Regional Business Systems and the Governance of Foreign Direct Investment in Canada, Spain and the UK

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El estudio examina cómo los actors de gobernanza de sistemas regionales de negocio interactúan con las corporaciones multinacionales extranjeras presentes en su territorio para intentar retener inversiones y conectar dichos territorios a redes de producción globales, mediante un análisis cualitativo de políticas y practices relacionadas en seis regions de tres economías industrials avanzadas (Canadá, España y Reino Unido). El estudio releva que, aún existiendo amplias similitudes en los tipos de gobernanza (de Mercado, de estado y asociativa) de la inversión extranjera directa utilizados, la extension e intensidad de uso de cada uno varia notablemente entre regions y estados, lo que se explica con referencia a las más amplias diferencias institucionales entre los sistemas empresariales y en la construcción sociopolítica del espacio para la gobernanza subnacional.

**Palabras clave:** empresas multinacionales, gobernanza, variedades de capitalismo, desarrollo regional, economía política.
This paper examines how governance actors in regional business systems engage with foreign-owned multinational corporations which are present within their territory, in attempts to retain investment and link their regions to global production networks. This is done through a qualitative analysis of policy and practice in six sub-national regions in three advanced industrialized economies (Canada, Spain and the UK), thus permitting both international and intra-national comparisons. We find that while there are broad similarities in the types of governance mechanisms used, there are notable differences in the extent and intensity of forms of market, state and associational governance of foreign direct investment. These differences partly correspond to broader institutional differences in the nature of business systems, and partly to the socio-political construction of sub-national governance space.

**Keywords:** multinational corporations, embeddedness, varieties of capitalism, regional governance, foreign direct investment

**Introduction**

Within debates on economic globalization, the role of multinational companies (MNCs) and their linkages with host economies merits special attention (Coller et al, 1999; Kristensen & Morgan, 2007). Economies are strongly influenced by the mobility of productive capital, and the consequent competition between places for foreign direct investment (FDI). This has justified institutional reform around notions of international competitiveness (Marcussen & Kaspersen, 2007), and provoked efforts to tailor resources for specific inward investors, tying them to host economies (Ortiz et al 2007; Phelps & Fuller 2001).

This paper presents a cross-national comparative analysis of attempts by sub-national institutional actors to attract and retain FDI within regional economies, based on research in three advanced industrialized countries – Canada, Spain and the UK. These countries have
faced comparable challenges in attempting to develop or maintain high-quality connections to internationally competitive sectors, without the coordination advantages associated with ‘coordinated’ or export-based economies (Hall & Soskice 2001).

Our unit of analysis is the sub-national region. Our empirical research, as presented here, attempts to elucidate the broad commonalities and differences in regional FDI governance. Our regional focus follows arguments that economic globalisation has led to a tendency towards the fragmentation of the coordination capacities of national states, with the adaptations to the needs of international capital required for international competitiveness frequently made at sub-national levels (Jessop, 1993). Our objective is to cast light, through international and intra-national comparison, on how such ‘governance actors’ interact with those foreign-owned MNCs which have an important regional presence.

The social space in which regions compete for FDI is shaped by a range of structural factors. These include: global pressures for convergence of business systems caused by the globalisation of production and by the hegemony of neo-liberal ideas on how economies should be organised; the need to find ways of competing that take advantage of local path-dependencies and historically embedded resources; and the different competencies that political systems afford to regional governments and other governance actors. This is highly variable between nations, with federal or quasi-federal states affording substantial decision-making capacities to sub-national regions, compared to more unitary states in which divergence from national business systems is much more marginal.

From our literature review, we develop a heuristic framework which proposes that the regional governance of FDI can follow different social logics: market-led governance, implying a rather passive dependence on the comparative advantages of a location; state-led governance, in which the (regional) state leads policies targeted at increasing international
competitiveness; and *associational governance*, in which social actors engage substantially with MNCs to create and leverage location-specific advantages.

While our research was to a large extent exploratory, at a synthetic level we develop two hypotheses: first that FDI governance follows patterns of *local alignment* – in other words, FDI governance broadly corresponds with the balance of market, associational and state governance found in the wider regional economy; and second, of *complementarity*, in the sense developed by Crouch (2005), such that attempts to ensure international competitiveness result in substantial adaptations to predominant forms of economic organisation, causing substantial institutional adaptation. These hypotheses are then examined across our three-country, six-region comparison. The final sections summarise the principal differences and similarities found across our cases, before outlining wider implications of our research.

**Inter-regime competition and the governance of host economies**

The nature of local business systems is increasingly shaped by ongoing processes of the global re-organization of production. Herrigel and Zeitlin (2010) refer to a spatial and organizational fragmentation of production, as market liberalization, financialization, and technological advances have enabled firms to become increasingly sophisticated in choosing geographical and organizational locations for different elements of their value creation processes. In response, economies try to capture investment by attempting to create local advantages for inward investors.

Within firms, subsidiary unit managers and workers must increasingly compete for supranational mandates – whether for production, R&D, or intra-corporate service provision (Birkinshaw 1996). Different management structures, and different host business system configurations, may lead subsidiary managers either to perceive their interests as being in simply following the orders of headquarters, or in using links with local actors outside the
firm to boost their competitive position in a more entrepreneurial way – the distinction made by Morgan and Kristensen (2006) between ‘Boy Scouts’ and ‘Subversive Strategists’.

