



A Framework for Investment Promotion

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A framework for FDI Promotion

WAVTEQ Special Report Series

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"Attracting foreign direct investment has become a central component of industrial policy in developed and developing countries across the world. "

"There is a large volume of literature identifying why firms engage in international investment, the economic and political determinants of investment location and the impact of foreign direct investment on economic development. However, there is minimal research examining the role of investment promotion in attracting foreign direct investment. "

"This is a major caveat, as most countries, and many regions within countries, have established investment promotion agencies with the specific objective to attract inward investment. In this article, a detailed analysis of investment promotion is provided, and a framework that investment promotion agencies can use to improve their effectiveness in attracting foreign direct investment and maximize the benefits for their local economies is developed. "

"Based on case-study evidence, it is argued that the most successful investment promotion agencies have developed an integrated investment promotion strategy that combines marketing and company targeting with after-care and product development."

A. Introduction

Image, brand awareness, and perceptions are major factors influencing the location of foreign direct investment (FDI). Companies make investment location decisions on the basis of their information pool and understanding of an area's location "offer". Investment promotion is therefore an essential component of attracting inward investment, and there has been a rapid growth in the number of investment promotion agencies (IPAs) across the world. ¹

However, there is relatively little research on the role of investment promotion in attracting FDI. In this article, the reasons why investment promotion is important and how it affects investment location are outlined. A practical framework for the establishment and effective operation of IPAs is then developed, using case studies to provide practical insights into the different elements of successful investment promotion, from setting up an agency to marketing activities, company targeting, after-care and product development. Case studies presented draw on the experience of the mature inward investment agencies in Europe, but also look at examples of investment promotion in developing countries.

The framework developed here is aimed at both national and regional IPAs, as the relationship between investment promotion at the national and regional levels varies markedly between countries.¹

¹ Corporate Location estimated that 30 new IPAs were formed every year in the first half of the 1990s. *Transnational Corporations*, vol. 10, no. 1 (April 2001)

B. Why engage in investment promotion?

When making a decision on where to locate the information base of transnational corporations (TNCs) is far from perfect, and the decision-making process can be subjective and biased (UNCTAD, 1999). It is often a bureaucratic process, which may be affected by imperfect competition, distorted risk perceptions and political rivalry between affiliates of TNCs. The implication, as the International Finance Corporation (IFC) argues, is that: “Most companies consider only a small range of potential investment locations. Many other countries are not even on their map” (IFC, 1997, p. 49).

Countering market imperfections in the location decision making process is the key reason why L. T. Wells and A. G. Wint (1990) found that the net present value of pro-active investment promotion to be almost \$4 for every \$1 expended. Specifically, they found that investment promotion was most effective when:

1. Overcame information asymmetries.
2. Compensated for the imperfect functioning of international markets, which makes parent companies reluctant to consider new production sites.
3. Led to product differentiation of the host country as a location for targeted activities.²

The first two factors provide part of an explanation for the follow-the-leader pattern and “bunching” in FDI that has been observed for many years (e.g. Knickerbocker, 1973). Companies acquire information primarily via learning-by-doing, demonstrating the importance of comfort factors, such as the FDI track record of a host country, in determining investment location. Often a “flag-ship” investment by a major company increases the information and reduces the risk for other TNCs (see Loewendahl, 2001 for the case of Japanese automotive investment in Europe). Left to the market, FDI may therefore be under-supplied (Moran, 1999).

However, despite the positive role that IPAs can play in attracting FDI, there is a lack of research on the subject of investment promotion (Wells and Wint, 1990), even as countries increase their expenditure on investment promotion activities.³ Drawing on interviews conducted in 2000 with 30 major TNCs and global professional services firms⁴ and the author’s own experience of working with 15 IPAs from across the world in the capacity of management consultant with PricewaterhouseCoopers, a framework for investment promotion is developed next.

² See Wells and Wint (2000) for an update of this research

³ In the first half of 2000, Saudi Arabia, Brazil, New Zealand and Hong Kong have all announced major increases in expenditures to attract FDI. The European Union is also supporting investment promotion in developing countries through Phare funds, such as a 1,000,000 Euro tender in early 2000 to support the Bulgarian investment promotion agency.

⁴ The interviews were part of a study examining FDI in Turkey and Central and Eastern Europe, and were based on the open-ended question: how can governments more effectively promote their locations?

B1. A framework for investment promotion

Building on the work of IFC (1997), P. Christodoulou (1996), S. Young et al. (1994) and P. Dicken (1990), investment promotion can be divided into four main areas:

1. Strategy and organization (setting the national policy context; setting objectives; structure of investment promotion; competitive positioning; sector targeting strategy).
2. Lead generation (marketing; company targeting).
3. Facilitation (project handling).
4. Investment services (after-care and product improvement; monitoring and evaluation).

B2. Strategy and Organization

Stage 1: Setting the national policy context

The national policy context is an integral part of effective investment promotion. An IPA will find it very difficult to market and promote its location unless the basic policies to facilitate FDI are in place. As UNCTAD (1999) argues, an FDI - enabling framework is a pre-condition. The enabling framework includes:

1. **Macroeconomic policies** set a positive framework for the attraction of foreign investment. Key policies include a liberal trade and payments regime and a favourable tax regime. A minimal state role in the economy and a non-discrimination policy stance are particularly important in sending positive signals to investors.
2. **A degree of economic stability** is essential for attracting significant inward investment, with low inflation and country risk being of particular importance (Loewendahl and Ertugal-Loewendahl, 2000).
3. **Supply-side “product development” policies** at the very minimum need to provide essential investment in the physical, communications and human infrastructure. Improvement of infrastructure, the supply of sites and properties for industrial and commercial use, the education and training of labour and the innovation system of the country all have implications not only for the attractiveness of the location to investors, but also for the quality of inward investment (Lall, 1997; Hood and Young, 1997; Thiran and Yamawaki, 1995; Mowery and Oxley, 1995; Brunskill, 1992).
4. **Specific regional policies** to encourage investment in particular parts of a country form a major element of the national policy framework in many countries. While TNCs usually long-list countries rather than regions, it is at the sub - national level that TNCs draw up a short list of investment locations for in-depth evaluation and the policies and facilitation of regional agencies often play a critical role in determining who wins a mobile investment project.
5. **Inward investment policies** to remove restrictions on FDI and to create or support dedicated national and/or regional promotional organizations are central to attracting inward investment.

When these policies are used in a combined and coherent way to promote investment, they can provide a powerful inducement for companies to locate or expand in a particular location.

Stage 2: Setting objectives

For an effective IPA strategy, it is important that there is clarity of objectives with a strong logic behind them. Building on Young et al. (1994), there are several key issues that need to be taken into consideration in setting objectives for investment promotion:

- 1 **Why does a government want to attract inward investment?** This is a fundamental question, as it will influence the size, structure and priorities of the IPA. Objectives may include creating jobs in poor regions, technology transfer, increasing competition, compensating for a weak indigenous base, filling - in supply gaps, developing clusters and providing partnering opportunities for local firms.
- 2 **What are the national priorities for sectors?** This is a key issue as IPAs have discrete resources and best-practice evidence (e.g. Wells and Wint, 1991) shows that effective investment promotion is focused on key sectors or industry clusters.
- 3 **Is the objective sector size or sector positioning?** Will the IPA focus on any type of project within a sector, or on projects that meet positioning objectives, such as developing a centre of excellence or a particular business activity (e.g. headquarters or research and development) in a specific sector. The Singapore Economic Development Board (SEDB) is perhaps unique among IPAs in that it will not support investors unless they are in target sectors or clusters.
- 4 **Will the IPA differentiate by the modality of FDI?** Is the objective new greenfield investment, expansions by existing investors, joint ventures, mergers and acquisitions (M&As) or other types of strategic partnerships? Many agencies in Europe, especially at the regional level, are now spending as much resources on supporting expansions as on attracting new investment. Oregon in the United States focuses exclusively on after-care with existing investors as the primary mechanism to generate new investment. Other agencies also support joint ventures between indigenous and foreign firms (e.g. SEDB, Welsh Development Agency(WDA) and Czech Invest), while a few agencies also support M&As (e.g. Invest in Sweden Agency).
- 5 **What is the role for incentives?** Incentives can and do affect investment location decisions (Loewendahl, 2001). However, the emphasis on incentives varies considerably. For example, the Industrial Development Agency (IDA) in Ireland, SEDB and Investment, Trade and Tourism of Portugal (ICEP) are among the few agencies in the world that have control over incentives and can put an "offer on the table" to an investor even before they have committed to invest. At the other extreme, Denmark does not offer any incentives at all for foreign investors.
- 6 **Should incentives be across the board (mandatory) or discretionary?** Mandatory incentives create policy certainty as an investor is automatically awarded incentives if they meet obligations set out in a pre-determined criteria, while discretionary incentives allow focused support for projects that meet inward investment objectives, but involve greater unpredictability for the investor.
- 7 **What types of incentives should be on offer?** Options include national, regional, or local grants, tax credits, research and development (R&D) and other special purpose incentives; employment incentives, recruitment and training assistance and site or infrastructure improvements (Young et al., 1994). Incentives can be up - front, or dependent on continuous upgrading of the investment project (e.g. SEDB and IDA).
- 8 **What criteria should be used to allocate incentives?** Several commentators argue that only projects that meet "quality" criteria, such as R&D, quality of jobs, export intensity and functional mandate, or that are in target sector clusters should be awarded incentives (Rhodes, 1995; Amin and Tomaney, 1995; Amin et al., 1994). The example of Singapore shows how prioritizing and integrating incentives with the targeting of specific investors can have positive effects (Oman, 2000).
- 9 **Which body should award the incentives?** IPAs can have the powers to negotiate directly a deal for investors, facilitating a "one-stop-shop" approach, but many countries separate this function for accountability reasons, and to ensure that the IPA markets its area based on competitive

fundamentals rather than subsidies. A related issue is whether incentives should be controlled and awarded at the central or regional level.

- 10 **What are the roles and actions of stakeholders?** A coordinated position on inward investment promotion needs to be developed, integrating the activities of IPAs at the national and regional levels, and working with other stakeholders involved in the investment attraction and facilitation process. For example, many IPAs use their governments network of overseas foreign offices for overseas promotion. There is also increasing cooperation between agencies. Examples include the Industrial Development Board (IDB) in Northern Ireland and the IDA and Locate in Kent (South of England) and Invest in Nord pas Calais (Northern France). In Scandinavia, the IPAs jointly promote the Baltic region.

Stage 3: Structure of investment promotion

A key issue is what kind of structure is most effective for investment promotion? In practice, the structure of investment promotion varies between countries, due to the different objectives in attracting inward investment, size of countries and differences in the importance of regional agencies. No single structure fits all countries. For example, a single, dedicated national IPA has been established in large countries like the United Kingdom (Invest.uk) and Thailand (Board of Investment) and in smaller countries like Bulgaria (Bulgarian Foreign Investment Agency) and Denmark (Invest in Denmark Agency). National IPAs are usually part of, and financed by, the ministries of trade, economics or industry, and often have strong links to the ministry of foreign affairs, which facilitates overseas investment promotion.

In other countries, investment promotion is handled primarily at the regional rather than national levels. For example, the United States has no national IPA, because of the economic and political weight of federal states. The United States feels it does not need promotion at the national level due to the strong brand awareness of the country as an investment location and due to the fact that the vast majority of “inward investment” is inter-state rather than inter-country. However, at the state level it is a completely different picture, with powerful investment agencies aiming at promoting their states and facilitating inward investment. Similarly, China has no dedicated agency for investment promotion at the national level.

While the remit for investment promotion at the national and regional levels and structural links between investment promotion and other government departments varies between countries, a common element of successful investment promotion is the establishment of a dedicated agency or department. M. M. Atkinson and W. D. Coleman (1985) highlight three key pre-conditions for the effective operation of an agency:

- ▶ The agency has a clearly defined role and value system that supports it, which is more likely if the agency has a functional mandate as opposed to one that obliges it to represent the interests of a clientele.
- ▶ Operational autonomy will be greater if functional responsibilities for a given sector are clearly assigned to a single agency.
- ▶ The agency requires independent access to expertise and information in order to act autonomously from firms and sectoral associations.

Atkinson and Coleman (1989, pp. 79-80) therefore argue that a centralized, autonomous and single agency or bureau in each area will have the greatest capacity to make and implement policy. By the beginning of 2001, countries such as France and Brazil have addressed the fragmented responsibility and considerable bureaucracy associated with investment promotion through merging previous agencies to create a single, dedicated IPA at the national level for coherent pro-active marketing and streamlined project-handling and facilitation.

Whether operating at the national or regional level, IPAs need to be sufficiently independent from governments, giving the agency greater credibility with investors and flexibility. IPAs also need strong links to stakeholders, both public and private, so that an area's final offer is more than the sum of parts (Christodoulou, 1996).⁵ For example, government planning, housing and education and small business support departments may play a significant role in facilitating investment projects, as many universities, training colleges and professional advisers, such as accountants, lawyers, property developers and consultants. Key governmental links include:

- I. For major investment projects, government ministers at the highest level may need to be rapidly mobilized to create policy certainty and demonstrate the seriousness with which the project is viewed. Ministers can also be used on overseas visits to potential investors and on visits to existing investors at home. In France, a Minister is appointed as an "Ambassador at Large" for promoting investment and has a small department. Countries like Ireland and the Netherlands appoint designated senior officials with responsibility for inward investment in each Ministry. However, evidence (e.g. Spar, 1998) suggests that the promotion effort is often most effective when coordinated and led by the IPA, which plans the use of ministers.
- II. Investment promotion needs to be coordinated at the national and regional levels. Regional agencies within a country are often competing for the same investment projects (Oman, 2000), and it is essential that there is effective coordination of agencies to avoid wasteful competition and a duplication of effort and resources. This problem is particularly vivid in the United Kingdom (Loewendahl, 2001). One method that has been used by several countries to help overcome zero-sum competition is a periodic rotation of staff between agencies. This generates greater understanding and can facilitate personal networks and cooperation between agencies. Other national IPAs ask regional agencies to "buy-in" to target sectors so that investment promotion is integrated at the national and regional levels. The national and regional agencies share the cost of marketing, and when the national IPA has an investment lead it is clear which regions are most suitable.
- III. The agency must be strong enough to influence decisions affecting individual investments, as well as investment policy, and should have a voice in the policy making process. The agency should have an active say in tax policy, incentives, exchange rate policy and labour policy — all key variables affecting location attractiveness. For example, Invest in Denmark is consulted before changes in tax policy and has an influence on immigration policy, while the Invest in Sweden Agency produces an annual report highlighting the key obstacles to inward investment explicitly for other government departments.

⁵ IPAs are in-between government and business. They are accountable to governments, but at the same time have to operate in a highly commercial environment. They, therefore, require a broad mix of skills. Marketing skills are essential, and more specialized skills may be needed depending on the scope of the agency. Project officers must have a good grasp of international business, economics and usually some sector expertise, as well as good contacts in government. Investment agencies, therefore, need to have the flexibility to recruit and keep appropriately skilled staff, or maintain an external network of contacts (which may include existing foreign investors) that can give expert advice when needed, meet with potential investors and attend specialized conferences.

