland operates via a hierarchy, with a predominantly national level orientation. The national inward investment agency has an extensive remit and is relatively powerful, being able to influence the relevant actions of national skills and other business system institutions to a much greater extent than in any of the other countries under investigation here.

Below this national-level tier, higher education institutions and networks of supply chain firms operate as a secondary body of institutions central to the attraction and retention of FDI. The sub-national level substructure – local and regional government, the local offices of the national investment agency, regional development agencies – has some role in local networking and access to resources (Monaghan 2012), but with relatively little autonomy. The role of trade unions has declined over time, and is now very limited.

Within this formal picture, Ireland is also marked by the distinctive importance of informal networking – both among MNCs, among institutions, and at the intersections between the two - at the sub-national level. Institutional action tends to coalesce in relation to FDI. Institutions tend to adopt a homogenous perspective on the role and importance of FDI to national and local economies, and thus systematically engage, both formally and informally, to encourage a positive environment for FDI. Institutional engagement with MNCs occurs both on a personal level and a formal institutional level, to enhance positive interactions and establish good relations within the sub national environment. Finally, there is evidence of MNCs engaging in positive, informal or semi-formal networking, namely collaboration on winning new mandates and investment, sharing best practice or on issues of common interest,
such as infrastructure within the sub national space. It appears there is a significant tendency for MNC subsidiaries in Ireland to interact with other Irish subsidiaries in order to enhance their position to corporate. Additionally, the informal relationships of local subsidiary managers within and between MNCs in the sub national location offer a significant contribution through the informal transfer of knowledge, access to unique resources and personal networking. This sort of activity within MNCs appears to go well beyond what is found elsewhere.

This is partly an effect of the existing weight of FDI within the economy, and the concentration of managerial talent towards the foreign-owned sector. Interviewees repeatedly argued that, over time, Ireland had developed a cadre of managers who had become schooled in an MNE environment; they had developed skills and political acumen, not only on technical issues of management but also in developing and influencing corporate decision-makers, attracting new mandates and generally embedding MNCs more deeply in Ireland. This is also affected by a particular form of overspill resulting from a pattern of former MNE managers setting up supply chain operations.

In summary, in the formal sphere the national investment agency is of over-riding importance. This organisation in many ways reflects a national consensus on attracting and retaining FDI in Ireland. For all significant actors, whether specifically mandated to do so or otherwise, putting on the ‘green jersey’ and helping this effort is important: while issues of the intra-national distribution of investment are not absent, they are of secondary importance. This very strong consensus also somewhat overrides the ‘skills ecosystem’ role of some institutional actors, with solutions sought more by direct networking rather than navigating the formal skills system.

Canada
Canada is broadly a liberal market economy by any European standards. However, it is notably less ‘liberal’ within a North American context, with a larger welfare state and a somewhat more employee-friendly employment system. Outside the large natural resource sector, Canadian provinces compete for FDI on the basis of high quality general education and vocational training. Interviews also revealed that relatively open federal immigration policies were important in attracting FDI by increasing the possibilities of attracting highly educated and skilled workers; this was particularly the case in Ontario, which is in very direct competition for investment with the Northern United States. Overall though, the concentration of governance actors on development through foreign investment was perhaps somewhat more moderate than in the European economies examined here. In Quebec, in particular, the provincial state’s development strategies, while encouraging FDI, remained pre-occupied with the development of internationally competitive local firms. The provinces of Canada have, by any standards, an extremely high level of autonomy over most domestic affairs. Provincial governments are the key actors with regard to FDI governance policy, and also have substantial autonomy over issues related to employment and skills governance.

The main locus of politics in Quebec is separatism vs. federalism. This is important for two reasons. First, provincial state attempts to reinforce a Quebecois national identity extend to the field of economic coordination. From the 1960s onwards, there has been a broad consensus about the role of the (provincial) state in economic development, and also the use of the state for the development of a Francophone business class. Second, electorally, conventional conservative parties have been blocked from power. Quebec consequently has pursued a relatively social democratic interpretation of macro level neo-liberalism. Besides engaging in both initial investment, financing and aftercare in strategic sectors, the investment agency also manages a network of regional economic intervention funds, which entail a coalition of state, labour-sponsored, and cooperative investment funds engaged in
equity and quasi-equity financing for start-up, turn-around, succession and restructuring of companies as well as the creation of sector funds and regional development projects. Further, the provincial Ministry for economic development, innovation and exports, also engages extensively in aftercare, as well as having a strong tradition of economic intervention. Finally, particularly in energy-intensive sectors, access to preferential electricity tariffs (enabled by continued and largely uncontested provincial state ownership of the main electricity utility, as well as hydroelectric resources) can be made dependent on contributions to regional investment funds, as well as guarantees on levels of employment. While MNCs vary in their degree of voluntary engagement with economic coordination efforts, managers in most large subsidiary units have developed significant expertise in navigating the complexities of the institutional system in the hope of gaining advantages against rival plants elsewhere.

