

**Multinational Enterprises and Investment Motivations: A Strategic
Analysis of Inward Foreign Direct Investment into Ireland**

VOLUME I
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**A thesis submitted in partial fulfilment for the degree of
Doctor of Philosophy**

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March 2012



Declaration of Authorship

I, Fatima Annan-Diab, hereby declare that this thesis and the work presented in it is entirely my own. Where I have consulted the work of others, this is always clearly stated.

Signed: Fatima Annan-Diab

Date: 15 March 2012

Acknowledgement

Many people have helped me complete this doctoral thesis. I am particularly thankful to John and Clare Fogarty whose friendship, support, encouragement, and proofreading skills have been invaluable. I am grateful to my friend Fragkiskos Filippaios for his insight, understanding of the subject, inspiration and the time that he dedicated to helping me complete this project. To Frank Barry for welcoming me into Ireland when I needed advice on moving the project forward. Á Jean-Noel Ezingearde whose encouragement helped me with all things French. Merci Bien! Arthur Money for making this journey fun, for his mentoring, the useful discussions about business and, of course, academic life. I am also grateful for the supervision provided by Romano Dyerson and Brendan McSweeney. To my friend Julia for her superb formatting skills. I would also like to acknowledge the financial support given by Kingston Business School, and my Kingston friends and colleagues who have been tolerant, encouraging and full of good advice.

I am thankful to my parents and family for the loving support they have always provided. I dedicate this thesis to my wonderful husband Shawki and our beautiful daughters, Dinah, Tania and Anna for making my life fun – they have been with me every step of the way.

Finally, I dedicate this chapter in my life to my beloved mother whose illness gave me the drive and determination to complete this project before she passes away.

عندما تحمد الله اعلم أَنَّ الله هو الذي وفقك

Abstract

From both a firm and country perspective understanding the nature of multinational investment decisions is an important topic in understanding the contribution it makes to the economic growth, development of national prosperity and wealth creation of individual countries. The corporate decision as to where to invest, the resources and core competences to commit to each location is crucial for the creation of a firm's sustainable competitive advantage. Understanding the process of corporate investment decisions contributes to generating effective managerial recommendations to be adopted by multinational enterprises and to generating appropriate economic policies for host countries to enhance their attractiveness as investment destinations.

The objective of this thesis is to develop a conceptual framework that provides insights into the strategic decision-making behaviour of multinational firms. It seeks to advance the understanding of the link between multinationals' foreign direct investment behaviour and location-specific considerations, which influence their ultimate investment decisions. The underlying assumption of this research is that in a changing global economy, resources and core competences of the multinational firm drive its decision making process with respect to international investment; furthermore multinational investment decisions are influenced by the changes in the environment of the host country.

The notion that the manner in which a firm utilises its resources contributes to the development of its core competences directly influences its strategic and investment decisions. As a consequence, firms must examine and understand the resources and capabilities that enable them to generate above-normal 'rates of return'; this process will help the organisation to compete in the most effective manner in dynamic global markets.

This research adopts a resource-based view with relevant key insights drawn from International business theory to understand multinational foreign direct investment decisions and motivations. The development of a theoretical framework for multinational investment motivations bridges the resource-based view and international business literature; additionally it addresses a key challenge for the two literatures by reducing fragmentation and synthesising different theoretical perspectives.

To achieve the objective of this thesis, Ireland was chosen as a subject for study. An in-depth investigation of 98 multinational firms who have undertaken investment in Ireland between 2003-2009 was undertaken. These firms were chosen on the basis that they had disclosed the motivation for their decision to undertake this investment.

The rationale for choosing Ireland was based upon the fact that the country achieved rapid transition from a 'developing' to a 'developed' economy, with foreign direct investment contributing significantly to this.

In broad terms the contributions and key findings of this work can be summarised as:

- (i) Establishing the pivotal role for firm's resources, capabilities and core competences in driving firms' investment motivations;
- (ii) Identification of which resources, capabilities and core competences are associated with specific investment decisions and the locational characteristics, which make them valuable. These are empirically validated through the application of the resource-based view theory in the Irish business environment and industry context;
- (iii) The identification of specific linkages between firms' motivations and firms' resources, and how the foreign direct investment motivations of multinationals relate to the external environment of the host country;
- (iv) The identification of the fact that some of the firms, who invested in Ireland, exhibited more than one motivation for undertaking their investment;
- (v) The identification, by making context specific, of firms' resources, capabilities and core competences that are associated with multinationals' decisions to invest in Ireland.

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List of Abbreviations

CEEC – Central and Eastern European Countries
CSAs - Country Specific Advantages
CSO – Central Statistics Office
ECB – European Central Bank
EEA – European Economic Area
EES – European Employment Strategy
ERM – European Exchange Rate Mechanism
ES – Efficiency Seeking
EMU – European Monetary Union
FDI - Foreign Direct Investment
FSA - Firm-Specific Advantage
GDP - Gross Domestic Product
GFCF – Gross Fixed Capital Formation
GNI – Gross National Income
GNP - Gross National Product
IB - International Business (literature)
ICSTI – Irish Council on Science, Technology and Innovation
ICT - Information and Communications Technology
IDA - Industrial Development Authority
IDP - Investment Development Path
IFSC – International Financial Services Centre
ISSC – Information Society Steering Committee
KBV - Knowledge-Based View
KS – Knowledge Seeking
MandAs – Mergers and Acquisitions
MNC - Multinational Company
MNE - Multinational Enterprise
MS – Market Seeking
NC – National Competitiveness Concept
NESC – National Economic and Social Council
NLP – National Linkage Programme
OECD - Organisation for Economic Co-operation and Development
OL - Organisational Learning
OPIC – Overseas Private Investment Corporation
PCM - Product Cycle Model
PNR - Program for National Recovery
R&DandI – Research, Development and Innovation
RBV - Resource-Based View
RBT – Resource Based Theory
RQ – Research Question
RS – Resource Seeking
SAS – Strategic Asset Seeking
SCA – Sustainable Competitive Advantage
SCP – Structure Conduct Performance
SM - Strategic Management (literature)
TMT - Top Management Team
VRIS (or VIRN, or VRIO) – valuable, rare, inimitable and non-substitutability

List of Key Terms

Absorptive Capacity is the firm's ability to recognise the value of new information, to assimilate it, and apply it to commercial ends. It is also a key factor to innovation capability (Cohen and Levinthal, 1990).

Coordination is the firm's capability to deal with the interactions of the physical items and functional areas. Coordination is defined in this thesis as the firm being customer focused and its ability to interlink specialty areas, equipment, and processes.

Competence is the firm's ability to perform a function. It draws on a set of 'building blocks' called resources. A competence is the way a firm nurtures and develops its unique set of resources and may be significant in determining its future strategies (Mills et al., 2002, pp. 9–14).

Core Competence are a firm's competences that 1) make a disproportionate contribution to ultimate customer value, 2) lead to efficiency which value is derived from and 3) provide a basis for entering new markets (Prahalad and Hamel, 1990, p. 82).

Country-Specific Advantages form the basis of the global platform from which the multinational firm derives a home-base "diamond" advantage in global competition (Porter, 1990; Rugman, 2006).