Stage 4: Competitive positioning

Successful investment promotion requires clear strategic direction and effective marketing. The analysis that underpins strategy and marketing is described as competitive positioning. Competitive positioning is an important activity for all new investment promotion campaigns, and it is therefore relevant for both newly established and for more mature agencies. It is also an important activity for agencies wishing to reappraise their strategic position and re-define their offers, as well as to provide project officers with the most up-to-date key selling messages, supporting information and market intelligence on key sectors and competitors. Several leading IPAs conduct a competitive positioning exercise on an annual or bi-annual basis. There are two core elements to competitive positioning:

- ▶ **Research** - An analysis of locations strengths, weaknesses, opportunities and threats (SWOT) relative to each industry sector's requirements and key competitors for inward investment in each of these sectors. This may also include a SWOT analysis of the IPA itself relative to location competitors as well as the;
- ▶ **Market planning** -Based on the above analysis, key propositions (often called unique selling points or USPs) are developed for key sectors and specific types of projects. The aim is to define a location offer and provide IPA project officers with competitive arguments to use when approaching potential investors.

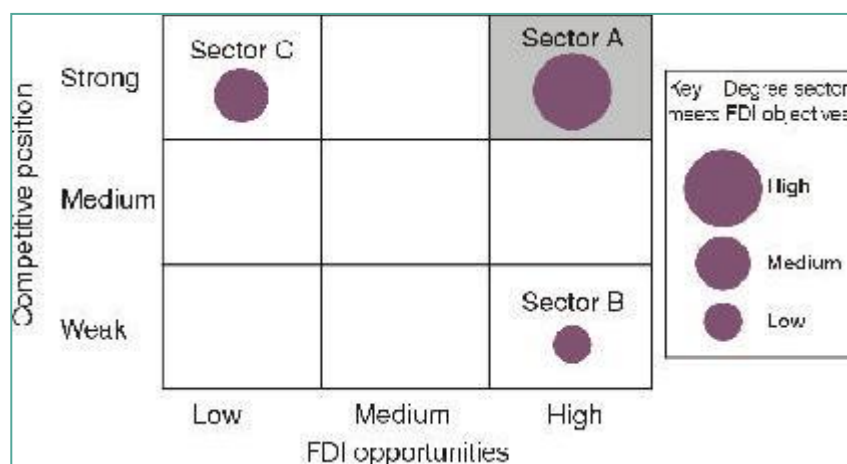
A competitive positioning exercise should therefore provide at the strategic level a detailed understanding of a locations position relative to competitors and different sectors, and at the project-level information allowing project officers to promote effectively their areas as a location for inward investment and handle investor enquiries.

Stage 5: Sector targeting strategy

Investment promotion agencies are moving towards a sector - based targeted investment strategy in order to attract investment most effectively and to prioritize limited resources to where they are the most useful and to where the probability of winning projects is the highest.

Sector targeting should identify sectors in which the host country is best placed to attract investment and which meet inward investment objectives (Potter and Moore, 2000; Brand et al., 2000). Figure 1 illustrates one method IPAs can use to evaluate sectors. The aim is to identify sectors in the right-hand corner that meet investment objectives.

Figure 1. Sector evaluation matrix



The evaluation matrix positions sectors according to:

- I. FDI opportunities — sectors with the best potential for mobile projects. The key aim is to identify sectors that are growing and internationally mobile.
- II. Competitive position — the strength of the location vis-à-vis competing locations for the sector. It is important to identify sectors in which the host country has an existing competitive strength, or one that can be realistically developed.
- III. Degree to which it meets FDI objectives — extent to which the sector meets the overall objectives in attracting FDI. Increasingly, leading IPAs are:
- IV. Focusing not only on job creation, but are also prioritizing sectors and activities that will need skilled labour, domestic research and development capability, and will help to build networks among innovative firms (OECD, 1999, p. 25; Christodoulou, 1996, p. 84).
- V. Attracting FDI that takes into account and capitalizes on the strengths of indigenous industry (de Vet, 1993), in order to generate the most benefits from FDI and embed TNCs in the local economy.

Furthermore, the most advanced IPAs, especially at the regional level, focus business activities within their target sectors and sub-sectors to complete and upgrade value-adding chains and develop advanced clusters. An example of a sector - activity positioning matrix is given in figure 2 below. It shows an IPA targeting three main industries (automotive, pharmaceuticals and telecommunications). Within these industries, the IPA is focusing on several sub-sectors where it has a competitive advantage to develop clusters.

Figure 2. Sector-activity positioning matrix (example)

	Manufacturing	R&D	Head quarters	Logistics & distribution	Shared services
Automotive					
Assembly		T	T		
Components		T	T		
Pharmaceuticals					
Biotechnology		T			
Medical goods	T	T		T	
Telecommunications					
Equipment	T	T			
Software		T			T

In the automotive industry, the IPA is focusing on R&D and headquarters activities. By attracting strategic and high value-added activities, the IPA may be aiming to embed an already strong automotive manufacturing industry.

In the pharmaceuticals industry, the IPA is focusing on R&D in biotechnology and manufacturing and logistics and distribution activities in the complementary medical goods sub-sector. Here the strategy may be to fill in the value-added chain and develop clusters, as well as benefit from the worldwide rapid growth in biotechnology.

In the telecommunications industry, the IPA is focusing on manufacturing, R&D and shared services in telecommunications equipment and R&D in the software sub-sector. The strategy could be to develop an export-intensive manufacturing industry and also create a large number of supporting high quality service sector jobs through attracting shared service centres and software development in telecommunications.

Competitive positioning and sector/activity targeting is a complex process and requires:

- ▶ A detailed knowledge of industry sectors and trends, FDI trends, cluster development, company strategy, typical project requirements and parameters and best-practice IPA activities.
- ▶ Up-to-date, fact-based comparative research providing hard data to support image - building and investment propositions made to companies.
- ▶ A reflective analysis of the location and activities of the IPA.

For these reasons, many IPAs prefer to hire independent consultants. However, it is recommended that IPAs also exploit fully market intelligence gained from monitoring and evaluating their own investment promotion activities (stage 10).

B3. Lead Generation

Stage 6: Marketing

In order to promote a location, it is essential that there is an internationally recognized brand name that overseas investors can identify with. Brand and image can be critical in attracting inward investment as overall perceptions by companies and investment brokers (“multipliers”) of a particular location may prevent the location from making the long and short-lists (see box 1 for the case of Turkey).

Box 1. Turkey’s FDI performance: the importance of investment promotion

Given the size and dynamism of its economy, quality of its workforce, liberal FDI legislation and incentives and the presence of a customs union with the European Union, Turkey should be highly attractive as an investment location. However, Turkey has greatly under-performed in attracting FDI. From 1993-1999, Poland attracted nearly six times more FDI than Turkey and, adjusted for GDP, Hungary attracted nearly 13 times more. Key reasons for Turkey’s under-performance are minimal levels of privatization-related FDI and high inflation. However, a recent survey of 30 major investors and multipliers found that the third most frequently cited factor explaining Turkey’s under-performance was lack of information and poor perceptions. This indicates the weakness of Turkey’s investment promotion, with 85 per cent of respondents stating that it is ineffective. Turkey is an example of how bad practices in investment promotion can reduce FDI in the context of increasing competition for investment. Several key weaknesses of Turkey’s promotion include:

- ▶ The national IPA is not distinct enough from the government bureaucracy, and does not have the autonomy and budget to employ the necessary skills and engage in effective investment promotion.
- ▶ There is no widespread support for attracting FDI, with minimal commitment from many parts of the Government.
- ▶ There is no clear investment promotion strategy and sectoral focus, an inadequate understanding of Turkey’s competitive position, and no capacity to identify and exploit market opportunities.
- ▶ For such a large and diverse country, there is a total absence of regional agencies to support the investment promotion effort. It is extremely difficult for a national IPA to promote all of Turkey’s regions, facilitate the investment process and engage in post-investment services.
- ▶ Investment promotion activities revolve around investor conferences that generally lack business focus and do not involve the participation of the investment community. The IPA places minimal emphasis on and has little capacity to conduct focused marketing and company targeting, which are widely recognized as delivering the best long-term results.
- ▶ Investment promotion efforts generally lack commercial orientation and awareness.