Equally institutionalised relations between employers’ organisations and trade unions on matters such as skills are much denser in Quebec than in Ontario. Not only is trade union density substantially higher in Quebec than in the rest of Canada, but Quebec unions are more oriented towards economic development. In general, Ontario pursues a more conventionally liberal approach, with fewer attempts at systematic coordination between civil society actors. There are fewer attempts at any systematic coordination, with initiatives such as cluster-building taking place at more local levels, autonomously of provincial government.

In general, the Canadian workforce is highly skilled, and both further education colleagues (“community colleges” in Ontario) and a successful higher education sector have high degrees of capacity to collaborate with business. This is a distinct competitive advantage, including for manual work, where the skills profile is recognised by, for example, auto manufacturers as being substantially higher than in the case of US states. Having said this,
both the Canadian provinces are vulnerable to declining costs and protectionist impulses of the USA, and the very high levels of aid to inward investors available in some US states.

**Embedding the regime shoppers?**

Regions in all four countries mobilise around the attraction and retention of FDI, albeit to slightly different extents and with different emphases. In the two countries with important regional governments, there were differences in the degree of active coordination between more social democratic (Asturias, Quebec) and more liberal (Madrid, Ontario) approaches. But to what extent can any of these approaches hope to “embed” investment from regime shopping MNCs?

Clearly, in considering this question, the structuring of regional business systems is only part of the story, and different MNCs are clearly non-identical here. Drawing on early fieldwork in which the lead author participated, in all four countries, the framework in Figure 1 was developed.

***INSERT FIGURE 1 HERE***

These include factors related to the MNC - the nature and specificity of skills and knowledge (Foss and Pedersen 2000), the nature of the value chain (Phelps and Fuller 2001), parent orientation (Morgan and Kristensen 2006) – as well as those related to the host national business system and degree (and nature) of sub-national business system autonomy. Our MNC interviews cover a range of companies which, in any given set of sub-national institutions, would be expected to have different levels of material interest in establishing active links, given their differences in terms of skills needs, value chain nature and degree of real mobility.

*Skills and knowledge*
Multinationals vary considerably in their need to access geographically-specific combinations of skills and knowledge. It is important to examine the specific labour market of the particular MNC unit. For most industrial MNC units, the labour market, except sometimes for senior managers, is primarily local/regional. If a manufacturing unit requires particular skills in its manual workforce, it is therefore relatively reliant on local/regional labour market institutions. This can mean that, in large industrial MNCs with, for example, plants in a variety of European countries, the different regions in which plants already exist compete for new investment through skills funding. This is very typically the case in the auto industry, for example. Labour market clusters can also be important. For example, one company we visited which is a subsidiary of a large French defence company is located in a small town in the North West of England because aerospace skills are strong there due to the historic importance of the formerly nationalised British Aerospace. This is in spite of the fact that its main customer is located in a different region. In this sort of case, there is strong potential for regional institutions to embed competitive advantage in global production networks through institution building in the skills area. As one Spanish trade union official told us, in attempting to explain Asturias’s relative success in attracting FDI, compared to most other peripheral Spanish regions, “an industrial working class is not created overnight”]. Here, regional skills alliances, and/or sub-national-state-sponsored clustering-type initiatives such as those developed in Quebec, can be of importance.

But it is important to remember that this is not always the case. Where skills are generic, regional institutions are less important. Even some very high skilled MNC units draw on a much wider labour market and are less reliant on the local labour market. For example, the pharmaceutical firm Astra Zeneca had until recently an R&D facility in the East Midlands, but had very few links with local or regional institutions as it drew upon a national and
international labour market for scientists. Its style of knowledge management meant that there was little overspill to the wider region.

*The value chain* the crucial question here is ‘to what extent does the subsidiary unit need to bid for new investment, and can it improve its value chain position?’ Here, we saw an interesting contrast in between two large auto assembly plants, one owned by an American auto firm, the other by a Japanese firm. The subsidiary unit managers of the Japanese-owned plant know that, at least in the medium term, the parent firm’s relative lack of production capacity within the EU market means that all new models in a certain market segment will be manufactured at their plant, and they do not have to bid for new investment. In the American firm, however, each new model is the subject of a very competitive bidding process between a number of European plants, perhaps all of which are under threat of closure should the decision go the wrong way. So although the Japanese-owned plant is, at least in the medium-term, more secure, the managers of the American plant engage much more intensively with regional and national skills actors, politicians and development agencies to ensure their competitive position. They also have made strong efforts to localise their supply chain, going somewhat against the centralising initiatives of the US HQ. For example, they encourage Chinese suppliers to the global firm to locate in their region, in order to gain competitive advantage versus their European subsidiary competitors.

