# Global Enterprise and Local Government: Dealing with Inward Investment Policies

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## *1. Introduction*[1]

This paper reviews and provides a critical assessment of the state of the art in the activities of those regional and local agencies that are involved in the implementation of inward investment policies[2].

Since the end of the Eighties, when a sharp decrease of the growth rates of international flows of foreign direct investments occurred, local and regional governments have been under the pressure of an exceptionally lively competition. Competition was made greater by the diffusion of inward investment policies in both developed and less developed countries, some of which with interesting endowments in terms of infrastructures and qualified (and cheap) human resources.

Increased competition had a number of noticeable effects on inward investment policies during the last decade:

- the obvious preference for large *greenfield* investments, resulting in important job creation and net contribution to regional product, had to be cut down to more pragmatic orientations: consequently a wider range of investments is considered, including lower value added manufacturing activities (closely resembling the once much despised "screwdriver" plants) and other minor investments showing however a potential for future development;
- more careful targeting has been adopted by concentrating efforts on specific industry and / or geographic areas that look especially promising as source of direct investment flows, either in general or with respect to the promoting region;
- greater emphasis is put on *aftercare* activities, assisting and servicing investors after their establishment in the area, in order to further their local embedding and encourage possible extensions.

In this paper several aspects of inward investment policies are discussed, focusing on *the interaction between promotional activities and the companies' decision making*. The paper is part of a wider research program, studying the interaction between corporate behavior and public policies. The underlying assumption is that in industrialized countries we are witnessing a fundamental change in industrial policy, that is part of a more general reshaping of the role of the State and of its policy styles. This phenomenon can be described as a shift away from patterns of policy making that assumed, at least in abstract terms, a capacity to control (if not command) over private businesses and were based on explicit and formalized powers managed by "strong" governments. Policy styles then emerge that are appropriate for "weak" governments and are characterized by informality, flexibility, search for consensus, reliance on policy networks and market conformity (i.e. policy additionality[3] with minimum interference with market mechanism, although not mere subsidiarity to them)[4]. Exhibits 1 and 2 depict this change in perspective.

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[1] This work is based on an extensive research work examining practices of inward investment promotion in the UK, France, Germany, Spain and Italy. I am especially grateful to Francesca Pasquini for sharing the original research work and to Riccardo Lanzara for making available to me an early draft of Lanzara et al. (1998).

[2] A useful overview and guide to the literature on inward investment policies is provided by Christodoulou, 1996.

[3] Additionality (a central concept in industrial policy analysis) refers to the ability of policies to cause a different behavior of the individuals (the companies) from what it would have been in the absence of the policy. Additionality may be absolute (a decision is taken and it would have not been taken otherwise) or relative to the scale (a costlier, riskier decision is taken as a consequence of the enactment of the policy) or relative to the timing (the decision is taken earlier). Additionality does not occur, if the company would have taken anyway the same decision, at the same scale

Exhibit 1

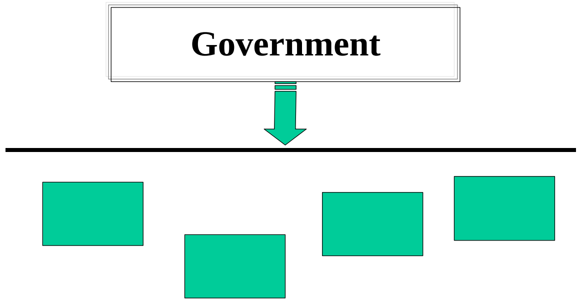
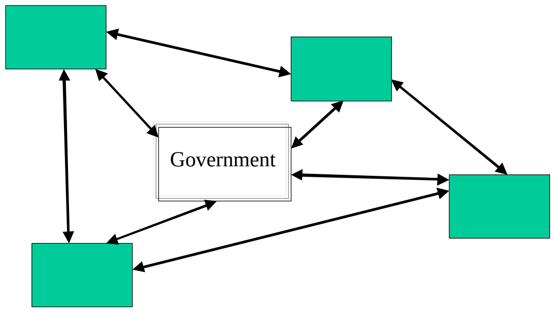