Business systems, at national and sub-national levels, are inflected by material and ideological need for governance actors to engage with notions of competitiveness (Pedersen 2010). For subsidiary units of MNCs, it is also important to analyse business systems as frameworks within which firms attempt to create and exploit resources (Whitley 1999), often in competition with rival attempts elsewhere. Thus, for a particular subsidiary unit, the business system may be more (or less) than an overall picture of conventional institutions might reveal; it includes the (often localized) agency both of conventional business system actors, and of institutions which have the purpose of encouraging FDI. Sociological research on MNCs therefore needs to build a more integrated analysis of how subsidiary unit actors strategize, of general business system features and policies, and of FDI governance. We attempt to contribute to this by examining the roles of regional governance actors.

*What can host governance actors do? An analytical framework*

Economic coordination takes different forms in different places, resulting from historically-influenced choices by states, employers, organised labour, and other actors (Whitley, 1999). For heuristic purposes, these can be categorized as market, associational, or state-led regimes of economic organisation. As such categorizations are familiar within institutionalist research (Streeck and Schmitter 1985; Whitley 1999), we concentrate here on elements directly related to FDI governance.

*Market-led* governance of FDI can imply a rather passive dependence on the comparative advantages of a location. These may be associated with overtly neo-liberal approaches - low tax, low labour costs, light regulation, etc. They may also include the ‘static’ comparative advantages associated with more coordinated systems (Hall and Soskice, 1991); for example,
places may market the effectiveness of their skills systems. The state may also intervene actively in the market through specific financial incentives.

*State-led* governance implies interventions in local business systems targeted at increasing international competitiveness. This may include industrial policies, and in some cases the political leadership of associational governance – an example of this would be the encouragement of forms of neo-corporatism – as well as policies of a more liberal inspiration. State actors may also attempt actively to engage with individual investors through ‘aftercare’ or similar initiatives.

*Associational* governance concerns the willingness and ability of business system actors – including local firms, social partners, and the education sector – to engage with MNCs to leverage location-specific advantages. It may also include networking between managers of different MNCs within the same locality. It thus includes both formal and informal associationalism.

Each of these different types of governance may be used as actors in regional economies attempt to capture value from global production networks (Coe *et al*. 2004), at some risk of local institutional actors being captured themselves, that is, of being co-opted into the interests of specific MNCs (Phelps & Fuller 2001). These attempts at capture often try to ‘embed’ MNCs within the region, attempting to attract repeat investment (Phelps *et al*. 2003; White 2004), and build networks between the MNC unit and other local actors, whether as customers/suppliers (Andersson & Forsgren 2000), or as broader relational networking with non-firm actors such as business associations, universities, and political actors. These seek to drive subsidiary competitive advantage, potentially, ‘overspill’ – that is, the subsidiary unit generating wider improvements in regional productivity (Holm *et al*. 2003). Finally, while the arguments of Jessop (1993) and others imply that international competition gives
increased relatively importance to regional, as opposed to national, level governance actors, for a comparative analysis it is necessary to take account of the fact that states differ substantially in the degree of political autonomy they grant regional levels of government – one would expect sub-national business systems to be more variable within states where regional levels of government are relatively powerful.

At one level, one might expect that international competition between regions would create isomorphic pressures for convergent forms of governance. However, while such pressures are clearly present, as comparative institutionalists our initial expectation was that FDI governance would broadly align with broader business system governance: liberally-oriented business systems will rely more on market governance, more coordinated ones on associational governance. Another possibility is that dominant local modes of governance may need to be complemented by other forms in order to be coherent in practice (Crouch 2005). This would mean differences in FDI governance between nations – and within them in countries where there are substantial differences in regional business systems – but that these would not simply replicate positions on the broader business system’s position of the continuum between liberal and coordinated approaches, but would rather be the result of ‘corrections’ to the different problems that each type of approach might have in ‘anchoring’ FDI.

Thus, at a synthetic level, our hypotheses can be characterised as:

H1: Territorial alignment: FDI governance corresponds with the balance of market, associational and state governance found in the wider economy, rather than converging internationally on a standard pattern.
In a cross-national comparison, this is likely to be mediated by the fact that the autonomy of sub-sovereign economic governance actors is higher in less centralised national polities. Therefore.

H1a: Specifically *regional*, rather than national, territorial alignment will be stronger in states where there is substantial regional political autonomy.

H2: *Complementarity*: FDI governance follows divergent patterns, based on local path-dependencies, but these result in substantial adaptations to predominant forms of organisation found in the wider economy, and hence to substantial institutional adaptation.

We now explore these possibilities across six regional case studies, across Canada, Spain and the UK (England).

**Methodology**

Our regional cases are all part of national economies (Canada, Spain and the UK) never classified as classical coordinated market economies and thus well suited to study the market vs. institutions tensions involved in attempting to govern FDI. These national economies also offered the possibility of examining the possible effect of different degrees of regional political autonomy. Our unit of analysis was the highest significant level of sub nation-state governance. For ease of reading, we refer to each such unit as a region. In choosing the two regions within each country the main criteria were that they ought to have regional economic development institutions and a similar self-government constitutional statute.

In Spain, two autonomous communities were chosen – Asturias, a peripheral industrial region on the North coast, and the Madrid region, which includes the capital city but also a large industrial hinterland. For the UK, we selected two regions within England – the North West and East Midlands – on which the Blair government had instituted regional development agencies (RDAs) responsible for a range of governance activities, including the attraction and
retention of FDI. For Canada, provincial governments have very high degrees of political autonomy in any comparative context, but their geographical scale goes well beyond any notion of functional economic geographies. We therefore interviewed actors at both provincial level, and within two specific local labour markets. One of these is in the province of Quebec, the other in Ontario. Table I presents an overview of relevant national and regional characteristics.