These examples show that the term ‘embeddedness’ has to be used carefully. Active engagement with institutional actors is not the same thing as security of long-term investment, and indeed, as in the US auto case, engagement may arise because of a lack of security, rather than the other way around. Also, many firms are, at least for the moment, firmly anchored in particular spaces in order to service markets, without necessarily having any great connections to regional governance actors.
Parent orientation

All MNCs are not the same in terms of their ability to engage in high-trust, long-term relations with local firms and with governance actors; this is frequently related to the national business system of the parent company (Ferner 1997). While not a core basis of our comparison here, we have examples from both England and from Spain which might suggest that relative shareholder patience, and/or capacity to work within institutionally dense systems (in the case of some, though not all, German firms in Spain), sometimes remains a factor in both the capacity for subsidiary unit managers to deal autonomously with local institutions, and occasionally for parent-country managers to seek to use local institutional systems, particularly of industrial relations, to their own ends of social partnership etc.

Host national business system Obviously, a focus on the sub-national should not mean neglect of the national host system, which, as seen, at the very least sets the framework within which the sub-national business system works, and in the cases of England and Ireland goes much further than this.

As is well known, scholars of comparative capitalism in advanced economies often differentiate between countries in which non-market coordination of capitalism is commonplace, such as most of continental Europe, or, in somewhat different ways, Japan or Korea, and more liberal, and ‘liberal market economies’ such as most of the English speaking world. From our English results, we can confirm that getting companies to coordinate with each other on matters such as skills is extraordinarily difficult. While this is hardly an original observation, the extent to which this was true remained surprising to the English research team. For example, one regional development agency director encountered a situation where four large chemical firms in the same industrial park had the same skills deficits, which were potentially threatening future investment, but where unit managers had not talked to each
other about this. The regional development agency managed to coordinate a training programme, but this example illustrates how state intervention, which firms in liberal economies strongly distrust in general, is necessary for skills coordination in such economies. Specifically talking about the UK, employers’ associations are very weak because they are not required for collective bargaining purposes, and this can undermine skills initiatives. On a preliminary basis, skills do not seem to be anything like as much of an issue for MNC managers in Ireland: whether this is to do with better national coordination (Ireland has a history of national social actor collaboration), to the education and training system itself, or to more exogenous factors (such as a relatively young workforce and the high level of managerial competence and networking in a relatively ‘patriotic’ MNC sector, due to the critical importance of MNCs in the Irish economy), is a matter for further consideration. In the more formally regulated Spanish system, MNCs’ engagement with the official industrial relations system tends to be rather restrained, as mentioned above. Respondents in both Spanish regions saw labour market skills as generally good or unproblematic, reflecting a well-educated but under-employed workforce. Supply-side problems here are more in the areas of foreign languages and in managerial skills (cf. Gonzalez Menendez 2011) that around technical skills.

**Sub-national autonomy**

Finally, we argue that high levels of sub-national business system autonomy may create greater scope for institutional innovation. Looking at our four countries, in England regional autonomy is very weak. The previous Labour government created regional development agencies, which were important both in dealing directly with MNCs, and in wider economic governance, but these had very weak political legitimacy. The current government has abolished these, meaning there is now, in England, no serious political or economic governance between the local authority and national state levels. This, we believe, will create
serious difficulties of coordination, and is likely to exacerbate already strong economic differentials between the London area and the rest of the country. Ireland also has weak regional governance, but a strong national economic identity of managers, and a relatively high capacity for private networking, means private governance solutions can often be found on an ad-hoc basis. Spain has very highly autonomous, democratically-elected regional institutions, and in the case of Asturias, a regional social pact between employers, the region state and trade unions. This has the advantage that it is easier to mobilise local social and business actors around regional economic issues, and potentially that regional systems have a greater degree of coherence with specific region needs than in England, but the potential disadvantage that inter-regional competition means multinationals are able to “regime-shop” between regions. Finally, Canada’s federal system does seem to enable effective interactions at provincial level. In Quebec, inter-firm and tripartite coordination on future skills was relatively well developed, at least in the industrial sector, with coordination being sponsored by the provincial state under a framework of active planning for competitiveness. As mentioned above, the existence of large state-controlled investment funds does give Quebec the possibility to ‘tailor’ incentives to individual MNCs while attempting to ensure that the provincial business system receives something in return. Southern Ontario, meanwhile, while not particularly ‘coordinated’ in a conventional sense, does seem to have developed means of ensuring micro-coordination between particular firms and vocational training institutions, certainly in comparison to the US Great Lakes regions with which it competes (also see Rutherford and Holmes 2011).