Exhibit 2




This change in industrial policy is most evident when governments face global companies. On the one hand, this is related to the "denationalization" of companies. This phenomenon does not imply the full loss of political references, like in the imaginary trend toward a stateless "*Cosmocorp*" (Ball, 1967). Rather, the "who is us?" syndrome emphasizes the need, that characterizes the global economy, to define in less automatic ways the "nationality" of companies (Reich, 1991). In the global economy company interests converge with government policies in a variety of ways, as the latter can provide "club goods", that are by no means irrelevant to global companies. Some of them are quantitatively relevant (i.e. financial resources provided to companies as subsidies or tax breaks), some of them are still monopolized by the State (domestic and international security, enforceable regulations), some – although practiced also by private actors - are still managed by State bodies with unattainable levels of accumulated legitimacy and know-how. Furthermore the State maintains a pivotal role as the main actor in the strategic positioning of the country's or the

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and with the same timing: then policies do not have more than an ex-post, confirmatory meaning with regard to company decisions, besides providing a framework to mere transfers of financial resources between State and industry. Furthermore additionality evaluations should take into account the distorting effect created by deviating resources from other non-subsidized projects.

[4] A wider discussion of these issues can be found in Bellini 1996.

region's economic apparatus in global networks as well as in engineering country- or region-specific competitive advantages, both in terms of propensity to innovate (by decisively contributing to the set-up of the systems of innovation) and in terms of providing a "global platform" to companies.

On the other hand, the effectiveness of government policy can rarely rely on "Colbertian" attitudes (cf. Cohen, 1992). Inward investment policies must start from recognition that the most important factors inducing foreign direct investments to occur are totally outside control, especially for local and regional governments[5]. Governments are inescapably weak. Indeed, all levels of government tend to be essentially "regional", as they experience the asymmetry between the territorial limitations of their sovereignty and the global horizon of corporate strategies. The interactions between global companies and sub-national governments (both regional and local) engaged in attracting investors provide a highly instructive case study.

More specifically, inward investment policies raise a basic, although extremely complex and still unresolved issue, cutting across many disciplines: industrial economics, regional economics, policy analysis, political economy and – last but not least – business studies. Can governments actually "interfere" with the companies' investment decisions, in their pursuit of overall increases in the quantity and quality of industrial locations? Is political decision-making able to tune in with the company's decision making? Once again, inward investment policies provide an extreme case study, as the "psychic distance" of investors from the prospective location make greater and more conscious efforts necessary.

## *2. The nature of territorial marketing*

The analogy with marketing is crucial in understanding the nature of the promotional activities addressed to potential inward investors. The metaphor of marketing describes the local or regional authority or agency as "selling" to the investor the region as productive location. Marketing concerns three main variables:

- the product, i.e. the intrinsic assets of the region that constitute an advantage or a disadvantage for industrial operations,
- the price, i.e. the cost of investment in that location,
- the promotional activities, that can accompany and support the investment choice.

It must be noticed that the same analogy is used for other activities concerning territorial promotion, with different aims (e.g. tourism promotion). Similarities are important, but a clear distinction should be maintained[6]. In the case of inward investment, the analogy with marketing requires one

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[5] Inward investment policies usually do not address only foreign companies, but all exogenous investors, including therefore national investors operating in other regions. Although in this paper we would like to refer mostly to foreign companies, the "global company" image may depict the patterns of behavior also of national companies already operating internationally.

[6] An overall view is provided by Kotler, Haider, Rein, 1993. - In late comer countries, like Italy, it is not unusual to notice some confusion in this respect, hiding a tendency to conceptual shortcuts. Territorial marketing and inward investment policies are presented as the newest panacea in regional economic development, but decision-makers seem less ready to accept implications (and costs) of a serious commitment. The marketing analogy is then misused and leads

special attention: reference cannot be made to consumer marketing, but to industrial marketing, i.e. the marketing of goods and services to industrial and institutional customers[7].

The distinctive characters of industrial marketing are the following[8]:

- the buyer is well informed and makes a large, discrete, infrequent purchase;
- the product is technically complex;
- the product tends to be tailored on the individual needs of the customer;
- there is a high degree of functional interdependence between marketing and the other company functions so that these can work on the basis of an adequate knowledge of the customer's needs;
- there is a high degree of interdependence between customer and seller before, during and after the moment of purchasing and that implies a real negotiation;
- the complexity of the decision making process of the buyer causes a lengthy negotiation, as a result of technical complexities, organizational constraints and (usually high) costs of the purchase operation.