Box 1 (concluded)

- ▶ Reflecting the above, the inward investment Web site combines all the worst features: it can only be accessed through the Treasury’s Web site, it is extremely slow, it has no sectoral or regional information, it provides unique selling points that are not supported by any verifiable and up-to-date facts, it has no information on existing investors and it makes poor use of English.
- ▶ It is, therefore, not surprising that, in the survey of TNCs and multipliers, 60 per cent of respondents thought that Turkey has a poor brand image, 70 per cent said they would like more general information and 20 per cent said they would like information on regional differences. Over half of the respondents said that Turkey’s IPA needs to be able to provide very specific, investor-related information. In fact, after European Union membership, better investment promotion was identified as an important means for increasing FDI in Turkey.

Source: based on Loewendahl and Ertugal-Loewendahl, 2000.

Marketing aims at creating awareness of an area as a location for new investment among potential investors and multipliers and to correct weak or misperceptions about the area that could act as a “killer” factor. In other words, marketing aims at building up the image of the location and at putting it on the map. Marketing can also assist in repositioning areas that want to change the external image or perception of themselves.

Marketing is central to investment promotion, but is often a contentious issue. While evidence suggest that effective marketing can raise the profile of a location, there are always questions over the level of resources required, what marketing techniques should be employed and how much value marketing produces. Unfortunately, there is not a single answer. Each location is different, and marketing also has different objectives, from putting a location on the map, to developing a differentiated brand image or repositioning the existing brand image. Each location’s offer is likely to, and in fact should, be constantly evolving as its competitive position and the market opportunities change, which in turn may require new marketing initiatives.

There are many marketing techniques, each of which can be used separately or be combined together for investment promotion. While evidence suggests that general public relations.

(PR) campaigns associated with image building are much weaker in producing investment leads than company - focused sector targeting (Wells and Wint,1990), there is a strong argument for PR campaigns when:

- ▶ The reality in a country is better than the perceptions held by the international investment community (IFC, 1997, p. 50).⁶
- ▶ A country has not been a major host for FDI in the past (Wells and Wint, 1990).
- ▶ Domestic policies are reformed providing an opportunity for the agency to change its image.
- ▶ There is a change in strategic direction by the IPA, for example, by focusing on new sectors or activities.

Marketing is therefore particularly effective for locations that lack a recognized brand image. However, even if a location has a favourable brand image as an investment location, there may be bias among investors and investment brokers when it comes to specific sectors or activities. This is likely to be especially the case for an IPA that is changing the sectoral focus of its activities. Marketing techniques used by agencies to influence their brand image and generate leads include:

1. **General PR campaign**, for example, through advertising in newspapers, on bill-boards, on television (such as in business class on flights), in business and industry specific journals and on Web sites. These have generally been found to be less successful than focused marketing techniques (Wells and Wint, 1990).
2. **Printing of brochures**, newsletters, CD-ROMs and fact-sheets for distribution in conferences, investment missions and Web sites. Brochures and CD-ROMs are perhaps most effective when used in conjunction with other marketing techniques and when they are sector- or industry-focused (see box 2). Inward investment newsletters can highlight key changes in the economic environment, policy changes and recent project successes, and can be useful in keeping potential investors and multipliers up-to-date with the latest information on a location. Fact - sheets represent more focused marketing tailored to specific sectors and individual companies, and are often more effective in generating interest from companies (no company really wants to read an 80-page

⁶ See box 1 for the case of Turkey and UNCTAD (1998a) for IPAs in Central and Eastern Europe.
Transnational Corporations, vol. 10, no. 1 (April 2001)

investment brochure) and make more efficient use of limited investment promotion budgets (UNCTAD, 1999).

3. **Participating in investment exhibitions**, such as the World Investment Conference held in Lisbon in June 2000. This is more about networking and learning from other IPAs than generating interest from investors.
4. **IPA conferences** on investment opportunities to provide information, introduce potential investors into the culture of the location and regional differences and build the area & image with interested parties. The most successful conferences are sector-based and include presentations by satisfied investors, as box 2 illustrates for Australia. This helps maintain interest in the conference, adds credibility, attracts a private sector audience and demonstrates the business-friendly approach of the IPA. Furthermore, the fact that the IPA has been able to gain private sector buy-in to its sector strategy is a good indication that the strategy is realistic.
5. **Business conferences** are a relatively straight-forward and effective method of making contacts and networking with companies in target sectors and locations, but they are often very expensive to attend.
6. **Investment missions** in key source countries to generate interest in the area and start networking with potential investors and the wider investment community. Sector missions can be successful if guided by firm-specific research (company targeting) and feature customized “sales” presentations that match the presumed needs of the target investors with the alleged ability of the host country to meet those needs (Wells and Wint, 1990). Several techniques to maximize the effectiveness of investment missions are to include a satisfied investor, attend meetings with as few people as possible, and identify key decision makers and influencers as soon as possible and concentrate time and effort on them.
7. **Trade missions** can be a very successful method to develop strategic partnerships (such as joint ventures, technology licensing, and outsourcing agreements) between domestic and foreign companies. Inter - firm partnerships are recognized as a vital to technology transfer and the business development of small and medium-sized enterprises (SMEs), especially in developing countries (UNCTAD, 1998). Furthermore, this non-traditional FDI can often be a precursor to more traditional market entry methods. The most successful trade missions are sector focused and involve the careful selection of a relatively small number of complementary firms from the domestic and foreign countries.
8. Direct mail campaigns to private and public organizations. This is normally not the most effective method to generate interest and leads, at least if it is used as the sole marketing tool. Mail campaigns can be used in gaining market intelligence about companies as part of a longer - term company targeting campaign (stage 7).
9. Telephone campaigns to private and public organizations. This is only likely to be effective and cost-efficient as part of a company targeting strategy, focusing on key players and contacts within target sectors.
10. Creating an IPA Web site to develop the awareness and brand image of the IPA, provide information, gain market intelligence, and reduce costs and time in delivering marketing materials and brochures (box 3). The Web site is also becoming an important vehicle for generating leads, especially from companies in the information technology sector.

Box 2. Sector-based investment promotion in Australia

Australia is trying to position itself as a global financial centre for the Asian - Pacific market. Its main competitors are Singapore, Hong Kong (China) and Japan. To promote Australia, the Government, in August 1999, established Axiss Australia, an organization with the aim of making Australia a leading financial service centre. Axiss has private sector involvement and a wide remit. Axiss is composed of four main units: (i) a promotion unit to implement a focused and imaginative investment promotion strategy; (ii) an information and analysis unit to promote understanding of Australia; (iii) a policy unit to influence government policy; (iv) an education and training unit for the financial service industries, and to identify and address potential skills gaps. Axiss is an industry-focused, single agency with clear objectives developed in partnership with the Government and the private sector, and a specific remit that integrates promotion, marketing and product development.

In July 2000, Axiss cooperated with the national IPA (Invest Australia), regional governments in Australia and the private sector to organize an image-building conference in London. The conference was hosted by the Financial Times, giving Axiss the benefit of the Financial Times' network of business contacts. Axiss coordinated the conference with the press and ensured that there was extensive coverage in industry journals.

A Financial Times Survey on Australia was released on the same day as the conference. Key speakers promoting Australia were not only members from Axiss and the Government of Australia, but also major businesses, including leading banks (AMP, Citibank) and software companies (Oracle). The speakers highlighted Australia's advantages, using up-to-date, fact - based evidence. One - page, industry - specific marketing materials were available at the conference. Several investment leads were generated at the conference.

Sources: Axiss Australia, 2000a, 2000b, 2000c, 2000d, 2000e, 2000f, 2000g, 2000h.