Downstream Core Competences determined for the purpose of this research, includes firm-specific resource and capabilities in: customer focus; team orientation; technology; competitive marketing; communication; synergies; technological contribution; organisation contribution; human contribution; and new markets (building on the work of Hamel and Prahalad, 1994).

Dynamic Capabilities are 'the firm's processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match or even create market change. Dynamic capabilities thus are the organisational and strategic routines by which firms achieve new resources configurations as markets emerge, collide, split, evolve and die' (Eisenhardt and Martin, 2000, p. 1107).

Efficiency Seeking involves relocation of production of specific existing goods to a particular country aiming at sharpening the cost-efficiency of their manufacture in order to enhance (or defend) MNEs' competitiveness in those (usually higher-income)

markets where they are already well established (Behrman and Wolfe, 1984; Porter, 1986; Dunning, 1993; Dunning and Pitelis, 2008).

Foreign Direct Investment represents the acquisition by residents of a country of real assets abroad.

Firm-Specific Advantage is defined as a unique capability proprietary to the organisation. It is unique because the capability is specific to the firm's relative strength over its competitors. It is the way the firm utilises its resources that give competitive edge. Firm-Specific Advantage may be built upon asset or product or process technology, marketing, or factor endowment, especially natural resources (Rugman, 1981, 1996, 2006; Rugman and Verbeke, 2001).

Industry is defined as a group of firms that shares similar characteristics and the analysis relates to an aggregation of firms' behaviour.

Interpretive Paradigm implies that there exist multiple subjective realities, one for each participant in the research. Interpretivists believe that the world is subjective and affected by individuals, who are making sense of the world based on their experience and background (Bryman and Bell, 2007).

Market Seeking refers to production within a country with the objective of supplying the local market or/and a broader region as economies of scale come from regional markets (Bartlett and Behrman and Wolfe, 1984; Ghoshal, 1989; Dunning, 1993; Dunning and Pitelis, 2008).

Multinational Enterprise is a firm conducting business in more than one country, through branches or subsidiary companies. Many large firms are multinationals, and a considerable proportion of international trade is between multinationals and their own foreign branches or subsidiaries. (The Oxford Dictionary of Economics, 2003).

NVivo Computer-aided qualitative data analysis software

Positivistic Paradigm implies that a single objective reality exists independent of the researcher. Positivists see the world as an objective reality and research itself as a way to capture this reality and to mirror it in the knowledge that emerges (Fisher, 2007). For positivists (quantitative, objectivist, scientific, experimentalist) reality in its pure form is objective, singular and external (Collis and Hussey, 2009).

Qualitative Research is an unstructured, mainly exploratory design, based on small

samples and intended to provide insight and understanding (Malhotra and Birks 2006). Hence, qualitative research is useful for the exploration and understanding of attitudes and behaviour, whereas quantitative research is applied to measure how widespread these attitudes are.

Quantitative research is a structured approach, which involves large samples and produces quantifiable results, which may be generalised to the whole population (Wilson, 2003).

Resources are something that the organisation owns or has access to even if that access is temporary Mills et al., (2002).

Resource Based View of the firm (RBV) argues that a firm is able to secure sustainable abnormal returns from their resources (including static resources, dynamic capabilities, and knowledge) (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Barney et al., 2001).

Resource Seeking refers to cases where the company is actively searching for resources abroad that are either inexistent or relatively expensive in its home country (Behrman and Wolfe, 1984; Dunning, 1993; Dunning and Pitelis, 2008)

Strategic Asset Seeking (knowledge seeking) relates to the internationalisation of the ways in which firms pursue the medium and long-term regeneration of their competitive scope (Behrman and Wolfe, 1984; Dunning, 1993; Dunning and Pitelis, 2008)

Upstream Core Competences are those core competences that are related to the production capacity of the firm (building on the work of Hamel and Prahalad, 1994)

1 Chapter 1 Introduction and Overview of Research

1.1 Introduction

Understanding the characteristics and behaviour of multinational enterprises (MNE's) is a key issue in the business and management literature¹. The emergence of the contemporary MNE at the end of the 20th century, the rise of new technologies and products, the wider international division of labour, the greater integration of production, services, and financial markets, as well as other changes in the macroeconomic and microeconomic environment, forced multinationals to evolve into the modern organisation that is being investigated in this thesis (World Investment Report, 2007).

On the basis of the above the international economic literature has spread its area of inquiry into the location advantages to cover country (macro level), industry (meso level) and firm (micro level) analysis. Cave (1996) provided an overview of the economic contribution of the linkage between location advantages and MNE behaviour. An interesting feature of the research on location in the international economics literature is the topic of 'created' location advantages.

The purpose of this thesis is to advance understanding of the link between multinationals' specific foreign direct investment (FDI) behaviour and country specific variables through the analysis of the inward investment behaviour of a small OECD economy, i.e. the Republic Ireland (hereinafter 'Ireland'), by applying new theoretical tools and providing updated empirical evidence from MNE investment decisions related to Ireland.

Traditionally, two streams of literature on FDI and international business have been used to explain cross-border investment. Firstly, the microeconomic industrial organisation theory places emphasis on the firm's specific competitive advantages derived from the presence of tangible and intangible assets, such as financial resources, technological capability, management capacity and international experience (Hymer, 1976; Tallman and Li, 1996). Secondly, the macroeconomic approach (Aliber, 1970; Froot and Stein, 1991; Groose and Trevino, 1996) provides explanations of patterns of investment among nations. The first stream is closer to strategic management (SM) literature, whereas international business (IB) and management

¹ The two terms cannot be used interchangeably as business includes a discussion of the environment - how businesses operate in different environments. Management is about the management of organisations and how organisations are managed.

literature is central to the second stream as it provides an insight into the locational behaviour of MNEs.

Responding to the above, this thesis bridges the IB and the SM literature (through the application of the RBV theory) by modelling FDI so as to provide insights into strategic expansion decisions of MNEs' operations. To do so firms are seen as approaching competition through organisational structures configured as 'Dynamic capabilities' (Teece *et al.*, 1990). The contribution of this thesis to the literature is based on utilising the international business motivation of MNEs to explain their FDI decisions; furthermore, it seeks to reflect on the characteristics, which attract potential companies to a particular host country, in this case, Ireland.

1.2 Research Objectives

Research Objective 1: To link the international business and strategic management literatures through the resource-based view theory in the context of MNEs' location investment decisions.

The aim of the research is to explore individual FDI motivations of firms by conceptualising them through the use of RBV. The conceptual framework developed will provide an opportunity to understand how firms' behaviour can explain macroeconomic aspects of FDI. In this thesis, the analysis of FDI relates to an aggregation of firms' behaviour.

The important and equal role that resources and the business environment play in the development of the MNE is evident in the early SM literature (Penrose, 1959; Ansoff, 1965; Wernerfelt, 1984; Porter, 1980). In the 1960s and 1970s models of strategic decision making typically proposed a rational process of setting objectives, followed by an internal appraisal of capabilities and an external appraisal of the opportunities open to the firm, thereby leading to a decision to expand or diversify (the strategic decision), based on the level of synergy between existing products/capabilities and investment prospects (Ansoff, 1965). Implicit in this model of SM was the idea that the firm, its resources and its industry environment, are of equal importance (Fayh and Hooley, 2002). However, Porter's work in the 1980s led to a shift in emphasis to the environmental dimension. Porter proposed that firms could earn monopoly rents by either selecting industries that were 'structurally attractive' or by manipulating the forces driving competition in their favour, through the selection of generic competitive

strategies (Porter, 1980). This notion dominated the SM literature for some time. However, dissatisfaction with this 'industry explanation' assisted the rapid rise to popularity of the resource-based view of the firm (Fay et al., 2002).