Like for industrial marketing also for territorial marketing:

- the prospective investor is taking a strategically relevant, costly, infrequent decision;
- the product, i.e. the region as productive location, is the complex result of a number of non-mobile assets and market opportunities;
- the product, i.e. the region as productive location, can be partially adapted to the needs of the investors by appropriate actions undertaken in a coordinated way;
- a high level of coordination between territorial marketing and the technical and political engineering of its assets (regional development policies) is necessary;
- the relationship between authority or agency and investor has a negotiation character and takes place before, during and after the investment decision;
- the decision making process leading the company to choose one location is the result of interactions that are complex and go on with pauses and accelerations, that are often unforeseeable.

## *3. Promotional activities*

Promotional activities have three main objectives:

- image building of the region as a convenient location,
- investment attraction (in the strict sense),

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to simplifying inward investment policies into generic, tourist-like promotional activities, hastily made up with some sort of information desk, colorful brochures and little more.

[7] The analogy with marketing is suggested by Wells, Wint, 1990.

[8] Cf. Webster, 1991

- service activities provided to inward investors before, during and after the localization decision.

## *3.1 Image building*

This objective is pursued with non-targeted (or only generically targeted) actions, such as advertisements (especially on economic and specialized press), participation to trade fairs and investment exhibitions, business trips to and from the host region, organization of conventions and business meetings presenting the characteristics of the region to prospective investors and opinion leaders. Also due to the costs involved, a process of selection of the media is generally mentioned as necessary. The use of media targeted on business people and qualified audience is especially recommended: economic press, professional media, in-flight magazines, advertising materials in airport lounges, Internet, …

In comparative terms, image building activities convey a significantly homogeneous, standardized message, with a very paradoxical contrast with their ambition to depict the “uniqueness” of opportunities offered by a particular location. Reference is made to:

- the region’s endowment of natural and non-mobile resources (with special emphasis on infrastructures and R&D regional and national innovation systems),
- the social, economic and institutional environment (ranging from cooperative attitudes of local enterprises and trade unions to the pro-business and international-minded attitudes of local institutions);
- the factors’ quality and cost (especially with regard to labor);
- the quantitative and qualitative relevance of the domestic market and of the markets that are best served from that location;
- previous cases of well-known companies (up to the point of listing contact persons within those companies from where potential investors may obtain information and experience - based evaluations directly).

Although image building is the most apparent and popularly known aspect of inward investment policies, its impact is clearly overestimated. As one interviewed official put it to the author of this paper, “it’s like throwing a bottle into the sea”. Nonetheless this kind of activities may play a very relevant role, when they aim at correcting perceptions of the region that may result in (possibly groundless and irrational) rejection factors. Image building has therefore a primarily negative function: it must dismantle stereotypes and downsize the relevance of obvious problems. Image building may be helpful in offsetting the “periphery syndrome” of regions that are physically distant from the established economic centers, as well as negative perceptions about either the quality of life (linked to political risk, pollution, crime…) or the quality, cost and availability of economic factors (difficult labor relations, high labor costs …). In all cases the reference to previous successful cases of investment can be a most powerful tool, not only because it plays on the companies’ imitative behavior, but also because the knowledge of previous failures is an even more powerful factor for *a priori* rejection.

To sum up, image building can be an important objective in the first stages of activity, especially if *a priori* rejection is likely. In theory, localities that already have a positive image could do without it. In any case it must be expected that commitment in the image building activities decreases over time.

### *3.2 Investment attraction*

Investment attraction activities are both more specific and more specifically targeted. Various techniques are used, ranging from direct mailing to the organization of missions, seminars, conventions and business meetings tailored on specific industries, group of companies, areas of origin. Media use shows a progressive shift from generic presentations to specialized ones (e.g. sector-specific brochures, including factual references, data, case studies, analyses, …), providing the companies' decision makers with still introductory, yet already substantial arguments.