The Invest in Britain Bureau (IBB) is a case-in-point of one of the world's leading agencies aiming at changing its image and making more effective use of the Internet. In June 2000, the IBB changed its name to Invest.uk in a swift attempt to both break-away from the image of a government "bureau" and to adjust to the "new economy". Invest.uk conveys better the image of a market - focused, commercial organization. The Web site, www.invest.uk.com, is much more accessible than its predecessor and has been significantly updated and expanded.

Box 3. Benchmarking IPA Web sites: Best practices from 10 sites

Almost every IPA has set up its own Web site, some far more sophisticated than others. While accurate data are not available on the hits leading IPA Web sites are receiving, and on the impact on brand image and leads, there are three arguments for IPAs to make effective use of the Internet. First, the increasing number and quality of IPA sites suggest that they are having a positive impact. Second, the rapidly growing importance of the Internet for marketing and information gathering indicates that it is probably only a question of time before the Internet becomes crucial for investment promotion. Third, there is a growing number of private sector Web sites offering a whole range of inward investment information, of which www.techlocate.com and www.ipanet.net are among the best, suggesting that there is a growing Internet - based market. Based on 10 IPA web sites (five for developing countries and five for developed countries from the four regions of the world), the key types of information being offered include:

- ▶ Geographical location and market access (with maps).
- ▶ Labour costs and availability and labour skills and education.
- ▶ Property and site costs and availability — through photographs, virtual tour and search functions.
- ▶ Infrastructure quality and costs (transportation, utilities, telecommunications, Internet).
- ▶ Technological infrastructure (R&D, patents, university-based clusters, graduates).
- ▶ Joint venture partners search function.
- ▶ Information and links to sub-national regions.
- ▶ Corporate climate, culture and quality of life.
- ▶ Support available from the IPA and other agencies and red tape.
- ▶ FDI trends, leading investors and testimonials.
- ▶ Sector - based information, presentations, research/annual reports and marketing brochures, all downloadable.
- ▶ Information on the wider region, e.g. Baltic region, Iberian region, Balkan region.
- ▶ Latest news — sometimes available as e-bulletins.

A best practice IPA Web site should combine the following features:

- ▶ A clear, easy-to-use structure, with a site map and search function.
- ▶ Speed, with simple, but effective graphics.
- ▶ Links regions, government departments and other important stakeholders, as well as to IPA contacts.
- ▶ Sector-specific options, with tailored information on target sectors, industries and activities.
- ▶ Regularly updated (perhaps weekly) news reports, data etc.
- ▶ Registration, e.g. to e-bulletins, to gather market intelligence and deliver tailored marketing to users.
- ▶ Good quality foreign language options, especially for key FDI source countries.
- ▶ A strong sales message with unique and distinctive selling points.
- ▶ The use of reliable, up-to-date, comparative data supporting information and arguments.
- ▶ A “contact us” feature for potential investors to generate leads.

Sources: United Kingdom (www.invest.uk.com); Sweden (www.investinsweden.com); the Czech Republic (www.czechinvest.com); Ireland (www.idaireland.com); Bulgaria (www.bfia.org); Turkey (www.treasury.gov.tr); Singapore (www.sedb.com); Thailand (www.boi.go.th); Canada (www.investincanada.gc.ca); Costa Rica (www.cinde.or.cr).

Stage 7: Company targeting

Intensified competition for inward investment (Oman, 2000; Moran, 1999) makes it crucial to develop clear and distinctive business arguments to demonstrate competitive advantage in promoting areas for sectors. Leading IPAs are increasingly using sophisticated proposition-based marketing to target individual companies with specific business opportunities. This is a complex and long-term process with two main parts:

- ▶ Identification of potential investors.
- ▶ Relationship building with target companies.

The first part involves identifying a manageable number of potential investors in priority sectors. The traditional company targeting approach uses business databases and consultants to identify companies through an evaluation criteria, often based on factors such as the size and performance of company, R&D intensity⁷, and exports to the host location. Companies that fit this criteria in each target sector may number in the thousands, and these can be narrowed down to a hundred or so by focusing on companies that are “active” investors with recent FDI projects and those with an explicit internationalization or globalization strategy. Accurate contact details for each company are needed so that the agency can make initial approaches.

Despite being resource intensive, this is only the starting point. It is very unlikely that the companies identified will have immediate FDI projects that the host location can compete for. The key to lead generation is relationship building, and a traditional company targeting approach can be useful in providing an initial list of companies from which to begin the process.

As IPAs now target activities as well as sectors, traditional company targeting becomes more difficult. Activities such as call centres, headquarters or e-business cut-across sectors and do not fit into standard business classification databases. Hence, many agencies, emulating the success of IDA, are focusing increasing resources on developing long - term relationships with senior contacts in existing investors, and are networking in business organizations and at conferences and investment and trade missions to identify potential investors and projects.

Whether target companies are identified using a traditional company targeting approach, or through business networking, relationship building is key. When an IPA first approaches a potential investor, the mindset of the project officer is crucial. If the officer believes that it is simply a case of asking a company if they have an FDI project and then moving on to the next company they will not only be unsuccessful, but they will also very quickly have their morale and commitment eroded. It is vital to appreciate that it is not companies that make investment decisions but people. A successful IPA is one that develops a long-term relationship with key people in potential investors.

Rather than a hard-sell, in the initial contact the IPA should outline the advantages of the location and the assistance the IPA can offer. If there is a specific opportunity, such as a new science park, this can be outlined to the company. The project officer contacting the company can offer to send more information by post. (Often the company will request this anyway.) A one-page well-presented, clear and succinct proposition-based summary focusing on the unique and distinctive advantages of locating in the region and tailored to the individual investor is often an effective approach (Spar, 1998; Christodoulou, 1996).

Approaching companies should not be seen as a methodical exercise; it is not about one-off approaches to a fixed number of companies each day, but rather a market intelligence gathering and relationship building campaign. For companies that appear to have a more immediate interest, suggesting an appointment to meet and discuss with the company in more detail the opportunities in the host location can be

⁷ Academic research has found that R&D is a key ownership advantage of firms and is correlated to FDI (Hennart and Park, 1994; Kogut and Chang, 1991; Grubaugh, 1987).

appropriate. If an appointment is made, a relatively senior figure from the IPA should meet the company, possibly accompanied by a sector expert.

It is important to have a sustained approach to companies and to develop long-term relationships. Techniques to build a relationship with target investors include:

- ▶ Drip - feeding the company with regular information updates on the location, tailored to the individual company & requirements.
- ▶ Organizing networking events that bring together the IPA, key target companies and the wider investment community. These can revolve around formal sector-specific conferences and more informal events, for example related to important national celebrations and cultural activities. The use of embassies is one way to attract more attention and reduce costs. Contacts in the investment community, e.g. through expatriates, can be leveraged to support networking events.

Generating investment is both time consuming and labour intensive, and positive results do not come from one meeting or one investors' conference. As the IFC (1997, p. 50) notes, some agencies have courted certain investors for years.