A RBV of the firm examines the resources and capabilities of organisations, which enable them to generate above-normal rates of return and a sustainable competitive advantage (Wernerfelt, 1984; Barney, 1986; 1991; Dierickx and Cool, 1989; Amit and Schoemaker, 1993; Mahoney and Pandian, 1992; Oliver, 1997). It takes into account the mutually reinforcing interaction between the stock of knowledge, skills and expertise (resources) and the organisational routines, policies and practices (capabilities) which generate unique, inimitable and non-substitutable competences (Kamoche, 1996).

Key gaps identified in the RBV and the internationalisation literature are associated with the difficulty of identifying the types of resources and capabilities that are associated with FDI decisions and characteristics that make them valuable (Foss et al., 1995; Miller and Shamsie, 1996; Priem and Butler, 2001; Foss and Knudsen, 2003; Peteraf and Barney, 2003). The gap identified and addressed in this research lies in the failure to link research associated with RBV with its environmental and industry context. Furthermore, the link between specific firm resources and capabilities and the ability to create and implement firm strategies has not been explored. In general, the lack of research at the resource level, rather than aggregate firm level was identified as one of the main gaps in the RBV literature². The basic principles of the RBV are extensively evaluated in the literature review of the thesis (Chapter Two).

Research Objective 2: To investigate the patterns of foreign direct investment in Ireland. This period chosen for study is 2003-2009. The justification for this period will be explained further in Chapters Two and Five.

Analysis of the development of the strategic management and international business literature, alongside the historic development of FDI in Ireland, demonstrates the level of complexity of the events. Due to the complexity this research will include a review of the two strands of literature to explain the MNEs behaviour.

² the RBV gaps are discussed in details in chapter 2 sections 2.2.1

Since the mid 1990s Ireland experienced unparalleled levels of economic growth, the rates of which were among the highest in the world. Unemployment levels plummeted from a national average of 16% in the late 1980s to reach full employment ten years later; inflation stabilised, while rates of economic growth measured by gross domestic product (GDP) and gross national product (GNP) were remarkably high (Collins, 2007).

Government policies and actions have influenced the notable rise in Ireland's economic fortunes. In 1987 political consensus enabled drastic measures, as the government received exceptional support from the main opposition party. Other factors which contributed to Ireland's economic growth are fiscal stabilisation, social consensus and partnership, the use of EU structural funds to invest in Ireland's infrastructure, as well as enterprise and human capital. Ireland gained the image of an 'information society' which made the country an attractive market for outside investors. The rationale behind the pursuit of high-tech FDI policy and employment creation resulted in the expected spill over effects of MNEs on the local economy.

To further strengthen the choice of Ireland as a case for this research, it is important to highlight the nature of positive externalities both in terms of the growth of some indigenous sectors alongside foreign owned ones as well as the sustainability of investments. Thus, some lessons can be drawn by other countries from Ireland's FDI.

Ireland's ability to attract FDI was one of the defining features of the country's economic success. A variety of measures can be employed to gauge the impact of FDI on the Irish economy. By way of example, at the end of the 1990s there were more than 1200 (500) overseas (US) owned companies in Ireland, employing 127,000 (74,000) people (Collins, 2007). Further details on this will be covered in Chapter Five, section 5.3.

Throughout the 1990s the economic growth in Ireland was rapid, as foreign-owned companies accounted for half of Ireland's manufacturing employment compared to the European average of 20% (OECD, 2001; Forfás, 2002). These companies accounted for two-thirds of manufactured output and 95% of the growth in Irish exports between 1991 and 1998 (Forfás, 2002). Per head of population, UNCTAD data put Irish inward FDI level at twice the European average level (Barry and O'Mahony, 2004). This information represents the starting point for the selection of the sample for this research, as this period represents a critical starting point for investigating FDI into Ireland.

There are many development models explaining Ireland's pursuit of FDI (Barry, 2000; Burnham, 2003; O'Higgins, 2002; Collins, 2007). Examination of the application of FDI in Ireland has demonstrated that there is a growing body of knowledge in this area, but so far there have been relatively few empirical studies of the link between the RBV and FDI. In particular, there has been very little application of the RBV in the Irish context.

As can be noted from the above, the RBV theory has been extensively tested at the corporate level; however, no significant application of the RBV has been tested in the international corporate context. This represents a significant gap in the literature, which is addressed by the current research into the inward FDI into Ireland³. This is of particular importance as there are calls in the literature for RBV to be set more explicitly within its context (Dess et al., 1990; Miller and Shamsie, 1996; Johns, 2001).

1.3 Research Questions

In order to meet the two objectives identified above, three research questions were posed:

Research Question 1: How does the resource-base view theory help explain the process of location choice of MNEs and provide an understanding of process through which MNEs formulate their investment 'motivations'?

This will be achieved through developing a conceptual framework, which bridges the SM and IB literatures. This research question is addressed by the development of the conceptual framework which constitutes one of the key contributions of the present thesis.

The successful MNEs from the Triads (i.e. North America, Europe and Japan), in general expand abroad in order to exploit firm-specific advantages (FSAs) which they have developed in their large internal home markets. The activities of their foreign subsidiaries tend to replicate the local distribution the FSAs developed in their home market. This traditional explanation of MNEs was developed by Rugman (1981, 2006) and Rugman and Verberke (2001). These are a set of a firm's specific factors which determine the competitive advantage of an organisation. Rugman (1981, 1996, and

³ The RBV gaps are discussed in detail in Chapter 2, section 2.2.1

2006) refers to these as firm-specific advantages (FSAs). FSAs are defined as a unique capability proprietary to the organisation (Rugman, 1981, 2006). They may be built upon asset, product or process technology, marketing, or factor endowment, especially natural resources.

According to Porter (1990), country-specific advantages (CSAs) form a basis from which the multinational firm derives a home-base 'diamond' advantage in global competition. Tariff and non-tariff barriers to trade and government regulations also influence CSAs. Building on the CSAs, the firm makes decisions about the efficient global configuration and coordination between segments of its value chain (operations, marketing, R&D, and logistics). The skill in making such decisions represents a strong, managerial, firm-specific advantage (FSA). The FSAs possessed by a firm are based ultimately on its internalisation of an asset, such as production knowledge, managerial, or marketing, or the customisation of services (Rugman, 1981, 2006).

Research Question 2: What are the main motivations for firms locating in Ireland?

This question will address the empirical contribution of the thesis (the empirical motivations of multinational enterprise).

FDI theorists recognise that firms invest overseas for different reasons (Farmer and Richman, 1966; Behrman, 1969). Traditional concepts of FDI centre on firms carrying out FDI motivated by capital considerations - that is, producing and selling physical products, and ownership of tangible assets as a major source of value creation (Behrman, 1974; Dunning, 1993). However, in response to changes in the internal organisation of MNEs (Nohria and Ghoshal, 1997) and the growing occurrence of global integration and vertical investments (Caves, 1996), firms' motivational emphasis shifted to utilising more effectively their other specific sources of competitiveness (technology, marketing and managerial expertise). Conceptual thinking in explaining the newly-observed behaviour of MNEs broadened to include efficiency-seeking investments (Kobrin, 1991). This is motivated by the growing importance of knowledge, which added new elements to the relevant literature. The search for knowledge is now recognised as a major driver of FDI (Kuemmerle, 1999; Chung and Alcacer, 2002; Wesson, 2004).