Geographic targeting will identify the most dynamic areas of origin of international investments: to the most obvious priority assigned to the US East and West Coast, Japan and the Far Eastern financial centers, each inward investment strategy may add actions on areas, where a specifically interesting movement is occurring. A good example may be the interest shown by several European agencies, especially British and French in marketing location opportunities with Northern Italy's small and medium-size enterprises.

Sector-specific targeting will aim at industries that may find especially advantageous some of the characterizing features of a region (like the availability of certain non-mobile resources, a convenient position with respect to the relevant markets or the "logistic proximity" to the suppliers' network) (Lanzara et al., 1998). Potential targets can also be identified in specific companies related to a foreign investors already present (e.g. as supplier).

Targeting requires that inward investment agencies can rely on complex sets of information. They must assess industries and areas with potential interest in foreign investment and in investing specifically in that area, including an evaluation of comparative advantages and disadvantages with respect to other regions, especially in the framework of international market integration (Phelps, 1997). Targeting requires also a sophisticated knowledge of the decision making chains *within* multinational companies and an updated awareness of ongoing organizational evolution (e.g. the distribution of decision powers between headquarters and subsidiaries).

### *3.3 Services to investors*

Services have a growing relevance in promotional activities. Again the weight of these activities must not be overestimated. It is by no means a factor in the companies' decisions, but plays a fundamental role both in giving evidence of the serious commitment of local authorities and in eliminating stumbling blocks and "fluidifying" the decision making process of the investing company. At the same time services are a way to establish a direct connection between the managers in charge of the investment project and the official in the local government or agency, thereby creating conditions to promote the rooting and expansion of initiatives.

Even if the agency is not the producer of the services or the responsible of the administrative procedures, inward investors should find in it the only and satisfactory interface, according to a one-stop-shop approach. This is indeed an organizational condition widely considered as beyond dispute.

Services can be can be classified as follows:

- information services to the potential investor

These services make up a relevant part of the activities of specialized agencies. Together with standard information on a range of basic issues (fiscal and legal conditions, labor cost, costs of transportation, location opportunities, housing etc.), detailed information must be provided on specific request. Experience strongly suggests the importance of responding timely, rapidly (within days) and accurately, to this kind of inquiries, as in most cases they constitute the first contact between the company and the local agency and therefore are the first opportunity to establish a trust relationship between them, based on the company's perception of a concrete attention to its needs. Responses may also try to anticipate further requests of the company, thereby fuelling the company's decision making and company-agency interaction.

- investment assistance

An essential service to the inward investor consists of the assistance in the bureaucratic procedures (legal, fiscal etc.), in the search and selection of both personnel and subcontracting companies, as well as in obtaining subsidies (unless they are directly managed by the interface agency). Counseling in the site search is also a highly appreciated service: this service can be extended to the assumption of a brokerage role and to the provision of design teams; in most cases a detailed and constantly updated data base of the available industrial sites constitutes an essential asset of the agencies, actually a starting condition for credible operation. In many cases the search for partners and suppliers is supported, also by means of databases and up to the point of playing a brokerage role in joint ventures and other kinds of agreements.

- "aftercare" services

Services, that are provided to inward investors after that the investment decision has taken place and the plant is operational, are the matter of growing attention, especially in those regions that have already a good record of attraction. There priority is often given to the consolidation and extension of existing companies and clusters rather than to exclusively seeking after new investors.

An interface within the agency is therefore provided to the company: that interface must be available to cooperate on any problem that may arise. Regular visits and meetings are scheduled and opportunities to voice problems are offered, such as business forums. By so doing, the agency not only is able to anticipate serious problems that may threaten the long-term viability of the investment, but also establishes a trust relationship, based on regular personal contacts, that provide first-hand information on present and future strategies of the enterprise. These information channels are even more valuable to the extent that the local subsidiary acts with some degree of autonomy and is an active contributor to the definition of the global strategies.

## *4. Impact on the company's decision making*

Having summarized the nature of the main activities, we can now attempt to sketch a simplified model of company behavior with respect to inward investment promotion. Going back to the analogy with industrial marketing, we could first identify the industrial buyer's model as the necessary succession of the following phases:

| *Phases...* | *... in the industrial buying decision process* |
|---|---|
| ⇩ | Awareness |
| ⇩ | Knowledge |
| ⇩ | Favor |
| ⇩ | Preference |
| ⇩ | Conviction |
| ⇩ | Purchase |
| ⇩ | Reorder |

For each of these phases an appropriate promotional behavior can then be identified, as each phase is characterized by a specific communication problem. In the buyer's perspective this means that there are different kind of information resources that are required to lower the risk involved in the acquisition.