C. Facilitation

Stage 8: Project handling

No matter how effectively an agency markets its location and generates leads, this is unlikely to result in actual projects unless there is effective project handling. The aim of project handling is to convert an investment enquiry into an actual investment. Key issues to consider in enquiry and project handling include:

- I. **Ownership** - When handling enquiries, most agencies nominate a key account contact or project manager to every serious investment enquiry or potential project. This enables clear leadership and coordination. They act as the central point of contact for the investor. As well as being able to develop professional respect and personal rapport with the investor, the project manager needs good contacts with government bodies and private sector advisers to facilitate the project.
- II. **Investor requirements** - To win a project requires the full and accurate understanding of the investor's location requirements. For example, Costa Rica's IPA, CINDE (Costa Rica Investment and Development Board), adopted a micro-targeted approach to attract Intel, which included the build-up of detailed information on the electronics and semiconductor sector to understand the company's needs (Spar, 1998). The more experienced agencies prepare a project brief, which includes a full description of the company, its strategy, expansion plans and exact project-specific requirements particularly relating to the property or site. It is important at this stage to win the trust of the company, and the project manager should gain confirmation from the company on what information should remain confidential and to whom. Information gathering can also form part of a due diligence on companies. Quite often an enquiry can be from a small or start-up company which is looking for public finance that it could not get elsewhere, and therefore is unlikely to be a priority for the IPA. Additionally, due diligence can alert an agency to an investor who is "playing-off" different locations to bid up the "offer".
- III. **Visit handling** - The investor is likely to make one or more visits to the proposed location, and it is very important that the IPA facilitates this process together with other stakeholders in the investment. As well as information provision, the investor will be aiming at looking at potential sites for the investment. These may be in several regions within the country, and often the investor will have a very tight timetable involving visits to other countries. The professionalism of the agency in preparing an itinerary

and coordinating visits can be crucial in winning the investment, especially because the executive from the investor is likely to have a senior position in the company, and possibly will be based in the location where the new investment is made. Furthermore, meeting the IPA will sometimes be the first contact that the executive will have with the host country. If the agency makes the right impression, then this can reflect on the location as whole. As with conferences and investment missions, the (agreed) presence of a major existing investor at one stage during the visit can create a comfort factor.

- IV. **Information provision** - Depending on the size and complexity of the investment, the investor may request information ranging from site and property availability, to local supplier quality, the number of graduates in certain disciplines, transport and communications infrastructure, energy resources and price to labour costs, labour availability and recruitment costs. Accurate information should be supplied in a well-presented format as quickly as possible, which often depends on the quality of links between the IPA and other stakeholders, especially regional agencies.
- V. **Package offer** - Successful investment locations develop ready-made packages of incentives and services for rapid response to enquiries that also cater for sectoral initiatives (Christodoulou, 1996, pp. 8-10). However, D. Spar (1998) argues that IPAs should refuse to engage in “extraordinary” measures, as it can undermine the professionalism of the agency in the eyes of the investor and it may also act against the interests of the location if the agency tries to “pick winners” by offering over-sized subsidies. Often “softer” forms of support, such training and recruitment services and property and site provisions, are central parts of the offer. As with company targeting, the investor should be presented with high quality, customized information, effectively and succinctly addressing all the information and project-specific requirements. Any unique or distinctive arguments for investing can also be outlined, and the use of high quality photographs of sites or buildings and location maps can be provided.
- VI. **Facilitation** - Most IPAs offer “one-stop shop” for facilitating the investment. The range of services offered can vary from consulting, expediting applications and permit processing, screening or evaluating the project, and providing incentive negotiation and approval (Young and Hood, 1995; Young et al., 1994; Wells and Wint, 1991). According to a study by Wint (1993), the speed and cost of obtaining post-approval permits, licenses, and planning permissions are often crucial to the investor. Key to fast, efficient facilitation is not only the professionalism of the IPA, but also their links and influence with government ministries and other stakeholders. The facilitation may take weeks, months or even years, but throughout the process it is important for the project manager to maintain a relationship with the investor.

C1. Investment services

Stage 9: After-care and product improvement

After-care refers to the post-investment services that an IPA can offer to existing investors, and it is a key area of policy for many agencies both for generating new investment and upgrading the quality of existing projects over time. In larger countries, after-care is normally administered at the regional level, but it is nationally coordinated. The objectives of after-care include:

1. Supporting re-investment by existing investors. Most FDI is in the form of re-investment or expansions by existing investors, and the knowledge that the IPA will provide effective support in meeting any difficulties that arise can be a critical factor in winning an investment, especially for areas with weaknesses in their “offer”.
2. Increase the value of the investment to the host country through increasing the share of value added sourced from local firms and upgrading the operations of the investor overtime (see

Birkinshaw and Hood, 1998, for subsidiary evolution). Inward investment should form dynamic relationships with local SMEs and linkage programs and access to research institutes are important for genuine upgrading (Amin and Tomaney, 1995).

3. Helping to “embed” TNCs more strongly in the area and reduce the risk of closure. This is becoming more important with ongoing rationalization and reorganization of TNC operations. Intermediary agencies and government programs should create cooperative networks between firms and between firms and support institutions (Pyke, 1997).
4. Generate new leads by reinforcing the quality of a location for a potential investor and by using existing investors as “ambassadors” who will influence other firms to consider the country as an investment site. Developing good links with local managers has been central to investment promotion of locations like Oregon and Ireland.

Product development refers to the supply-side policies that improve the competitive advantage of a location and its attractiveness for FDI. Product development is integral to achieving many of the objectives of after-care. The increasing emphasis of IPAs on both after-care and product development is making the distinction between indigenous and inward investors increasingly redundant (Christodoulou, 1996, pp. 11-13). For example, box 4 shows that the Northern Development Company (now One North East) spent only one third of its resources on attracting inward investment.

Box 4. After-care and supply chain development in North East England

North East England has been one of the most successful regions in Europe in attracting inward investment. However, in the 1990s the Northern Development Company (NDC), the agency charged with attracting investment into a region, broadened its objectives from not just attracting new investment, but also to making sure that inward investors stayed in the region and made a positive contribution to the region & s economy. The NDC developed a comprehensive after - care policy, with two main dimensions:

- ▶ The United Kingdom’s first **Investor Development Program**, which enables the NDC to remain in contact with around 400 strategically important companies. The NDC collaborates with foreign affiliates to help them meet their competitive needs, such as developing supply chains, cutting costs, or preparing business cases to their parent companies. The key aims are to guard against the risk of dis-investment and job loss by committing major investors to re-invest in the region and by supporting investors in the face of demands for rationalization or closure from the parent company.
- ▶ **Supply Chain Programmes**, with a team of business development managers (BDMs) interfacing between the major investors and the SME sector. The aim is to facilitate upgrading the quality of local suppliers to enable local industry to meet the needs of major investors, with the objective of increasing local sourcing and embedding TNCs by raising their exit costs. Furthermore, through helping local suppliers to upgrade and become first - tier suppliers, the NDC hopes that this will improve the attractiveness of the region to inward investment. In 1997 and 1998, each BDM was tasked with developing a thorough understanding of the supply chains of 10 final manufacturers or primary suppliers of sub-assemblies in each of their industries. They identified 20 potential regional suppliers and profiled their capability. Each of the eight managers, who have procurement and production engineering backgrounds, worked on 30 supply chains as a result of this activity.

In the mid-1990s, the Investor Development Programme was credited with creating over 9,000 new jobs. During 1996-1997, the Investor Development and Supply Chain Programmes helped to contribute nearly £1 billion to the regional economy — more than inward FDI. By the end of the 1990s, about half of the NDC& s traditional inward investment work was focused on existing investors, and less than one third of its resources went to the attraction of new FDI.