***TABLE 1 HERE***

Initial interviews were held with key institutional actors within each region. These were predominantly inward investment/RDA executives, which a pilot study among governance actors in England, along with discussion with academic experts and trade unionists in Canada and Spain, had confirmed as nodal actors in region-MNC relations. These respondents were asked to identify other significant regional actors. These were added to a provisional list of forms of potential governance actors – regional state actors, employer associations, trade unions, skills and education institutions, etc. - drawn up from literature reviews. This process of snowball sampling aimed to ensure that the most significant regional institutional actors were identified. Given substantial differences in regional institutions across and between England, Canada and Spain, the actor roles of those we interviewed were non-identical across the six cases, although we attempted to interview functional equivalents where feasible. While most interviews with governance actors were at the regional level, some were also held at more local levels, and at national level, where early interviews had revealed such actors to be active agents. This was particularly the case in England, where structures at the regional level were weakest.

Regional governance actors were also asked to identify strategically important MNCs, and managers of these were subsequently approached for interview. The purpose of the research
in MNC units was to obtain the local manager perspective on regional institutions. This was done to triangulate our account of regional governance structures and strategies, and to obtain perspectives on specific contests for inward investment. Requirements for anonymity and confidentiality at the MNC unit level, given the local sensitivity of research into units which were often under at least some degree of existential threat, mean that data from these interviews is used mainly to illustrate specific types of processes within regional FDI governance systems, rather than attempting to treat the different MNC units as individual ‘cases’. Details of both those interviewed in each case are provided in Table A1.

Two semi-structured interview formats were devised to account for the different perspectives of governance actors and MNC managers. The governance actor interview guide covered the nature of interactions between governance actors and managers in strategically important MNCs, ‘embedding’ strategies, links between these and wider economic development strategies, and attempts to develop labour markets in order to embed investment. The MNC managers’ guide covered the business and employment contexts of the firm’s regional operations, and the nature of relations with the governance actors indicated above. Interviews were recorded and transcribed for accuracy and transparency. A standard core coding structure for qualitative interviews was agreed by all research teams prior to data collection, and adjusted for regionally-specific factors. 169 interviews were held (51 in England, 50 in Spain, 68 in Canada). Secondary data on regional economic structure and policies, as well as firm-specific material, was also collected to an agreed template. Fieldwork took place between 2009 and 2016.

**Findings**
This section synthesizes the various types of governance mechanisms deployed across our regional cases. First, however, it is necessary to identify the nodal governance actors concerned.

**FDI governance actors**

Typically, a semi-autonomous inward investment or regional development agency (RDA) is mandated by the regional or national government to perform regular or project-based interactions with MNCs. This agency tends to be a ‘nodal’ actor, bringing together a range of other governance/infrastructure actors to tailor the local business system to the requirements of international competitiveness in general, and/or those of specific MNCs. For particularly significant interactions, where large numbers of jobs may be at stake, the efforts of agencies may be supplemented by those of direct state actors; these could be at local, regional or national level, depending on the importance of the investment and on political geographies of governance.

Given the different sub-national political systems outlined in Table 1, the nodal actors were not identical. In Spain and Canada, activity was centred on regional/provincial bodies. National FDI-related institutions were of limited importance in these countries. At the outset of our research all these regions had investment agencies/RDAs backed by the autonomous resource allocation capacities of sub-national government (one – Madrid – effectively abolished its agency in 2013, as a response to fiscal crisis, meaning dealings with MNCs became more directly integrated with the regional government’s civil service). Such bodies are publicly-financed, although in one case – Asturias – organizational governance is tripartite, with employer association and trade union representation on its board.

When our research commenced, English RDAs had extensive responsibilities for FDI, alongside a national body. Unlike in Canada or Spain, however, English RDAs were not
accompanied by any system of regional government, and therefore remained responsible to the national government. A Conservative-led government abolished RDAs in 2010, with initial investment attraction centralised to a private-sector contractor working for the national inward investment body. This contract does not include any responsibility for aftercare with existing inward investors, while the emerging localized economic development institutions mentioned in Table 1 have no resources for it. Thus, dealings between MNCs and governance actors in England now operate on a haphazard basis.

Finally, there are differences between our regions in RDAs’ role in the wider business system. Some approximated to pure investment marketing agencies, with limited aftercare responsibilities (Madrid, Ontario). Others have significant aftercare responsibilities (Quebec). A third group had a more encompassing role, combining investment marketing and aftercare with a significant role in coordinating the wider regional business system (English RDAs, Asturias).

_Governing the market_

Governance actors generally seek ‘embeddedness’ in the form of anchorage. Whatever the overall orientation of national/regional approaches to political economy, local plants closing is clearly bad news; even the overtly free-market, ‘no exit barriers’ policy of Madrid (see below) was accompanied by a degree of activism on behalf of governance actors where there were genuine threats to local investment. Our fieldwork focused on regional attempts to compete for FDI through institutional resources, rather than on competition through financial incentives. However, embeddedness efforts clearly take place against a context of broader attempts to shape the market for inward investment. These include general attempts to compete through levels of corporate taxation, low labour costs, or light regulation. Particular focuses here are covered in Table 1. More specifically, there is the domain of financial
incentives to individual firms. Confidentiality requirements prevent a systematic treatment of these. Nonetheless the following points help frame the broader picture of MNC-regional business system interaction.