As a general rule, in initial phases generic and impersonal communications will prevail. In the following phases the formation and consolidation of the buyer's preferences requires communications of an increasingly personal character.

Territorial marketing strategies should then define the appropriate mix of communication that better fits the different stages of the investment decision-making process. The analogy with industrial marketing can be then further developed as follows[9]:

[9] A similar scheme can be found in Wells, Wint, 1990.

| Phases... | *... in the industrial buying decision process* | ... in the inward investor’s behavior | Prevailing promotional activity |
|---|---|---|---|
| ⇩ | *Awareness* | Awareness | **IB** |
| ⇩ | *Knowledge* | Knowledge | **IB, IA** |
| ⇩ | *Favor* | Favor | **IA** |
| ⇩ | *Preference* | Preference | **IA, SI** |
| ⇩ | *Conviction* | Conviction | **SI** |
| ⇩ | *Purchase* | Investment | **SI** |
| ⇩ | *Reorder* | Embedding / Expansion | **SI** |

*Legenda*: IB = image building; IA = investment attraction; SI = services to investor

## *5. Are subsidies relevant?*

Are subsidies an important part of these promotional activities? Do financial incentives actually influence the investment decision of global companies?

To some extent incentives can actually reduce the costs of the investments, even allowing for the limitations imposed on the governments’ generosity by supranational constraints (e.g. by the EU). There are however significant contra-indications to excessive reliance on subsidies as effective means to persuade companies in general and global companies in particular. As a matter of fact, localization decisions appear increasingly detached from abstract marginalistic thinking, even more so to the extent that they respond not to short-term profitability, but to long-term strategies (as it is, indeed, in the best wishes of local governments) (Mariotti, Piscitello, 1994; Guisinger, 1992). Structural factors come then into play: by themselves, of course, they do not generate inward investments, but – if absent - they are for sure rejection factors and no subsidy or tax break is ever likely to compensate for the problems and costs that their absence causes to the investing company.

The empirical evidence contrasts sharply with the theoretical assumption that lowering the cost of investment will influence the decision in relevant aspects, like, for instance, the localization choice. In real world investors play the role of being “attracted”, while – in most cases – they push local governments into competition in order to obtain the best possible conditions: this phenomenon was adequately described as “dowry chasing” (Stopford, Truner, 1985). For strategic investments structural conditions have clearly greater relevance than even large subsidies (Rehder, Thompson, 1994).

Inward investment policies that rely on subsidies run serious risks. Important subsidies, that may be available especially in problematic regions, make a difference mostly on marginal investments, the most hazardous ones, because subsidies may give a substantial contribution to reach the necessary capital requirements. Many regions have experienced cases of proposed (and sometimes realized) investments that have turned out to be fictitious or hardly viable and motivated by the opportunity to speculate on the availability of subsidies.

On the other hand, grants are nowadays part of the ordinary package offered to inward investors in all areas that can claim some sort of disadvantage, development problems, industrial decline etc. Except for strong areas, it is difficult to stay in the international competition to "attract" inward investors without supplying some financial support as part of a more complex package of support measures. These will include hidden or indirect subsidies, ranging from investments on the development of the site and the related infrastructures to initiatives in the field of education and professional training according to programs especially consistent with the investor's needs.

Subsidies may be differently relevant depending not only on their amount, but also on the way they are granted. In most cases incentives are the matter of a negotiation process. Negotiation will often have to comply with formal procedures; still it is often possible for the local authorities to modulate commitments in ways that meet the investor's needs, but at the same time minimize the local government's costs and obtain equally binding commitments from the investing company. To this aim negotiation will articulate the content of the support package, integrating subsidies with other initiatives, as well as the timing of each action, on which the company can rely.