In addition, the literature acknowledges that under certain circumstances investment decisions are driven by external competitive pressures (Knickerbocker, 1973; Flowers,

1976; Graham, 1998). Drawing on the above, the analysis in this study will include the main investment motivations identified in the literature consisting of: market seeking; resource seeking; efficiency seeking, strategic asset seeking (knowledge seeking; and competitive strategic motivation) (Behrman and Wolfe, 1984; Dunning, 1993; Filippaios *et al.*, 2004). This helps explain the motivation for MNE expansion into Ireland.

Research Question 3 : what are the core capabilities of firms locating in Ireland?

The aim is to explore the types of characteristics of the companies investing in Ireland with particular emphasis on their capabilities.

In a more detailed approach to that discussed in Question 1, the RBV is a theory that helps us to understand the process through which a corporation develops and accumulate FSAs. FSAs can be viewed from an RBV perspective as differences in the firm's ability to accumulate resources, capabilities and core competences which are rare, valuable, non-substitutable and difficult to imitate (Rumelt, 1984; Wernerfelt, 1984; Dierickx and Cool, 1989; Barney, 1991; Conner, 1991). When valuable competences and capabilities exist, one of the expected roles of top management (managerial FSA) is to ensure that this knowledge can be diffused throughout the company, so that economies of scope (marketing FSA) are gained across markets and products (Hamel and Prahalad, 1994).

In other words, given that the firm is the unit of analysis, the focus is largely on the creation of firm-level competences and capabilities (Teece *et al.*, 1997). A substantial body of literature exists that demonstrates the role of idiosyncratic inter-firm linkages, which may lead to systemic 'relational rents' and competitive advantages. Rugman and D'Cruz (2000) offer a synthesis and description of one major type of inter-organisational rent-generating process, namely the 'flagship-based' multinational network. At the other end of the spectrum, an equally large and diverse literature observes an uneven internal distribution of knowledge among MNE affiliates (Birkinshaw, 1996, 1997; Birkinshaw and Hood, 1998a, 1998b; Birkinshaw, Hood and Jonsson, 1998).

The literature on knowledge (e.g. Galbraith, 1973; Tushman and Nadler, 1978) and the resource efficiency of invisible assets (e.g. Penrose, 1959; Itami, 1987; Teece, 1986), serves as the foundation for the explanation of the firm's knowledge development capacity and intellectual capital formation. The linkages between knowledge

development capacity, intellectual capital and performance are subsequently immersed in an amalgam of two theories. The resource-based view (Barney, 1991) and knowledge-based view (Grant, 1996), provide the foundation for the assertion that knowledge development capacity and intellectual capital can serve as firm-level strategic resources and thus influence key strategic outcomes for the firm. Strategic choice theory (Child, 1972) supports the level-bridging concept that MNEs' locational decisions are linked to the knowledge development capacity and intellectual capital on the one hand and strategic choice enhances firm performance on the other. Thus, knowledge development capacity could expand the strategic choices of the firm.

1.4 How does the literature link to the research questions?

There has been extensive research on the investment location behaviour of MNEs across the range of disciplines. The rationale for this research is based on the influence of location characteristics, a concept familiar to economic geographers and regional scientists. In the business literature the MNE location behaviour is mainly limited to the SM literature (McCann and Mudambi, 2004). For firms choosing Ireland as part of their foreign direct investment strategy, host country characteristics, for example industrial policy, locations, level of education are of fundamental importance in the decision-making process. Therefore, an investigation of the FDI resource and capability of Ireland as an investment destination adds to the understanding of the types of companies that are mainly undertaking FDI in Ireland. It is primarily the interrelation between location and firm advantages that is important in the FDI decision process.

The limitations of the RBV as shown above will be discussed further in Chapter two of this thesis. The limitations will be addressed RQ1 and RQ2, which identify a number of weaknesses that RBV suffers from, including:

- The difficulty in isolating sources of competitive advantage at the resource level (Foss *et al.*, 1995; Miller and Shamsie, 1996; Priem and Butler, 2001);
- The difficulty of measuring and defining the dependent variable (Foss *et al.*, 1995; Foss and Knudsen, 2003; Peteraf and Barney, 2003);
- Tautology of the theory (Priem and Butler, 2001);
- Lack of consideration of the relevant environmental and industry context (Dess *et al.*, 1990; Miller and Shamsie, 1996; Johns, 2001);

- Firm heterogeneity and the difficulty in generating a homogeneous sample of firms to enable testing specific RBV hypotheses (Lockett et al., 2009).

There is wide recognition of the importance of knowledge and intangible capital in fostering economic growth and social change (Teece, 1997, 2003). Devising useful measures of such assets has been difficult. One focus has been on the stock of knowledge human, organisational and intellectual capital; an additional focus has been on activity in R&D efforts, investment in information and communication technology and education and training, and organisational reforms. One of the most developed lines of research has focused on patent-based measures to quantify both R&D activity and stock of knowledge. Patents have become a widely used indicator of intellectual capital (Grindley and Teece, 1997) and economically valuable knowledge (Pakes and Griliches, 1980; Griliches, 1990). Research by Powell and Snellman (2004) shows an upsurge globally in overall patenting since the 1990s.

The present research builds on other studies and addresses two of the limitations of the RBV literature. Firstly, it identifies those resources and capabilities (including knowledge) associated with the Irish location decision of firms and the characteristics, which make them valuable (Foss et al., 1995; Miller and Shamsie, 1996). Secondly, it links the analysis with the business environment and industry context (Dess et al., 1990; Miller and Shamsie, 1996; Johns, 2001). Including the international business motivational elements in the analysis and integrating it in the dynamic analysis with the SM aspects will address the second literature gap of RBV.

The RBV of the firm has increasingly been viewed as a 'broad church' that offers the potential to bring together a number of different theories of the firm (Hoskisson et al., 1999). The RBV is a suitable perspective for this research, which seeks to identify the reasons for firms' preference/decision to locate and stay, or, the observation of 'transient' MNEs following FDI into Ireland. The subsequent literature review will examine in detail the manner in which the RBV offers a means of integrating many of the different SM perspectives that have been applied to MNEs.

The research questions identified above require internationalisation theories to be considered in conjunction with the RBV to provide a new perspective. The research concerns both the efficient deployment of existing capabilities through FDI and the internationalisation of new or existing resources and capabilities bundled as firm advantages (Penrose, 1959; Wernerfelt, 1984). Therefore, an investigation of the

strategic factors of Ireland as an FDI location contributes to an understanding as to the characteristics of those companies who invest in and remain committed to Ireland as an investment location, based on their individual resources and capabilities; insights are also gained as to factors that make companies transient following their decision to invest in Ireland. This will be done through analysing the strategic resource and capability-seeking aspects of FDI by looking at downstream (marketing, distribution) and upstream capabilities (technology) and their influence on the entry mode/choice and the concept of fungibility (the capability being interchanged) in the RBV theory.