**Conclusions**

There is obvious room for debate about the possibilities and sustainability of relations between sub-national governance actors and MNCs. As Rutherford and Holmes (2011: 3) indicate, while some (e.g. Kristensen and Zeitlin 2005) “stress the synergies between TNCs
and regional institutions, others view this relationship as much more tenuous and contradictory and ultimately subject to power asymmetries favouring (MNCs)”. Equally, as host effects move from imperative regulation (i.e. constraints on firms) to the competitive provision of resources for potentially mobile investment, we see that, for such mobile firms, formal state regulation of labour markets is increasingly being over-ridden. This is not a simple case of deregulation, but rather of the supplementing, and sometimes challenging, of formal regulation with a complex, opaque network of governance actors, which may be public, para-public or private. Many such sources of governance are neglected within discussions of change in the employment relationship.

Taking the need for economic spaces to compete for mobile investment as a given, the important question is that of ‘capture’: while most can see the potential for ‘overspill’ effects from foreign direct investment boosting local productivity and creating gains for the locality/region beyond the direct employment effects of FDI, these are not automatic and require governance. Equally, there are clear dangers, that given the asymmetric power relations between foreign investors and sub-national governance actors (Christopherson and Clark 2009), local institutions will, in attempting to maximise FDI, be ‘captured’ by MNCs.

Given that our research concentrates on two specific regions in each country, it clearly does not exclude the possibility that other regions in those countries have developed specific strategies from those that are covered here. At the level of formal differences in policy, this is more likely in countries which are closer to a federal system of government than it is in countries where regional government is weak. Within this limitation, our cases show a number of different approaches to the sub-national governance of FDI. In both the countries with strong sub-national government - Spain and Canada - there is an internal contrast between a relatively coordinated approach, with attempts at institution-building, and a much more free-market approach. Ireland, which particularly post-crisis is hugely dependent on the foreign-
owned export sector, has maintained a largely national, coordinated network approach to
FDI. Finally, England has moved from an experiment in nationally-driven attempts to use
regional governance to correct market failures, to a much more squarely neo-liberal approach.

It is difficult to quantify which of these approaches is the most successful. This is particularly
the case if we see the goal as optimising the local benefits to FDI, which is not necessarily the
same thing as maximising the amount of FDI. However, one might tentatively conclude that
those governance systems that have benefitted from a degree of political consensus that the
process of FDI attraction and retention require substantive governance (Asturias, Ireland,
Quebec) seem to have more chance of potentially creating positive outcomes than those
where this is not the case. In particular, the institutional destruction in England, justified by
the requirement for deficit-reduction, has occasioned substantial losses of institutional
memory at sub-national levels, and has left a situation where directors of some large foreign
MNCs lamenting institutional loss. Given current pressures at all levels of the state to cut
costs, it is important not to lose sight of the need for what will remain high-cost host
economies to create resources. This cannot happen in an institutional vacuum.

Finally, social actors and policy makers have to be aware that any analysis of FDI, local
embeddedness and potential contributions to local economies needs to take a very granular
approach. That is, it needs to ask, on a unit by unit basis, why the firm is in a particular
location, whether it is doing something there that is unique and/or is local resource
dependent, whether there are sister plants elsewhere in the world, and what the real degree of
potential mobility of the production/service provision of particular units is. This knowledge,
which trade unions often have privileged access to, is a necessary pre-condition to
policymakers making sensible choices in this area.

Acknowledgements
We gratefully acknowledge the financial assistance of the Economic and Social Research Council (ESRC), award number ES-062-23-1886, Irish Research Council, Spanish Ministry of Science and Innovation Research Grant, European Commission’s International Research Staff Exchange Scheme (FP7 IRSES-GA-2008-230854 INTREPID). We also acknowledge the involvement of the following in the wider project this paper draws upon: Anthony Ferner (De Montfort University, UK), Olga Tregaskis (University of East Anglia, UK, Mathieu Pelard (CRIMT), Javier Quintanilla (IESE, Spain) and Tod Rutherford (Syracuse).

References


Delteil, V., and Dieuaide, P. (2012). French multinational companies, new state regulations and changes in the employment relationship during the crisis the exemplary case of the automobile sector. Transfer 18(4), 429-446.


Kristensen, P. H., & Morgan, G. (2012). From institutional change to experimentalist institutions. Industrial Relations, 51(s1), 413-437.