First, governance respondents were often highly sceptical about specific incentives. Most places have memories of grant-aided firms later closing local operations; as an Asturian investment professional put it; ‘grants are like sex appeal; good for initial attraction, but not enough for marriage’. Rhetorically, this scepticism is, if anything, stronger among senior governance actors of a strongly neo-liberal persuasion than it is among social democrats. Thus, the rehearsed rhetoric of an inward investment professional in Madrid, on FDI competitiveness;

*Defending a free-market economy...eliminating permits, licenses, reducing-eliminating taxes...promoting the arrival of foreign capital, and not having exit barriers. This is important, as we believe that exit barriers are also barriers to entry.*

This has parallels with the UK government’s rhetorical refusal to ‘pick winners’. Elsewhere, actors are aware of populist pressures against transfers of public money to foreign-owned firms, but this is frequently over-ridden by concerns to preserve employment, especially in large manufacturing units.

This does not mean that free-market ideological attachments led to industrial MNCs being starved of financial support. In the Madrid case, opposition to exit barriers meant in practice that the region did not wish to be a brake on collective redundancies, and had separated discussions on possible supports to firms from discussions of redundancies. Aid was still available to firms, whether based on an R&D justification, in the form of long-term credits, or on deals related to the allocation of land.
While the merits of public incentives are clearly debatable, given our current focus it is important to note that aid is often accompanied by requirements to anchor the firm within the region. Typical examples include cooperation with local education and research institutions, or maintaining certain employment levels. Here, some places have stronger levers than others. Quebec offers a variety of state support, including notably preferential rates for power (the main power utility is in provincial state ownership), equity or quasi-equity investment, as well as more standard support for workforce training. There is an elaborate procedure to evaluate the metrics of positive net benefits of granting preferential rates for electricity for large-scale investors. If net benefit is deemed to be insufficient, firms are asked to contribute to a regional economic intervention fund which itself engages in equity financing as well as broader regional development projects. Elsewhere, where such levers are very much weaker, the moral hazard involved in subsidizing inward FDI is higher.

State-led governance: aftercare and the coordination of skills

There was considerable variance in the extent to which the agencies above engaged in programmatic ‘aftercare’ or ‘investor development’ activity with MNCs.

One element of such activity is to act as an interlocutor between MNCs and the broader business system. For example, in the English regions prior to 2010, RDAs would send inward investment professionals on regular site visits. This was partly intended as a feedback loop on what MNC unit managers perceived as problems within the regional context. In the regions we investigated, this information was collected systematically and reported to relevant national ministries, and shared with other relevant actors.

Aftercare also often involved attempts to broker specific activities. A lot of this work consisted of attempts to reduce institutional complexity, as experienced by MNC unit managers. In this sense, RDAs became, in the words of one senior MNC manager in the
English Midlands ‘a kind of umbrella for a lot of the other agencies which are going to help with the activity we’re going to do’, that is, they coordinated the ‘offer’ of resources available within the regional business system. The effect of this was to reduce institutional transaction costs; or to put it more cynically ‘they do our work for us, which is nice’ (MNC unit manager, Asturias).

This brokerage role was particularly prominent in the pre-2010 English system. It was somewhat less prominent in the Spanish and Canadian regions. There are two plausible reasons for this. First, it is possible that the presence of an enabling agency coordinating specific issues, especially relating to labour force skills, is more necessary where the skills system is relatively uncoordinated. In a sense, the logic behind the original creation of RDAs in England recognized this; one of their main stated purposes was to correct ‘market failures’. Investor development managers in England presented several examples where aftercare duties had led to the aggregation of skills demands, sometimes correcting very basic failures of firms to coordinate collectively.

In a comparative context, it is worth noting that in our initial research, conducted prior to the economic crisis, MNC managers in the English Midlands region reported skills issues as their number one ‘problem’ in surveys conducted by the RDA. Elsewhere skills were a less salient issue. In Spain, given the existence of a well-qualified, under-employed workforce, MNC respondents in both regions were uniformly positive on the skill profile of manual workers and engineers, reporting problems only with languages and (in Madrid) middle management skills. Quebec, which has a densely institutionalized employment system (see Table 1), has much more obvious institutions to turn to regarding skills issues than the RDA. While Ontario is much more ‘liberal’, workforce skills again seem relatively unproblematic; the tertiary education system, particularly the network of community colleges with active links to firms, was recognized as a distinct advantage compared to the American states against which
Ontario largely competes; interview respondents saw the high subsidy regime of certain US states as effectively a substitute for an effective skills system.

The other reason why the aftercare role of agencies may have less importance outside the English regions is that the roles of brokerage and interlocutor were effectively played by the regional/provincial government more directly. In Asturias, for example, while the RDA has aftercare responsibilities, both MNC and other governance actors essentially saw it as a ‘transmission belt’ for financial aid. For strategic matters, the interlocutor would be the regional government. Equally, senior regional civil servants would make proactive regular contacts with the larger foreign MNCs. It is telling that when the socialist-led pattern of Asturian politics was briefly interrupted (2011-2012) by a minority right-wing/populist government, senior managers in large MNCs noted the withdrawal of the standard pattern, with one saying ‘They have not called me. I’m sure they’ll call me eventually’. In other words, such firms expected regular proactive contact at senior levels. While such direct proactive contacts would be less normal in Madrid, Quebec or Ontario – partly because all are much larger regions - it would still be typical for direct relations to be established between significant foreign investors and regional/provincial governments.