In summary, the aim is to conceptualise Ireland as a resource bundle to a firm's competitive position. Modern internationalisation theory looks at the MNE's firm-specific advantages (FSAs) and the country-specific advantages (CSAs) upon which it relies to develop a competitive advantage in the international marketplace. These two parameters are important in explaining the international expansion patterns of any MNE. The key issue to consider here is that Ireland as a location is not seen as independent from the MNEs but as a location that fits within the MNE network of operations globally.

The dimensions which this thesis builds on are:

- Ireland as a location
- The corporate advantages and their interrelation with the Irish locational characteristics.

Research question 1 is answered conceptually; research questions 2 and 3 are answered empirically.

1.5 Methodology

The underlying notion of this research is that the company's motivations when investing abroad are mirrored by the changes in the external environment of the host country. The key idea is complemented by the differing motivations between MNEs and sectors that emerge from different countries. This study adopts a single country perspective, i.e. multinationals investing in Ireland. A single country approach reduces problems that relate to gathering findings from multiple country characteristics.

Within the SM and IB literature, previous studies have not fully captured the investment motivation of MNEs from a location perspective. Therefore, this research uses a deductive qualitative perspective to operationalise firms' motivation through a

qualitative perspective because motivations are intangible and are difficult to measure through a quantitative perspective⁴.

The research sample covers 98 companies which located in Ireland during the period 2003-2009. All companies included in the sample have been engaged in earlier internationalisation moves. The 2003-2009 period was one which recorded steady growth of FDI in Ireland, unlike the rapid growth of the 1990s. The research sample covers all FDI into Ireland for the period of 2003-2009 where a motivation was identified by the relevant MNE. The sample covers a wide range of industries and is representative of the geographical location of FDI across the country. Furthermore the 98 companies were chosen to represent a cross-section of investment projects, covering a broad array of functions.

1.6 Thesis Contributions

There are three elements to the contribution of the thesis:

(i) Academic Contribution: Given the lack of qualitative research into the specific factors behind firms' investment decisions, this thesis make a theoretical/conceptual contribution to the literature on RBV and FDI in three main ways

- (a) Firstly, the IB and the SM literatures have a natural interest in measuring MNE motivations and activities but use different approaches and conceptual frameworks which leave gaps in the analysis and findings. This thesis bridges that gap through identifying a 'common ground' and merging two streams of literature that do not always communicate effectively.
- (b) Secondly, it explores the nature of the host country characteristics and the MNEs' resources and capabilities, which lead to the firm's decision to invest.
- (c) Finally, it develops a conceptual framework; whose variables enhance the understanding of the MNEs' choice of investment strategy.

For the empirical contribution to the academic literature, the research draws on, and contributes to, three main areas of research that have investigated firms' investment behaviour:

⁴ The qualitative v quantitative dichotomy is presented in Chapter Four

- **Resource Based View:** This research identifies and answers two gaps in the RBV. Firstly, it identifies which resources, capabilities and core competences are associated with the locational decisions of firms and which characteristics make them valuable (Firm level analysis, Chapter Eight). Secondly, it links this analysis within the business environment and industry context addressing one of the gaps of the RBV, that is the failure to link research on RBV with the environmental and industry context (Sector analysis, Chapter Seven).
- **Firm Core Competences:** Hamel and Prahalad (1990) provide the starting point of a new classification of core competences. This thesis complements their view of core competences by making specific reference and offering an alternative division of core competences of the firm into two components, namely upstream core competences and downstream core competences. It is important that the literature-driven framework distinguishes between the different types of core competences because this difference may determine how the firm strategy is designed and implemented. This is achieved through the classification of core competences. This new classification represents a major academic contribution of the thesis
- **Internationalisation Theory, MNE motivations and FDI:** This research contributes to the IB literature by identifying the linkage between firm motivations and resources and how the motivations of MNEs relate to the environment of the host country. This is done through theoretical, conceptual and empirical approaches.

(ii) **Management and Practitioners:** A major empirical contribution of this research relates to the identification, by making the context specific, of firms' resources, capabilities and core competences that are associated with multinationals' decisions to invest in Ireland. For MNEs the question as to where to invest and which core competences align with certain locations is crucial for management decision-making. Understanding the investment decision-making process could lead to efficient and effective managerial recommendations and suitable policy implications. This thesis identifies two features through which can benefit management practices, through the development of:

- (a) A framework which can be used as a tool for measuring competitive motivations and explain why firms invest in a particular area

(b) A framework for matching country capabilities with industry motivations providing MNEs insight into industry cluster building in a particular area.

(iii) Policy makers: By using the World Investment Report to build linkages and analysis on how to maintain MNEs' presence in the economy, the thesis provides policy makers with an insight into how to target, attract and maintain MNEs in a certain location. The findings benefit policy makers not only in Ireland, as in many cases policy makers can learn from the Irish experience. A further contribution is the identification of how the motivation of MNEs to invest in Ireland is linked to the external environment of Ireland and the Irish industrial policy through a qualitative perspective.

1.7 Structure of the Thesis

Chapter 2 reviews the literature on RBV and IB and the application of these theories to multinational FDI activities.

Chapter 3 develops a theoretical framework to explain MNEs' foreign direct investment motivations. The chapter conceptually answers RQ1. The relevant firm's motivations are presented in a set of propositions; these propositions are developed from the conceptual framework embracing the firm and country perspective.

Chapter 4 explains the methodology and covers the ontological and epistemological context, the research setting, the research design, research strategy, methodological contextualisation, data gathering, data analysis and presentation of the findings.

Chapter 5 presents an overview of Ireland's economic transformation; it outlines Ireland's inward investment strategy.

Chapter 6 presents the findings from the first part of the empirical analysis. The chapter answers RQ2. It discusses the key elements of the analysis and factors that attract firms into Ireland.

Chapter 7 discusses and relates the findings to the literature. It provides an empirical validation of RQ2 and RQ3. The chapter focuses on the analysis of industry resources and how sectors are influenced in different ways by locational characteristics.

Chapter 8 investigates and validates the propositions through firm level data analysis. It presents the empirical findings for RQ2 and RQ3.

Chapter 9 provides a concluding overview. It summarises the research findings and discusses them in a theoretical context, i.e. RBV and IB motivations, and the empirical context (Ireland).

The following chapter presents the theoretical underpinnings of the research in the form of a literature review.

2 Chapter 2 Literature Review

2.1 Introduction

This chapter provides a literature review incorporating the main approaches of the phenomenon of multinational activity. Two different streams of literature are blended in this chapter, namely Strategic Management and International Business. Both of them strive to explain investment decisions and corporate motivations.

This chapter reviews the literature on RBV, international business, multinational motivations and location. Key gaps identified in the RBV and internationalisation literature cover which resources are associated with locational investment decisions. The literature gaps represent the failure to link RBV with the environmental and industry context; the failure to identify the link between resources and capabilities⁵; the ability to implement firm strategies and the lack of research at the resource level rather than aggregate level. There has been little empirical RBV-based research in the Irish context. The literature review draws on other IB theories to adapt an existing model of MNEs motivations to locational decisions and create a new conceptual framework. The model aims to contextualise RBV and will inform the primary research.