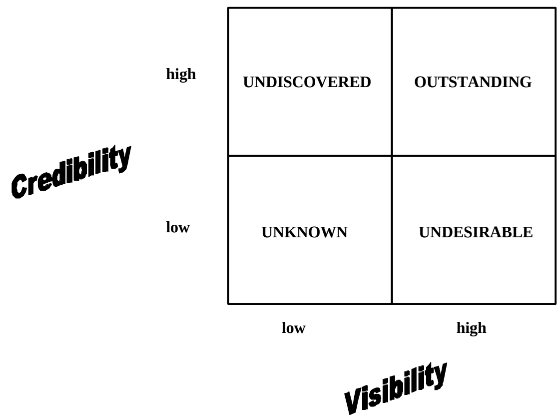
On the local government's side this implies, first of all, some clear understanding of the competitive positioning of the region with respect to different typologies of industries and a well matured awareness of and ability to evaluate *ex ante* the compatibility and incompatibility between specific investment projects and the (political, economic, physical, environmental…) constraints to economic development in the area. Secondly, this may imply a remarkable organizational effort, especially to the extent that several local actors are involved and that those are not hierarchically subordinated to the local authority dealing with the investors. This may be the case of educational and training programs provided by universities. In such cases those regions which have a well rooted habit to partnership style (as a kind of "regional team"), will have a substantial advantage. In fact, such habits will be expressed not only by the reliability of the commitments, but also by the speed (in the best cases it must be a matter of weeks) in designing the appropriate package. That speed itself will be, of course, an evidence of reliability and attention in the eyes of the company.

Once again the analogy with industrial marketing may help in emphasizing a crucial aspect in the global company – local government relationship. The image of the selling company (good vs. bad, clear vs. vague) is the result of the synergic and cumulative effects of communications given to the potential and actual customers. The selling company accumulates credibility (or its opposite).

In territorial marketing, not less than in industrial marketing, this credibility accumulation is fundamental and the opposite phenomenon must be feared. In particular a promotional activity that aims at building an image that is countered by reality at an early test, can easily trigger a vicious circle, leading to long-term disrepute in the international community of global investors. Exhibits 3 - 5 outline a simple strategic matrix that emphasizes the crucial relationship between credibility and visibility in inward investment policy (exhibit 3)[10].

[10] Adapted from the matrix of corporate reputation, quoted by Wells, Wint, 1990.

Exhibit 3




The positioning of a region as industrial location guarantees success in attracting inward investment to the extent that credibility is given priority over visibility (exhibit 4), whereas premature visibility, in conditions where support to investors is inadequate or regional development policies are widely ineffective or consensus and cooperation are not available within the local society, may lead into the dead end of the "undesirable" regions (exhibit 5).

Exhibit 4

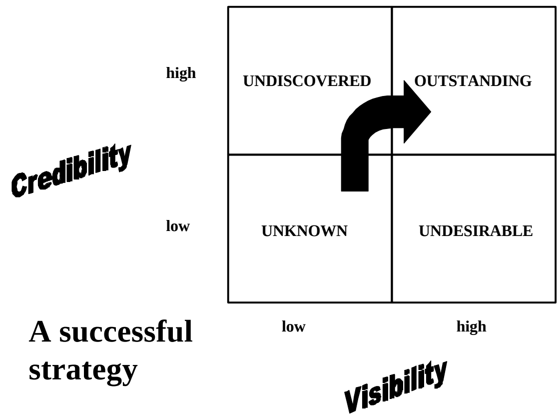
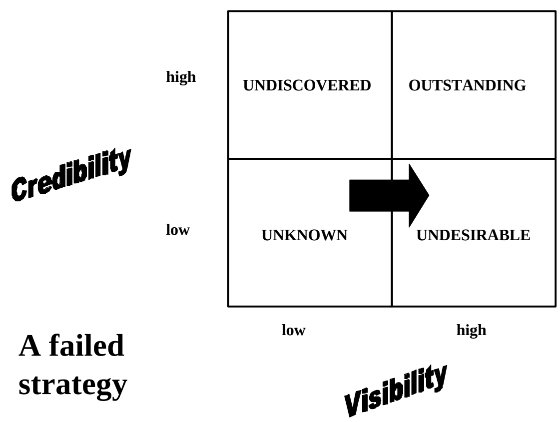



Exhibit 5



## *6. "Quasi government"*

Dialogue with global companies imposes on local governments' policies some important organizational requirements. Recent experiences confirm the results of earlier analyses on this issue, arguing for "quasi government" agencies as the most suitable organization to deal with exogenous investors (Wells, Wint, 1990 and 1991; Halkier et al. 1998). This is true in the perspective of both the local government and the company.