From aftercare to reinvestment coalitions

From the governance actor perspective, information gathered through aftercare is important in helping to organize reinvestment coalitions as quickly and effectively as possible. For example, the Northern RDA in England made sustained efforts at making its support to existing investors ‘strategic’, as reflected in the discursive change from ‘aftercare’ to ‘investor development’. In the words of one senior inward investment professional:

(It’s) about challenging a company, where are you going to be in five or ten years’ time...Hitachi made TVs in North Wales. And one day it closed, and everyone went “Ugh!”.
and four, five hundred people closed (sic.). Well if you’d known the sector, you’d have known that cathode-ray tube televisions were on their way out, everybody was buying flat-screens, but nobody actually challenged Hitachi in that factory.... Nobody said, where are you going to be in four, five years’ time, and actually plan to either downscale that plant, so there’s a managed closure, or to look to work with Hitachi to actually bring in new technology. So I think (our) approach does allow you to have those very informed discussions on where these factories are going.

The most intensive contacts between governance actors and MNC units occurred around international contests for significant new/replacement investment. At this point, alongside any financial support, subsidiary managers need to activate whatever institutional and relational resources are available. Having clear representatives for the public sphere with sufficient authority to coordinate relevant aspects of local business systems is important here. In one firm in Asturias, efforts to establish a significant global mandate involved interaction with the most senior relevant regional civil servant ‘on a daily basis’. Such interaction is particularly intense where financial aid is permitted; indeed, it was commonplace for RDA professionals to draft bids for support. In Europe, the nature of the EU subsidies regime often leads to other actors being involved, particularly those involved in skills and research domains.

For large, vulnerable MNC units, mobilization around reinvestment tournaments could be very extensive. One example of this is from the automotive sector in the North of England. According to a subsidiary unit director, the process of preparing to bid for a production mandate involved an array of local, regional, and national institutional actors; in this case, the preparation stage involved the MNC ‘getting on board’ local government, the local trade union, the RDA, and a national minister. A senior RDA skills professional argued ‘(This) one company...actually was reliant on its supply chains...and looked at it collectively from the
whole labour market and attracting people in, retaining what they ‘ve got, upskilling and making them fit for purpose’.

The skills package put together was very specifically tailored to the needs and shift patterns of the specific MNC unit, ranging from basic skills and numeracy to technical skills. A senior manager argued that the MNC did not look separately at training costs or aid, but was primarily interested in achieving a rapid ramp-up of production, which requires training both in the MNC unit and in local supply chain firms, at the best cost per unit. Given relatively fixed costs for other factors of production, coordination of business system actors around human resources could, in his view, be decisive.

Obviously, there is moral hazard involved here; governance actors must evaluate the extent to which both financial aid, and the in-kind support involved in putting together reinvestment coalitions, is actually likely to be decisive in the global firm’s investment decisions, as well as the extent of effects on locally-established dependent firms in the production network. As mentioned above, Quebec has gone furthest in trying to overcome this; thus, international mandate competitions that we followed here put in play an elaborate technocratic system which attempts to calculate the broader regional effects of mandate competitions, as well as mobilizing the RDA, political actors, skills institutions and industrial relations actors.

The automobile example above is of defensive mandate competition (bidding to replace an expiring product mandate). More offensive mandate competition, based on the path-dependent assets of regional business systems, also occurs. One such example can be found in Asturias, which – originally because of its mining tradition - has developed advanced competencies in engineering through its university. One firm, initially attracted to the region to establish a manufacturing unit ‘logically, originally, because of grants’ (plant manager), won a mandate as a global R&D centre; although this, too, benefitted from financial aid, and
a favourable location close to the relevant university faculty, a manager outside the region argued that;

There are things that can be empirically demonstrated, for example the quality of engineers in (the R&D centre in Asturias). It is real. We have (there) a worldwide product R&D centre, and there are very very creative people who also have a…high level of technical knowhow.

In this case, therefore, subsidiary unit entrepreneurialism was based on specific localized business system resources, aided by the existence of a regional industrial policy which attempted to preserve and develop localized comparative institutional advantage during the process of industrial reconversion. Equally, the intensity of involvement of senior governance actors in the bidding process was very significant.

The latter is variable within as well as between countries. For example, in one Madrid unit of an engineering firm which also had substantial operations in a third Spanish region, the plant director referred to this politics of subsidiary unit representation as ‘a beauty contest between plants and regions…promoting their image with the people from corporate HQ’. The same director compared Madrid’s activity here unfavourably with that in the third Spanish region. In the latter;

It’s directly the (regional) civil service; it’s directly the regional president (that is involved in representing the subsidiary unit in mandate competition). They have it more in their bones. Logically we compete with other plants, including that in (the other region), and there we do notice a bit of a difference.

Examples of extensive state-led mobilization around mandates were more common in places with relatively strong RDAs - Asturias, Quebec, and, prior to 2010, the North of England. It is notable that, alongside strong RDAs, these are all also places with stronger than average geographical identities. This almost certainly makes active coordination easier.
Associational governance: general embedding and capture initiatives

Governance actors are not only trying to make theirs a desirable location for FDI; they also attempt, with a greater or lesser degree of formal strategy, to harness MNCs and to capture the potential gains from the presence of firms with access to global markets in their local environment. Governance actors were often perceived as wanting to get something out of MNCs, a process that the public affairs director of one company in the English Midlands termed ‘reverse lobbying’. This particularly occurred around apprenticeship training, for example, where managers were aware that putting in place a fashionable scheme would earn them ‘brownie points’; one manager in Madrid expressed this as ‘surfing the waves of regional politics’.