2.2 The Strategic Management Literature

Since the theoretical foundation of FDI is rather fragmented, this section focuses on compiling inputs from different fields of SM and Economics literature to clarify the locational decisions of multinationals. It will provide an explanation of the link between the RBV, the role of FDI and multinational business activities.

2.2.1 Resource-Based View

The RBV represents a major stream of research on strategic management (Rouse and Daellenbach, 1999). It highlights how the deployment of unique and distinctive organisational resources and capabilities to generate competitive advantage (Wernerfelt, 1984; Barney, 1991; Peteraf and Barney, 2003).

Resource-based theory emphasises the importance of firms' resources, which are defined as

⁵ Mills et al., (2002) provide a distinction between *resources* and *competences*. 'A resource is something that the organisation owns or has access to even if that access is temporary. A competence is an ability to do something. A competence draws on a set of building 'blocks' called 'resources' (Mills et al., 2002, pp. 9–14).

“any tangible or intangible entity available to the firm that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s)” (Hunt and Morgan, 1995, p. 11).

The RBV emphasises the idiosyncratic resources and unique capabilities of firms (Penrose, 1959; Wernerfelt, 1984; Barney, 1991). Penrose (1959) and Rubin (1973) are among the first scholars to conceptualise firms as ‘resource bundles’ prior to the formal origin of the RBV (Wernerfelt, 1984).

The RBV theory of the firm has emerged as the dominant paradigm in strategy research over the last 15 years (Lockett, 2005). The RBV believes that firms are bundles of productive resources and capabilities (Barney, 1991; Wernerfelt, 1984), which are historically developed through repeated practice of routines (Wernerfelt, 1984). The resources and capabilities are specific to the firm and not easily imitable by rivals (Barney, 1991). Firms are thus heterogeneous with respect to their resources, capabilities and endowments (Teece et al., 1997).

Penrose (1959), Rubin (1973) and Wernerfelt (1984) recognise that resources contribute to the firm’s competitive position and describe them as anything that can be thought of as a strength or weakness of the firm. Amit and Shoemaker (1993) defined resources as stocks of available factors that are owned or controlled by the firm; whilst Grant (1991) saw resources as inputs to the production process. Barney (1991) defined a firm’s resources as all the assets, capabilities, organisational processes, information, knowledge, etc., which are controlled by a firm and which enable it to create and follow effective strategies to pursue opportunities or avoid threats. In response to Preim and Butler's (2001) critique of Barney's (1991) article, Barney (2001) adopted a simpler definition of firm’s resources:

“Resources are the tangible and intangible assets a firm uses to choose and implement its strategies”.

Wernerfelt’s seminal work on the Resource-based View of the firm in 1984 proposed that the unique assets and resource endowments of firms are important factors that give rise to firms’ efficiencies, imperfect competition, and the attainment of super-normal profits. The implication of this work has led to the notion that a firm’s ability to attain and retain profitable market positions depends on its ability to gain and defend advantageous resource endowments (Lockett et al., 2008). Since the publication of

the Wernerfelt's article in 1984, the field of SM has embraced the following ideas: (i) firms are fundamentally heterogeneous (Lockett et al., 2009); (ii) a firm should base its strategy on its strengths (Grant, 1995; Mahoney, 1995; Wernerfelt, 1995); and (iii) tomorrow's strengths are likely to be developed from today's strengths.

Strategic Resources

The idea of strategic [rather than economic] resources is based on a realisation that resources may be characterised by being firm-specific and difficult for rivals to buy or copy (Wernerfelt, 1984; Rumelt, 1984; Barney, 1986). That those resources may have a strategic value to a specific firm that is different to their market value is discussed in Penrose's thesis (1959), where she argues that resources have a strategic value to managers in influencing the direction and growth of the firm.

Thus strategic resources are understood as tangible and intangible assets, that when combined, help to constitute a firm's competitive advantage.

2.2.2 Limitations, Methodological and Practical Difficulties of the Resource-Based View Theory

The RBV has a number of methodological and practical difficulties that limit the generation and testing of direct hypotheses. The literature identifies a number of weaknesses that RBV theory suffers from; these weaknesses have two elements, being empirical weaknesses and contextual weaknesses.

Empirical weaknesses

The first identified difficulty is of measurement and defining the dependent variable, i.e. resources (Foss et al., 1995; Foss and Knudsen, 2003; Peteraf and Barney, 2003). Any empirical assessment of RBV requires the identification and measurement of relevant resources. The intangibility of many resources makes their measurement problematic (Miller and Shamsie, 1996). Indeed, the resources of central concern are often those associated with organisational learning and are commonly unobservable and difficult to measure (see Ambrosini and Bowman, 2001; Godfrey and Hill, 1995; Rouse and Daellenbach, 1999, Lockett et al.,⁶, 2009). Penrose's (1959) work focused

⁶ An interesting quotation regarding the difficulty in measuring RBV: "Resources which can easily be identified and measured are unlikely to be of great interest to RBV researchers. Such resources, however, are commonly the focus of empirical studies largely because they can be measured, not because they are necessarily important. Consequently, a significant body of empirical research on the RBV has parallels

on the importance of managerial services, which are by definition intangible and heterogeneous. Furthermore, her important distinction between resources and capabilities further exacerbates the problems of measurement (Lockett, 2005). This is because these activities are more complex than the simpler stock of resources.

The second identified difficulty is where firms' heterogeneity creates problems for researchers who are interested in generating a homogeneous sample of firms for testing specific RBV hypotheses. The central thrust of the RBV is that any firm's competitive advantage is rooted in its unique attribute set. If each firm is unique, any sample of firms is heterogeneous by definition (Lockett et al., 2009). To reduce sample heterogeneity, some researchers have focused on single-industry studies, often using exogenous changes in the industry environment, e.g. deregulation (see Ingham and Thompson, 1995), as 'natural experiments'. It is therefore important to 'get inside' the firm, where resources reside (Rouse and Daellenbach, 1999), rather than using publicly available data sets on aggregate measures of resources, which is the norm for such research, for example, Miller and Shamsie's (1996) study of the motion picture industry (Barney and Mackey, 2005).

Contextual weaknesses

The first identified difficulty is of isolating sources of competitive advantage at the resource level (Foss et al., 1995; Miller and Shamsie, 1996). Competitive advantage is considered to be rooted in the firm-specific circumstances that are somewhat imperfectly observable. Causal ambiguity, as described by Barney (1991), relates to the difficulty faced by outsiders [and perhaps insiders] in isolating the particular factors responsible for a firm's competitive advantage. He argues that causal ambiguity sustains competitive advantage by restricting rivals' ability to isolate, and hence replicate, rent-generating resources; this suggests limited potential for empirical work.

The complexity of large organisations means that a whole range of small initiatives may influence the performance of the firm, although each in a very small way (Lockett et al., 2008). This makes it very difficult to isolate the performance effects of specific resources and, in turn, makes it difficult to incorporate into any analysis the effects of competition (Priem and Butler, 2001). Resources are interconnected and are usually

with the proverbial drunk looking under the streetlight for his keys. When asked where he had lost his keys he responded, 'somewhere over there in the dark, but can't see a thing over there so I'm looking under the light instead.' A further consequence of the resource identification problem is that researchers have used an extremely varied set of proxies for key capabilities and resources, making systematic comparisons across the empirical literature more difficult" (Lockett et al., 2009).

used as a bundle for the firm to achieve its objective. This makes it difficult to isolate sources of competitive advantage for the firm.