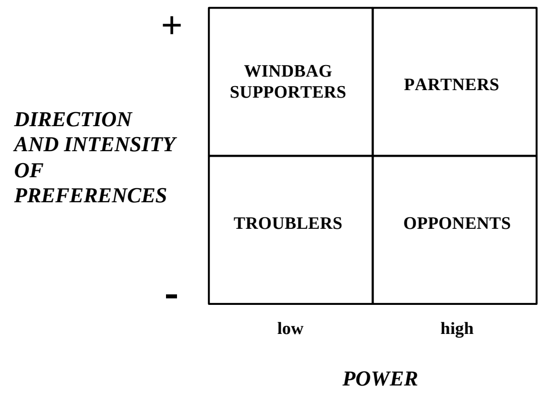
Pure government bodies (like departments in ministries) have clear disadvantages in showing the required amount of flexibility, informality, partnership attitudes and commitment to result that is necessary in that kind of operations. This may be due to bureaucratic styles and cultural distance from standard managerial approaches, especially in countries where legal background predominates in the government's staff. Of course, there are also sound motives that impose on government bureaucracies a more cautious attitude than it is usual in private organizations. A defensive attitude giving priority to formal compliance with laws and regulations may however result in unnecessary constraints to discretionary choices.

A public profile is nonetheless crucial in inward investment promotion, making generally inappropriate the reliance on private, profit-oriented organizations. Inward investment promotion has in fact important legitimacy requirements, in the eyes of both the local community and the foreign investor.

On the one hand, inward investment policies require a significant consensus. They are by no means "obvious" policy options, as they are not neutral on the socio-economic structure of a region. Not only they must explicitly be a part of the economic strategy of the region (Young, Hood, Peters, 1994). They require specific consensus or absence of substantial "conservative" opposition to a government-sponsored entrance of new actors. In the strategic matrix of local policy consensus, inward investment policy requires that the area of "opponents" is as deserted as possible: this may be the consequence of de-industrialization and structural crisis, whereas in economically strong regions established entrepreneurial interests may successfully play against inward investors and policies supporting them. Inward investment policies require that opposing powers within the region are turned either into harmless critics of the "invasion of foreign capitals" and of consequent "dependency" or into interested partners and protagonists of a strategy based on the renewal of the regional economic structure (exhibit 6)[11]. Therefore inward investment policies cannot be kept politically low-profile and entrusted to politically irresponsible actors.

[11] Adapted from Nomisma, 1991.

Exhibit 6




It must not be forgotten that inward investment promotion is bound to rely heavily on public funds[12]: ordinary activities (research, direct marketing, information services, representatives offices abroad etc.) are indeed costly and cannot be charged on potential investors. At the same time, it is also difficult to evaluate correctly the quality of inward investment promotion, using standard monitoring procedures (Wells, Wint, 1990, chapter 4). Subcontracted private organizations (as well as "quasi governmental" agencies) may be trapped in the need to give evidence of commitment and performance, forcing situations beyond the actual interests of the community they represent. Notwithstanding different solutions given to this problem[13], it sounds reasonable – in this respect – to separate the administration of subsidies from actual promotion: inward investment agencies may end up taking the side of the investor (in order to show success records) rather than risking failure in negotiations.

On the other hand, the public profile is also important for the inward investor as it increases the credibility of the "package". A public actor may be considered more effective in stimulating and binding cooperative behavior by other actors within the region. It is not surprising that in case of major investment projects a guarantee role is required to (and certified by the signature of) top level political leaders of the Region or the country itself.

It is therefore in the interest of both sides that actors representing the government's side have the right mix of:

- public legitimacy and private management style;
- specialization of functions concerning inward investment (especially in terms of technical and managerial resources) and (both strategic and operational) integration in the policy network of regional economic policies.

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[12] In some cases real estate activities can (partially) contribute to the financing of the agency.