There are four main areas of product development relevant to an IPA:

- ▶ **Infrastructure and property development** - The availability of good domestic and international transport links is important for almost every investment project. Major projects often involve infrastructure improvements and property development as part of the investment package “offer”. Some agencies develop pro-active infrastructure and property development programs (“catalyst projects”) specifically tailored for target sectors and investors.
- ▶ **Supply chain development** in order to increase local sourcing and embed TNCs into the local economy. Several agencies have established supplier associations focused on large inward investors. These are combined with measures to build up the capacity of the supply base through targeted investment, training and enterprise development and cooperation between focused suppliers (Cooke and Morgan, 1998; Battat et al., 1996; Young et al., 1994; Turok 1993; Amin et al., 1994). Examples include Singapore’s Local Industry Upgrading Program, Ireland’s National Linkage Program and the Czech Republic’s National Supplier Development Program, which was expanded in 2000 with the launch of a new Web-based service for foreign investors looking for joint venture partners.
- ▶ **Innovation development** recognizes that it is not simply a case of forcing inward investors to contribute more to the local economy (Lall, 1997; Dicken et al., 1994). Innovation policy has a crucial role to play in fostering the innovation base of the local economy to ensure that it is in the TNCs’ interest to allocate more complex and important functions to the location (Eisenschitz and Gough, 1993; Deeg et al., 1989). Among the most successful economies in innovation development include Germany, Taiwan Province of China and Singapore. Each has established institutions and financial incentives to promote technology transfer between inward investors, SMEs and research institutes, and encourage R&D and the progressive upgrading of foreign and domestic firms (Esser, 1988; OECD, 1999, p. 42; Battat et al., 1996). Innovation policy is widening to include support for new firm start-ups, university spin-offs, science and technology incubators and parks and the promotion of an innovative, entrepreneurial culture.
- ▶ **Skills development** - The most successful agencies develop an integrated inward investment, after-care and product development strategy, of which skills development is central (see box 5 for the case of Ireland). The effectiveness of policies to attract FDI and encourage links between inward investors, local firms and research institutes depends on the quality of personnel available. In manufacturing and R&D, scientific and engineering skills are crucial, while in service industries, such as financial services and software, information technology skills are increasingly vital. Training solutions, such as those provided by Taiwan Province of China, China Productivity Centre and Republic of Korea’s Small and Medium Industry Promotion Corporation, and an education system that provides high-level technical skill are key components of a skills’ development policy (Lall, 1997; Christodoulou, 1996; Amin and Tomaney, 1995).

Box 5. An integrated targeting, after-care and product development strategy: the case of Ireland

In 1975 Ireland's per capita income was only 63 per cent of the European Union average. Ireland's industrial policy that centered on attracting FDI seemed to be failing. Unemployment rose to a peak of 18 per cent and the debt/GNP ratio approached 130 per cent. A report by the National Economics and Social Council in 1982 argued that Ireland had taken on the characteristics of an economy dependent on foreign branch plants. The report identified several key weaknesses of the dependent economy: (i) low skill content of much of employment; (ii) high cost and short duration of much of the assisted employment; (iii) low levels of commitment to R&D; (iv) the poor performance of the indigenous sector; and (v) limited linkages with the rest of the economy. In response, the Government made radical policy changes that have led to Ireland becoming one of the world's biggest economic success stories. Key policies adopted included:

- ▶ The National Linkage Programme to foster links between inward investors and the domestic industry. The programme covers market research, matchmaking, monitoring and troubleshooting, business and organization development and the creation of a specific arm of IDA to promote indigenous firms.
- ▶ After-care and plant upgrading, which is concentrated on about 50 key companies in five target industries. The IDA targets companies having high potential for new investment, or that can leverage investment from other companies. Links are forged with the management, in particular with committed local managers, in order to improve plant competitiveness by making sure that the local management is fully informed of Ireland's advantages and, through working with IDA, on future expansion plans and new investment opportunities. About 20 senior staff in the IDA are each responsible for some 2-5 target after-care firms.
- ▶ High skills policy, which involved the expansion of education so that over 40 per cent of school leavers now go on to third level education, a share set to rise to 50 per cent. The emphasis has been on information technology and science subjects as part of a pro-active strategy anticipating future needs. Computer provision and training in schools has increased dramatically, and IDA officers have visited every school and have written to every parent to explain the nature of the training. A wide range of training initiatives has also been introduced for older people.
- ▶ Technology policy, which includes the 2000 Technology Foresight Fund with a \$1 billion expenditure plan to boost R&D in information technology and biotechnology. Telecommunications deregulation and a \$65 billion National Development Plan, with a focus on e - business and infrastructure development, are also intended to support technology activities.
- ▶ Targeted inward investment strategy, which has become a best-practice model for other IPAs. The IDA & industry-focused marketing and company targeting has evolved over time. In parallel, overseas operations were refocused on locations having a high concentration of target companies in new target industries. Sector/industry specialists were recruited to develop the industry - based strategy and meet with potential investors. United States electronics and pharmaceutical industries were targeted in the 1970s, software and internationally-traded services in the late 1980s and 1990s, and in 2000 IDA targeted information technology, multi - media and e - business. In the 1990s, IDA adopted a cluster-based targeting approach, where target industries and companies were attracted to industrial clusters. From 2000 onwards, IDA will focus on attracting companies to more peripheral regions, which are expected to benefit from the product development activities of Ireland's November 1999 National Development Plan. The objective has shifted from job creation to the promotion of outsourcing linkages with domestic firms and attraction of headquarters and R&D functions.

Box 5 (continued)

- ▶ Low corporate tax has been a central pillar of Ireland & s attractiveness for inward investment. Corporate tax is currently set at 10 per cent and many exemptions are available.
- ▶ Property development was developed as a joint initiative between the public and private sectors. A key element in the programme has been catalyst projects, in particular the high-quality International Financial Services Centre in Dublin.
- ▶ The impact of IDA & s integrated marketing, targeting and product development strategy has been impressive:
- ▶ During 1980-2000, real GDP growth has averaged almost 7.5 per cent per annum — the highest among Organisation for Economic Co-operation and Development (OECD) members.
- ▶ In 1999, per capita income was \$24,353 — the twelfth highest in the world — and unemployment was 5.8 per cent.
- ▶ During 1980-1987, employment in indigenous industry fell by 27 per cent, but during 1988-1996 it increased by 6.4 per cent — opposite to trends in the OECD and European Union.
- ▶ In 1999, IDA recorded 17,590 new FDI-related jobs. With 9,000 job cuts by foreign firms, the net gain was nearly 9,000.
- ▶ Ireland has become the leading location in Europe for high value-added industries, such as software, teleservices, shared services and pharmaceuticals and health products. These are the same sectors IDA has targeted for many years.
- ▶ Between 1992 and 1997, IDA attracted over 150,000 new jobs in its target industries.
- ▶ In 1999, one quarter of the 17,590 new FDI jobs supported by IDA were high-skilled, with salaries over £25,000.

Sources: Pitelis, 1997; Barry and Bradley, 1997; Görg and Ruane, 1997; O Donnell and O Reardon, 1996; Greer et al., 1995; Battat et al., 1996; Amin et al., 1994.

Several leading agencies are integrating product development activities (infrastructure, supply chain, innovation, and skills) into catalyst projects and are combining them with sector and company targeting activities in order to develop advanced clusters.⁸ Ireland, France, Singapore and regions in the United States and Canada have each developed a cluster-based strategy for target sectors. Key examples include:

1. **Ireland's International Financial Services Centre (IFSC)** offers purpose - built new offices, reduced 10 per cent corporate tax and other tax benefits, a recruitment service and an expatriate support package for headquarters projects. These are combined with an intensive, focused marketing campaign to target companies and a longer-term skills improvement program, particularly targeted at information technology in schools.
2. **The French technopoles** offer high quality sites and properties in specialist industrial parks and locations offering a very high quality of life to attract skilled R&D people, training grants and an expatriate support package. The sites are supplied by the private sector. To support high-tech clustering, technopoles have on-site research facilities and links to research establishments and universities. Technopoles were set up to attract R&D investment in specific sectors, such as multi-media, food technology and electronics.
3. **Singapore & life science strategy** aims to encourage companies to move into higher value-added manufacturing, increase and commercialise R&D and build up value-adding partners. To achieve these objectives the SEDB has set aside 250 acres of land as a "Pharma Zone" — a catalyst initiative to develop a cluster of local and foreign pharmaceutical and biotechnology companies — and a Technopreneur Centre has been developed to support SMEs. These initiatives are integrated with the activities of other government departments, and there is a wide range of incentives tailored for manufacturing, R&D, new start-ups, and for developing links with research institutes. To support longer - term product development, there are training grants that cover up to 70 per cent of training costs, a new medical school established to train life science professionals, and several hundred scholarships for students to study life sciences.
4. **New York's "new economy" strategy** is designed to attract "new economy" information technology and e - business companies. Integral to this strategy is a cluster-based, catalyst initiative called 55 Broad Street. This initiative has developed a purpose-built property block to stimulate and attract high value-added, "new economy" activities. The block, designed for the new economy, includes dedicated broad-band satellite telecommunication facilities. It is now home to hundreds of small businesses. The occupants pay below market rents, and benefit from tax concessions and cheap utility bills. 55 Broad Street was a partnership between the private owners of the property block, New York & s Economic Development Corporation and various corporate and institutional sponsors.
5. **Quebec "new economy" strategy** aims at developing higher value-added activities in Quebec, and in particular at developing Montreal into a new economy hub. Central to this strategy is developing high value clusters around Montreal's strong universities and high - technology industries and attracting R&D through very generous tax credits. To support the clustering of "new economy" businesses, a catalyst project was announced in Montreal called E-Commerce Place, based on the success of 55 Broad Street. This is a dedicated 275,000 square meter campus, targeted at e-commerce businesses. It cost almost \$500 million to build and will become operative in 2001. Companies that decide to locate there will be able to benefit from a 25 per cent tax credit on their employees' salaries of up to \$6,500 per person per year available until 2010, provided that at least 75 per cent of their activities are devoted to e-commerce development or services. Nasdaq International and CGI have already announced their decision to set up shop in E-Commerce Place.

⁸Porter (1999) defines a cluster as a geographical concentration in a particular country – or region within a country – of a group of related and supporting firms that create information flows, incentives, spin-offs, new companies – an innovative vitality. The OECD (1999, p. 36) defines clusters as "networks of suppliers, customers, and knowledge-creating institutions which together create value-added".

The use of catalyst projects to develop clusters is particularly powerful for attracting activities from smaller, “new economy” companies that do not have the time or resources to conduct a detailed appraisal of new investment locations. Furthermore, these are difficult for investment agencies to target. These catalyst projects generally do not discriminate between foreign and domestic firms. The above examples suggest that cluster-based initiatives depend on several key success factors, including:

- ▶ The integration of product development, company targeting and highly focused marketing.
- ▶ Partnership with other government departments, universities and the private sector.
- ▶ Catalyst projects that are carefully developed to meet investors & critical requirements.
- ▶ Transparent and mandatory incentives available for a limited time (which has favoured the use of tax incentives tailored for activities and which do not discriminate between foreign and domestic firms).

Stage 10: Monitoring and evaluation

There is increasing recognition that monitoring and evaluation is becoming a more important activity for IPAs for three major reasons:

1. Internal organizational effectiveness: to promote knowledge transfer and coordination between project officers between offices, make effective use of market intelligence and increasingly to prioritise discrete resource to support companies which will create the most benefits or the location. A key method is satisfaction surveys of investors and economic impact studies. As IPAs become more commercially orientated and the investment market becomes more competitive, organizational effectiveness is very high on the agenda for many IPAs.
2. After - care and product development: monitoring the purchasing, R&D and training performance of investors has been effective in ensuring that the innovation and skills supply-side infrastructure meets the needs of inward investors and encourages continuous upgrading of activities (Amin et al., 1994; Amin and Tomaney, 1995). The SEDB is a key example.
3. Accountability: investment promotion is resource intensive, and often IPAs recruit people from business and pay higher salaries than other government agencies. However, as IPAs are almost always funded by tax payers, they are under public scrutiny, and issues such as financial accountability, efficiency and evaluation are becoming increasingly important (Halkier et al., 1998). IPAs are under increasing pressure to demonstrate impact, efficiency and effectiveness, heightening the role of monitoring and evaluation. Many agencies produce an annual report outlining jobs created and capital investment generated from inward investment, as well as a more detailed breakdown of the source and sectoral composition of FDI. Even IPAs with weak investment promotion, such as Turkey, monitor and make publicly available statistics on FDI.

However, the level of monitoring varies enormously. Several IPAs require investors to give them a “receipt” with different grades depending on the level of support given to demonstrate that the IPA is facilitating investment, while other agencies conduct sophisticated monitoring and evaluation of all their activities. Among the most advanced is Invest in Quebec, which provides detailed analysis of investment missions, foreign and domestic projects, regional segmentation, a satisfaction survey of assisted companies and a detailed evaluation — undertaken by an external economist — of the economic impact of its activities, as well full financial statements (www.investquebec.com). Detailed monitoring and evaluation not only increases accountability, but also indicates areas that can be improved and provides information valuable for strategy formulation.

D. Conclusion

This article has highlighted the importance of investment promotion for attracting inward investment. The framework provides four clear messages for successful investment promotion:

- I. An investment promotion strategy should be based on coherent objectives set and agreed by all the major stakeholders and underpinned by rigorous analysis of a location's competitive position. Effective coordination between industrial policy and investment promotion is also essential at the central and regional levels.
- II. Lead generation is most effective when long - term relationship building with target investors in priority sectors is combined with focused marketing. The intelligent use of catalyst, cluster-based initiatives appears to be particularly effective in attracting "new economy" type firms and R&D activities.
- III. Effective facilitation is vital if leads are to be translated into actual projects. A coordinated and professional approach to project handling at the national and regional levels is essential if a location is to compete successfully for mobile international projects.
- IV. To maximize the long-term benefits from inward investment and maintain and develop the competitive advantage of a location, after - care and product improvement activities should form a major component of investment promotion activities.

While the appropriate organizational structure for successful investment promotion will vary depending on the objectives in attracting FDI, size of the country and role of regional agencies, the framework suggests that IPAs need to operate along business lines if they are to achieve results in a competitive, commercial environment. A significant degree of autonomy and sufficient resources are therefore required. At the same time, IPAs need excellent links with governments and private sector actors and a direct influence in policy. Getting the relationship right between national and regional IPAs is also of importance in larger countries. Regions within a country are often their own major competitors, and a national agency may have an important role to play in coordinating their promotion efforts and presenting to the investor an unbiased point of entry into the country.

The effective operation of an investment agency is far from easy, with agencies facing competing demands to attract FDI, demonstrate addition-ality and cope with pressures from different government departments and regions to serve their interests. Furthermore, IPAs in most parts of the world face intensified competition for investment, and are confronted by a rapidly changing FDI marketplace, in which the speed of response and quality of the product are becoming increasingly vital.

However, IPAs can play a powerful economic development role as they influence not only the attractiveness of their location for inward investment, but also the benefits accruing to the local economy. The framework outlined in this article should help guide IPAs through some of the complexities of successful investment promotion and provide many avenues for much needed further research in this important area.

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F. About us

F1. WAVTEQ

WAVTEQ is an international **FDI consulting** and technology firm advising companies on **site selection** and economic development organizations on **how to attract FDI**.

WAVTEQ's team of **50+ FDI experts** located in our **10 offices across Asia, Europe and US** have assisted over **1,000 companies** on **\$50 billion** of realized greenfield investment projects.

As well as providing consulting advisory and **lead generation services**, WAVTEQ develop **FDI tracking and corporate location databases**, including our proprietary **IncentivesMonitor** and **FDI Professionals** databases and the Financial Times' **fDi Markets** and **fDi Benchmark** databases.



F2. About the author

Dr. Henry Loewendahl is Group CEO of WAVTEQ with 20 years of FDI experience. Henry has transformed our knowledge of global FDI and competitiveness through his pioneering work developing new data sets on FDI. Henry has many academic and professional publications and is recognized as one of the leading global experts on FDI. Over his career he has advised well over 100 governments and multinational enterprises on FDI. He has a PhD studying Japanese and German FDI and best practices in investment promotion.