The second identified weakness is of Tautology of the theory; Priem and Butler (2001a,b) debated this point with Barney (2001a), arguing the problem of tautology lies between the general and the specific in the RBV, “only valuable and rare resources can be a source of competitive advantage” and it all depends upon how the rare and valuable resources are put to use. Competitive advantage is rooted in the firm-specific circumstances that are themselves, at least in part, imperfectly observable.

To overcome the problems associated with tautology, Lockett (2005) identified two central tenets that run through Penrose’s (1959) work. These are path dependency and firm heterogeneity.

“Building on these tents of path dependency and firm heterogeneity, the central hypothesis of the RBV can be re-specified to state that behavioural and performance differences between firms arise because of historically determined differences in the firm’s resource endowments” (Lockett, 2005).

There has been little work linking specific firm resources and capabilities with the ability to create and implement firm strategies (Barney and Mackey, 2005). Exceptions are studies by Henderson and Cockburn (1994) and Ray et al., (2004). These studies show that some firms’ resources have the potential to generate economic value if they are used to create and implement strategies.

To examine the relationship between a firm’s resources and its strategies, analysis must be conducted at the level of the resource, not at the level of the firm (Barney and Mackey, 2005).

The third weakness is lack of consideration of the environmental and industry context (Dess et al., 1990; Miller and Shamsie, 1996; Johns, 2001). Some progress has been made in identifying resources and characterising what makes them valuable (Dierickx and Cool, 1989), but when faced with the complexities of a real firm it is often difficult to identify which of a firm’s resources account for the firm’s success (Foss et al., 1995; Miller and Shamsie, 1996). This difficulty in assessing the value of resources might be due to the fact that it is impossible to measure them in isolation (Foss et al., 1995).

The value of a resource might depend on context, on the presence of other resources [a system of resources], and may change over time. Many factors influence the performance of the firm, and it is necessary for resources to co-exist. There is thus a tension between the static and dynamic treatment of resources (Teece et al., 1997). Evidence that a specific resource or capability may enable a firm to attain a competitive advantage in a particular industry setting is important, given that it provides managers operating in that context with the incentive and justification to obtain and exploit it. It is worth noting that this degree of specificity is one of the RBV's biggest methodological design difficulties and limitations (Newbert, 2008).

As this section of the literature talks about bundles of resources it is very difficult to generalise theories as the need to do so is not apparent, but there may be a need to adopt a case study analysis, firm by firm. This thesis will address two key limitations of the RBV; firstly, on the empirical side as indicated in the stated research objectives, by incorporating the external environment through looking at locational aspects. It links the analysis with the business environmental and industry context (Dess et al., 1990; Miller and Shamsie, 1996; Johns, 2001). Secondly, on the conceptual side, as many of the RBV concepts are too abstract to operationalise and measure, the models within this thesis will identify multinational motivations, including which resources and capabilities are associated with firms locating into Ireland (Foss et al., 1995; Miller and Shamsie, 1996).

2.2.3 Resources and Sustainable Competitive Advantage

The RBV theory focuses attention on the role of each firm's unique experience in accumulating resources and capabilities that shape its opportunities to earn rent (Lockett, 2005). RBV theorists suggest that for strategy to be sustainable it needs to be embedded in the firm's resources and capabilities (Grant, 1995; Mahoney, 1995; Wernerfelt, 1995). Grant (1995, p. 117) recognised that, "in general, the greater the rate of change in a company's external environment, the more it must seek to base long-term strategy upon its internal resources and capabilities rather than the external market focus," although in reality the external environment could not be avoided. Within the external environment, changes such as technological advances; globalisation, and volatility such as a catastrophic business crisis; a fierce competitive climate; and more demanding, sophisticated customers, are factors that multinationals cannot ignore.

Employing the resource as the unit of analysis, the application of the RBV theory seeks to sustain a position of competitive advantage. Sustainable competitive advantage is thus based on the ownership of firm-specific resources. Barney (1991) stipulated four criteria for resources to offer sustained competitive advantage: *valuability*, *rarity*, *inimitability* and *non-substitutability* – the VRIN resources framework. The amount of resource or capability possessed by a firm is correlated with its competitive advantage and performance (Newbert, 2007). RBV theory conceives foreign direct investment as a way of deploying existing resources, where firms generate rent by transferring organisational capabilities into a new market (Jiang, 2005). In addition, affirming the RBV theory is the Hymer and Kindleberger view (Hymer, 1976), in which host country location must offer firms benefits that overcome the inherent disadvantages of operating in an unfamiliar setting. By aligning RBV theory with the traditional MNE theory, firm-specific unique resources and capabilities (ownership advantages) can be matched to the local environment because of location-specific advantages (Trevino and Grosse, 2001).

In line with the above, a resource-based view of the firm examines the resources and capabilities of firms that enable them to generate above-normal rates of return and a sustainable competitive advantage; this is exemplified by the work of certain scholars (Amit and Schoemaker, 1993; Barney, 1986; 1991; Dierickx and Cool, 1989; Mahoney and Pandian, 1992; Oliver, 1997; Wernerfelt, 1984). The RBV takes into account the mutually-reinforcing interaction between the stock of knowledge, skills and expertise (resources) and the organisational routines, policies and practices (capabilities) to generate unique, inimitable and non-substitutable competences (Kamoché, 1996). In line with Barney's (1991) attributes for intangible resources to the firm's generation of competitive advantage, the possession of this type of resource sets out the conditions necessary for comparative advantage and strategic significance - the VRIN framework: (i) resources must be valuable; (ii) resources must be rare; (iii) resources must be inimitable; (iv) resources must be non-substitutable.

2.2.4 The RBV and Managerial Resources

Effective management is imperative for firms to develop new resources and increase strategic flexibility (Penrose, 1959; Teece et al., 1997; Hitt et al., 1998). The most important internal management resource is the top management team (TMT). The TMT has been defined as the dominant coalition of individuals responsible for setting the firm's direction (Cyert and March, 1963). The TMT has a critical influence on

strategic decision-making (Mintzberg, 1979; Hambrick and Mason, 1984) and hence on foreign expansion decisions of the firm. In addition, the TMT is an important organisational resource since the knowledge embedded in the team determines the organisation's ability to leverage and exploit its other resources (Penrose, 1959; Barney, 1986; Mahoney, 1995).

However, managerial resources do not by definition generate rents (Castanias and Helfat, 2001). That rather depends on the characteristics of the managers. In some situations, slower accumulation of local knowledge and slower development of managerial resources could make a firm less likely to further commit to a foreign market (Grant, 1991). Even if the firm finally decides to expand into the market, it will tend to move at a slower pace for the same reasons, since managerial resources can constrain the rate of growth (Penrose, 1959). It is possible to argue, with Castanias and Helfat (1991), that the management team itself is a specific asset and potential source of rents and its optimal utilisation requires that the firm's spread of activities be kept under review.