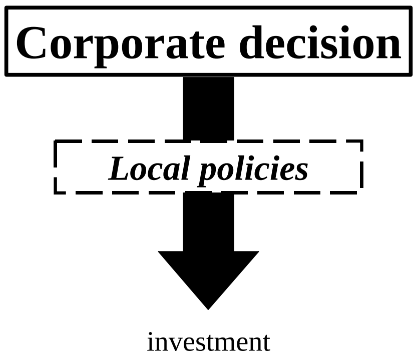
[13] Quasi-market mechanisms are used to regulate the relationship between local governments and private or quasi governmental agencies: governments "buy" a package of activities, setting standards to measure performance, ranging from the number of contacts to the number of jobs created by inward investors.

## *7. Stereotypes and best practice*

In conclusion, the case of inward investment policies clearly shows the existence of two contending stereotypes and one real-life best practice. Both stereotypes reflect simplified and often outdated visions of the industry – State relationship in contemporary economies.

One of these stereotypes depicts inward investment operations as corporate "dowry chasing": the company exploits opportunities and cost reductions provided by the local government and maximized by skillful playing among competing regions (exhibit 7).

Exhibit 7

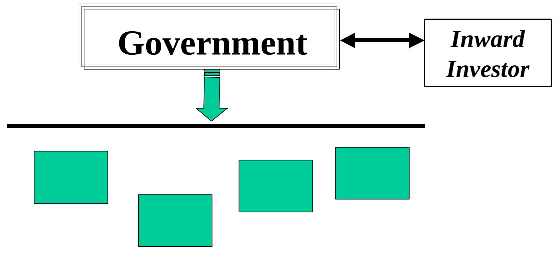



Another stereotype looks at inward investment policies as acts of "seduction": adequate government policies and subsidies are supposed to attract foreign investors (exhibit 8).

Exhibit 8

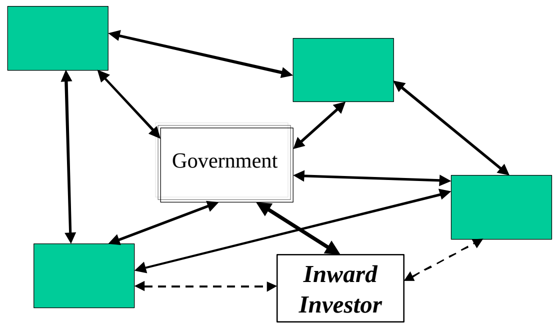

Both stereotypes are based on a simplified, bilateral view of the company – government negotiation process, ending with the actual establishment of the new corporate location (exhibit 9).

Exhibit 9



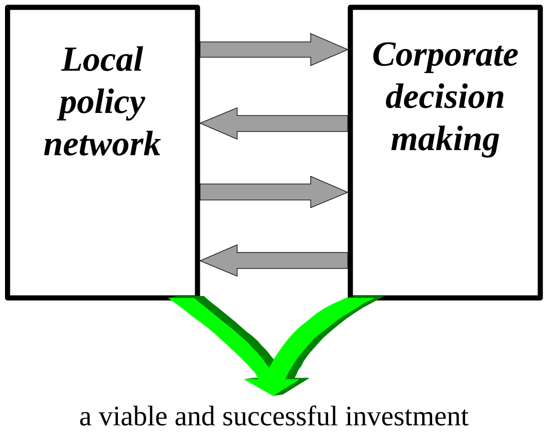

The best practice can be described as a negotiation based on tight interaction between a market-conforming regional development policy by weak governments and a politically-aware international investor, perceiving and managing the negotiating process with local authorities as a process introducing and embedding the exogenous company into the local network of private and institutional actors (exhibit 10).

Exhibit 10




Real life differs from both cynical dowry chasing and sensual seduction. Rather it is a "marriage for money" between the company and the local polity based on fair negotiation in order to set up a long-term convergence of interests (exhibit 11).

Exhibit 11




We suggest that this view is still insufficiently adopted analytically and often absent also in prescriptions[14]. While governments make (sometimes effective, sometimes clumsy) efforts to comply with the needs of the market, companies seem slow in moving from an opportunistic attitude to a more sophisticated awareness of the opportunities opened by the new styles of industrial policy making.

[14] A partial exception is provided by the literature on international business negotiations, as shown in Ghauri, Usunier, 1996.

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