Subsidiary units’ interest in participating in formal labour market institutions is highly variable. In general, there is most activism in engineering sectors, while most service sector firms have less network embeddedness. Subsidiary unit managers will participate in regional or sectoral employment and training institutions where they are dependent on them, and particularly where they can help determine (or perhaps capture) policy. In Quebec, sectoral workforce committees were important places of contact with senior trade unionists – to the extent that the managing director of one large metal sector plant would attend meetings personally – reflecting the wider developmental emphasis of the province’s industrial relations actors. There is no parallel to this in any of our other regions; in the other social democratic region (Asturias), unions are heavily involved in negotiating the wider economic policy framework through a regional-level neo-corporatist agreement, but MNCs rarely involve themselves with regional-sectoral industrial relations institutions, which are primarily the domain of domestic firms.
More specific attempts to anchor MNCs in the regional economy occur around supply chain coordination. There was some evidence of MNC managers taking part in such upgrading attempts through civil society initiatives such as regional quality groups (particularly in Asturias), and through having roles in the associational governance of skills. Sometimes this corresponded to business need, although frequently it appeared more to represent personal civil society activism on the part of individuals. The latter usually reflected either an occupational/sectoral identity – several British managers, for example, took part in voluntary initiatives around issues such as apprenticeships because they identified with manufacturing industry – or regional/national ‘patriotism’.

Challenges for, and limits of associational governance

Attempts to involve local businesses in supply chains are sometimes doomed to failure, given subsidiary units often have limited autonomy in procurement. To take one example;

*(The MNC) have got a worldwide contract on nuts and bolts so for a small local organisation, to suddenly knock on our door and say I want to provide you with nuts and bolts, we are going to laugh at them because we have a contract worldwide* (Senior manager, engineering firm, North England).

Obviously, localization or globalization of supply chains is hugely variable from one MNC to another. These arguments are though very significant because they go to the heart of questions about the relationship between MNCs and regional development, and indeed to the supports which can justifiably be given to particular MNCs.

Relatedly, the idea of clusters, often seen as a vehicle for tying local firms to global production (e.g. Foss & Pedersen 2002) should also be mentioned here. A fairly large number of governance respondents viewed clusters with a degree of scepticism, which was informed by experience of past attempts to follow fads in economic development, the fact that MNC
Supply chains rarely respect political boundaries, and doubts over whether the high-trust coordination clusters is possible. Sometimes the notion of clusters was used as an investment marketing device, primarily to raise awareness of regional concentrations of industry. Where the region state provides funding for clusters, but without taking an active governance role, it is possible that these essentially represent a more politically correct form of subsidy.

Sometimes, however, cluster policy represents efforts, or greater or lesser coherence, to bring together regional employers around skills and innovation projects, to provide a space for open communication, and to upgrade regional SMEs for the requirements of global production networks. For example, the Northern region of England co-funded sectoral bodies, some of which developed elaborate plans for the future regional development of their industries (including the sorts of future FDI that should be targeted), and gave managers in the larger MNCs mentoring responsibilities over specific SMEs. Similar policies also existed in Quebec. In Ontario, meanwhile, such bodies emerged on a more ad-hoc and localized basis.

Part of the problem of developing associational governance through clusters is that if funding is provided, all sectors want to develop a ‘cluster’ (for example, the cluster policy in Asturias, in combination, covered 90 per cent of regional private sector gross value added). The benefits of clustering can accrue through path-dependent comparative institutional advantage (as is the case with engineering in Asturias), or through the ability of local skills and research institutions to be able to react to the needs of investment whose initial attraction was not cluster-driven.

**Discussion**

This research examined the various attempts at market, state-led and associational governance of FDI across six regions in three countries. It sought to address hypotheses about the commonalities and differences between regions in how they approached this issue.
Our first hypothesis addressed territorial alignment of FDI governance with broader business systems. In addressing this, it is important to recognise that there is a fair degree of international isomorphism. All our regions had some form of region state-led agency attempting to coordinate inward investment efforts. All, to a greater or lesser degree, would involve direct region-state actors, either political or civil service, for the most important foreign investors. All were prepared to offer forms of financial support to inward investors; all, in some way or other, had tried to modify labour market supply to fit with the needs of globalising productive capital; and all, in one way or another, had made some attempt to ‘embed’ MNCs within their regions through attempts at developing clusters, or other associational governance efforts. However, we did find substantial differences in both the nature of the nodal actors involved, and the intensity of efforts to involve foreign MNCs in regional business networks, varying from overtly neo-liberal (e.g. Madrid) to much more developmental approaches (Quebec, Asturias) with, particularly in the latter case, a substantial institutionalised role for organised labour. These were sufficiently substantial that it is fair to talk of a variety of governance approaches to FDI across our regions within patterns set by the global system. Schematically, taking the position as it existed prior to 2010, the degree of state and associational governance activism around FDI was highest in Asturias, and in Quebec. It was lower in the Midlands region of England, in Madrid, and in Ontario. Finally, the Northern region of England had a fairly high degree of agency-led activism. These findings are summarised in Table 2.

***INSERT TABLE 2 HERE***

The intensity of state-led or brokered attempts to anchor FDI within the region therefore seemed to be higher where there was a strongly institutionalised regional development policy. This could either occur in relatively densely institutionalised business systems attempting to achieve advantages more typical of ‘coordinated’ economies – Asturias and Quebec – or
through strong agency-led coordination within broadly liberal economies (Northern England). The first two of these cases supported the argument of “alignment” between FDI governance and broader business systems, while the third supported the argument of “complementarities”, with agency-led coordination making up for some of the lacunae of a liberal market economy. Equally, in the Spanish and Canadian cases, where political structures gave substantial autonomy to sub-national regions, differences in intensity largely reflected regional electoral politics – regions with a history of social democracy, or developmentalism (Asturias, Quebec) attempted greater degrees of coordination than either the traditional liberal region (Ontario), or that where previous Spanish patterns of coordination had come under ideologically neo-liberal attack (Madrid). This broadly supports an “alignment” thesis. As far as the question of political territorial settlements is concerned, it would seem that in the national states under investigation, the most sustained efforts at state-led governance aimed at anchorage occurred in regions with both substantial autonomy, and with somewhat social democratic political traditions (Asturias and Quebec). While outside our original framework for analysis, it is also worth mentioning that intensity of coordination also seemed to be underpinned by strong geographic identities in Asturias, Quebec, and to an extent in the North of England.

The economic crisis, the aftermath of which coincided with much of our fieldwork, has had structural effects on the FDI governance architecture only in England and in Madrid, largely due to an ideological deregulatory impulse. In Madrid, this was in some ways a continuation of attempts to compete as a ‘neo-liberal’ city region within the context of Spain. In England, this represented a more significant retreat from pursuing complementarities, to an alignment with the country’s status as a liberal market economy.

Synthetically, therefore, hypothesis 1 is broadly supported, and hypothesis 1a strongly supported: FDI governance broadly corresponds with the balance of forms of governance
found in the wider economy, while specifically regional alignment occurred to a much greater extent where there was substantial regional political economy. Hypothesis 2, suggesting complementarity – that is, local path dependencies being substantially repositioned by international competition, was supported in both English cases until 2010 – with state coordination complementing a liberal market economy, and in Madrid, where the regional government attempted to compete by operating as a liberal territory within a national economy that is not classically ‘liberal’. In the other cases, while competition for FDI has strongly inflected regional business systems, and institutional innovation has clearly taken place, the overall models of FDI governance were aligned with, rather than complementary to, overall patterns of regional business system governance, and hence overall H2 is not supported.

**Conclusions**

Broadly speaking, the differences that we found corresponded to national and sub-national positions between the poles of “coordinated” and “liberal” market economies. Embeddedness, in the Polanyian sense of business system path-dependence, shapes the intensity of attempts to foster anchorage and local network embeddedness among MNCs.

This is a significant finding for two reasons. First, it underscores the fact that coordination is regionally as well as nationally path-dependent. In other words, in the sphere of governance investigated here, the “more coordinated” regions of both Spain – typically represented in the comparative capitalisms literature as a mixed-market economy – and even Canada – at a federal level, a classic liberal market economy – do have significant capacity to at least attempt patterns of governance which significantly modify national models.

Second, the fact that regions outside classical coordinated market economies can choose relatively coordinated ways of organising their interfaces with global production qualifies the
somewhat polar thinking of the varieties of capitalism literature, and underscores the
difficulty this literature has in dealing, either theoretically or in terms of its implications for
policy actors, with cases that do not approximate either to the liberal or coordinated market
economy ideal types.

Further research, particularly in more conventionally coordinated market economies, would
be necessary to ascertain if their associational patterns of governance of the general business
system extended to the coordination of inward investment; the more coordinated regional
economies in the current research have a higher dependence on inward investment than
would be the case in classical coordinated market economies, potentially making foreign
drms’ access to such coordination mechanisms as are available easier than in places where
insider interests might be in more direct conflict with those of inward investors.

More broadly, studies of comparative capitalism need to incorporate possibilities for sub-
national variation. Discussions on international business and the governance of organizations
under globalisation has mainly concentrated at either quite micro-levels (e.g. attempts to
change workplace management), or at the level of relatively concrete regulatory institutions
(as, for example, in much of the industrial relations literature). The role of actors who are
actively involved in attempting to secure investment in particular places - not least as
‘unconventional’ labour market governance actors, through the coordination of elements of
skills systems, for example - merits further comparative analysis across the full variety of
national and regional governance systems.

Acknowledgements

To be added in the case of acceptance

References


<table>
<thead>
<tr>
<th></th>
<th>England</th>
<th>Spain</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broad variety of capitalism</strong></td>
<td>Liberal market</td>
<td>Described as ‘Mediterranean’</td>
<td>Nationally, a liberal market</td>
</tr>
<tr>
<td><strong>Attempts at the</strong></td>
<td>economy – limited</td>
<td>variety of capitalism, formerly</td>
<td>liberal market</td>
</tr>
<tr>
<td><strong>Creation of</strong></td>
<td>state/family business</td>
<td>dominated.</td>
<td>noticeably less</td>
</tr>
<tr>
<td><strong>Employer-led</strong></td>
<td>(but effectively state-sponsored)</td>
<td>largely abandoned</td>
<td>‘liberal’ in the context of North America.</td>
</tr>
<tr>
<td><strong>Coordination on economic development</strong></td>
<td>Fairly dense industrial relations system, and regulated (though ‘liberalizing’) labour market, but in reality MNCs possess substantial ability to ‘negotiate’ outcomes of regulation at local level.</td>
<td></td>
<td>which has many features more commonly associated with European coordinated economies.</td>
</tr>
<tr>
<td><strong>Locus of competitiveness</strong></td>
<td>Importance of London-based</td>
<td>Formerly reliant on low labour costs</td>
<td>Historically, general</td>
</tr>
<tr>
<td>in FDI attraction</td>
<td>financial services sector. Open economy.</td>
<td>Historical, linguistic and political links to USA. Relatively large domestic market.</td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>-----------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>in FDI attraction</td>
<td>financial services sector. Open economy.</td>
<td>Historical, linguistic and political links to USA. Relatively large domestic market.</td>
</tr>
<tr>
<td></td>
<td>within European market, rather than light regulation/low tax. Position undermined by EU expansion and trade liberalization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>production cost advantage compared to Northern USA liberalization. undermined by EU liberalization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>production cost advantage compared to Northern USA liberalization. undermined by EU liberalization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>production cost advantage compared to Northern USA liberalization. undermined by EU liberalization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In 1980s, relatively low labour costs and light labour regulation within European single market, attracting ‘Asian tiger’ FDI.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From late 1990s, Federal immigration policies by neo-liberal social democratic attracting highly well-educated (and under-employed) labour force.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tariff barriers encouraged US investment prior to NAFTA.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superior quality of general education and vocational training.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superior quality of general education and vocational training.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
government, but increased concentration on securing the supply of innovation.

Retains ‘knowledge economy’ advantages in certain sectors, post-crisis strategy somewhat unclear.

Important natural resources sector.

Preferential electricity tariffs (Quebec), and developmentally oriented social actors.

<table>
<thead>
<tr>
<th>Degree of sub-national autonomy</th>
<th>Very low</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional policy is entirely run by national government. No level of government</td>
<td>Elected regional governments have very substantial devolved powers within overall national framework, including economic</td>
<td>Extremely high level of autonomy at top-level ‘provincial’ level over most domestic affairs,</td>
<td></td>
</tr>
</tbody>
</table>
councils and nation state.

1998-2010: Regional Development Agencies (RDAs) had substantial responsibilities at regional level, but were not accompanied by regional government (except in London).

2010: RDAs replaced by smaller-scale Local Enterprise Partnerships (LEPs), with extremely limited development (but also education, transport, social assistance, etc.).

exploited to its maximum in Quebec. Tax-raising powers at provincial level.

Provincial governments are the key actors with regard to FDI governance policy.
Regional politics and development orientations

<table>
<thead>
<tr>
<th>Both regions</th>
<th>Asturias:</th>
<th>Quebec:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional politics per se of no importance due to centralization at national level.</td>
<td>Social democratic regional government has long history of active economic coordination, in economy dominated by heavy industry.</td>
<td>Pursues a relatively social-democratic interpretation of macro neo-liberalism.</td>
</tr>
<tr>
<td>Some evidence of greater tradition of local authority-civil society-firm cooperation in Northern than Midlands region, some history of (relative) local authority developmentalism.</td>
<td>Strongly collectivist industrial tradition; Regional social pact, formalizes role of regional development agency, but also, e.g., knowledge economy/society strategy, employment/training policy.</td>
<td>Consensus on the role of the provincial state in economic development.</td>
</tr>
</tbody>
</table>

Province has a high number of institutional levers with which it seeks to promote development.
<table>
<thead>
<tr>
<th>Region</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madrid:</td>
<td>Madrid regional government had strong rhetorical attachment to economic liberalism. Regional inward investment agency abolished as part of austerity measures. Largely competes with Barcelona and other capital cities for regional HQ functions/business services.</td>
</tr>
<tr>
<td>Ontario</td>
<td>More conventionally liberal approach; fewer attempts at any systematic coordination; attempts at coordination (e.g. cluster-building) take place at more local levels, largely independently of provincial government.</td>
</tr>
</tbody>
</table>

Table 2: Summary of patterns of FDI governance, by region.
<table>
<thead>
<tr>
<th>Region</th>
<th>Regional business system</th>
<th>FDI governance</th>
<th>Region state autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asturias</td>
<td>Highly coordinated, neo-corporatist</td>
<td>High degree of state and associational coordination</td>
<td>High</td>
</tr>
<tr>
<td>Madrid</td>
<td>Mixed, but strong neo-liberal political tendencies</td>
<td>State-supported ‘market’ coordination</td>
<td>High</td>
</tr>
<tr>
<td>Ontario</td>
<td>Liberal</td>
<td>State-supported ‘market’ coordination</td>
<td>High</td>
</tr>
<tr>
<td>Quebec</td>
<td>Highly coordinated</td>
<td>High degree of state and associational coordination</td>
<td>High (in practice very high)</td>
</tr>
<tr>
<td>East Midlands</td>
<td>Liberal</td>
<td>Moderate (pre-2010) to low (post-2010) state coordination through RDA</td>
<td>None</td>
</tr>
<tr>
<td>North West England</td>
<td>Liberal</td>
<td>Moderate-high (pre-2010) to low (post-2010) state coordination through RDA</td>
<td>None</td>
</tr>
</tbody>
</table>
Appendix Table A1: Interviews held, by region.

<table>
<thead>
<tr>
<th></th>
<th>Quebec</th>
<th>Ontario</th>
<th>Asturias</th>
<th>Madrid</th>
<th>NW England</th>
<th>East Mids England</th>
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</thead>
<tbody>
<tr>
<td>MNC unit managers</td>
<td>10</td>
<td>4</td>
<td>10</td>
<td>11</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Unions</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Local/regional/provincial government</td>
<td>16</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Economic Development Agencies</td>
<td>9</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Educational/training institutions etc</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Employer federations/business associations</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>English national agencies, referring to NW</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>47</td>
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<td>21</td>
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