Furthermore, the RBV concedes the role of the manager in perceiving opportunities, matching these to the available resources and, within limits, augmenting the latter with such additional resources as are necessary, to implement the firm's strategy (Wernerfelt 1984). Lockett et al., (2009) compare the role of a manager in the RBV as similar to that of a card player:

"The player is provided with a dealt hand of cards, with the value of each card being broadly determined ex ante by the rules of the game. Success depends upon the relative skill with which that hand, augmented by any cards subsequently acquired, is played in competition against rivals. However, whereas each hand of cards starts out with a completely new deal, managers are typically engaged in an evolving game in which over time the resource base, and hence the opportunity set, can be shifted". (Lockett et al., 2009, p. 12)

This relates to the notion of market imperfection as explained by Wernerfelt, (1984) and Castanias and Helfat, (1991). Viewing the RBV as outlined above gives a substantial role to managers; it links the internal and external environments in which they operate.

Industrial organisation economics literature has made progress in analysing the firm's

response to its external environment, including the behaviour of its rivals, but it tends to retain its traditional characterisation of the firm's internal workings as a 'black box' beyond scrutiny (Lockett et al., 2009). Under the RBV, managerial responsibilities include the need to reposition the firm as opportunities change and its resource set evolves. Thus, managers in the RBV are both adaptive and proactive (Lado and Wilson, 1994), which makes the RBV an interesting theory as managers, through the decisions they make, change the nature of competition in markets. By contrast, industrial organisation economics sees the managers' role as responsive; their decisions largely concern marginal adjustments to output and input levels.

Thus, the decisions that managers take are linked to their perceptions about the internal characteristics of their own firms and also of the external environment in which they compete (Penrose 1959). According to Lockett et al., (2009), managerial perceptions become important in relation to three central elements of the RBV, resource functionality, resource recombination and resource creation.

2.2.5 The Firm and Elements of RBV

The RBV, as a broad church, covers a wide range of developments that have taken the theory in a number of different directions. Since the early 1990s there has been an understanding that FDI not only exploits (Morck and Yeung, 1991) but also augments a firm's existing capabilities (Caves, 1996). In addition, a distinction has been drawn between the equilibrium (or static) conceptualisation of the RBV (e.g. Rumelt, 1984; Barney, 1986, 1991; Peteraf, 1993) and the dynamic view of the RBV in terms of capabilities and dynamic capabilities (e.g. Collis, 1994; Teece *et al.*, 1997). The point here is the clear distinction between firms' capabilities and firms' dynamic capabilities. In addition, it is worth noting that other sub-branches of the RBV have emerged such as the knowledge-based view (Teece, 1982, Chatterjee and Wernerfelt, 1991). The knowledge-based view (KBV) branch of RBV will be discussed later in this chapter, after firstly discussing the main elements of the RBV theory, as follows:

- **Resources**

Resources are basic to an organisation and are natural objects of study since they form inputs to the value process (Grant, 1991; Eisenhardt and Martin, 2000). Resources are identified as sources of sustainable competitive advantage if they are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Another definition includes capabilities as well as available assets (Sanchez *et al.*, 1996). Javidan (1998)

identifies resources as building blocks of competences, and inputs to the organisation's value chain.

- **Capabilities**

Teece (1992) referred to organisational capabilities as the firm's ability to organise, manage, coordinate or undertake specific sets of activities. In general, organisational activities are based on assets working together, such as skills and accumulated knowledge (Barney, 1991; Grant, 1991; Schoemaker, 1991). Therefore, capabilities are processes as they refer to a firm's capacity to deploy assets, usually in combination, using organisational process to achieve a desired end (Hooley *et al.*, 1998).

As documented in the literature, firms can deploy existing firm-specific capabilities in a host country via FDI. The asset-seeking stream of research has primarily focused empirical attention on upstream capabilities like R&D activities (Caves, 1996, pp. 9-11). On the other hand, when considering the determination of foreign investment strategy, downstream capabilities also play a prominent role (Horst, 1974; Caves and Mehra, 1986; Morck and Yeung, 1991; Hennart and Park, 1993), and for numerous reasons. Firstly, downstream assets are frequently required to complement a firm's intangible technological advantages (Teece, 1986). Secondly, distribution systems and advertising are pernicious barriers to entry (Bain, 1956; Porter, 1980). Thirdly, some existing brands have limited cross-border transferability (Hennart and Park, 1993) and distribution systems, by their complexity and physical nature, are not internationally mobile (Horst, 1974).

Teece (1992) used the term 'dynamic capability' to refer to the capacity of a firm to renew, augment and adapt its core competence over time. Prahalad and Hamel (1990) describe core competence as those firm's competences that (i) make a disproportionate contribution to ultimate customer value; (ii) the efficiency which the value is derived; and (iii) provide a basis for entering new markets (Hooley *et al.*, 1998).

Thus, when undertaking the deployment of existing firm-specific capabilities, the competitive conditions of the host country can place a demand on the firm to reconfigure its existing capabilities or acquire new capabilities (Teece, 1982; Caves, 1996; Zaheer, 1995). Internal development of new capabilities is one option for the purpose of acquiring the capability of dealing with the local environment (Nelson and Winter, 1982; Teece, 1987). If there is difficulty in internal development, a firm can meet the demands for new capabilities when entering dynamic markets by forming

strategic alliances, or joint ventures, or through purchasing the required capabilities bundled in a firm (Wernerfelt, 1984, Child and Faulkner, 1998).

Thus, firm-specific characteristics are critical to understanding the behaviour of firms regarding direct investment in any targeted country. Ownership advantages (as discussed later) can influence, not only the decision to undertake FDI, but also the choice of investment mode, for example, if the firm has all the resources and capabilities required to obtain a competitive advantage in foreign markets, it will not need the contribution of a partner to enter that market, in which case it will choose full-ownership FDI. On the other hand, when a firm faces resources and capability demands on foreign entry and the capabilities are subject to market failure, the firm may efficiently obtain the required capabilities through acquisitions or through forming strategic alliances (Teece, 1987; Mitchell, 1994, Child and Faulkner, 1998).

- ***Dynamic Capabilities***

The notion of dynamic capability is considered to have a strong relationship with RBV, as it shares the similar assumptions of and is an extension to, RBV thinking. The dynamic capability view shares similar assumptions to the RBV, as do other related theories, notably the knowledge-based view (Grant, 1996) and the core competence perspective (Prahalad and Hamel, 1990). They all consider the firm to be a bundle of heterogeneous and path-dependent resources and they all address the way in which this allows a firm to generate sustainable competitive advantage (Lockett and Thompson, 2001). Furthermore, due to the rigidity of core competences, management uses dynamic capabilities to review and develop core competences over time.

Teece and Pisano's work (1990) is seen as the instigator of the dynamic capabilities perspective of RBV. Their work extends Nelson and Winter's (1982) "*An Evolutionary Theory of Economic Change*", which addressed the role of routines and how these shape and constrain the ways in which firms grow and cope with changing environments. Both Teece *et al.*, (1997) and Nelson and Winter (1982) take an efficiency approach to the firm's performance rather than a privileged market position approach (the latter being the underpinning for Porter's [1980] theory of competitive advantage). They also both emphasise internal factors of the firm rather than external factors as sources of competitive advantage. Also like Nelson and Winter (1982), Teece *et al.*, (1997) highlight the importance of path dependencies and the need to reconfigure a firm's resources to enable the firm to change and evolve.

Teece et al., (1997) suggested that firms could achieve and sustain competitive advantage by developing strong dynamic capabilities. They define dynamic capabilities as, 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' (Teece et al., 1997, p. 516). 'Dynamic' describes the capacity to renew competences so as to achieve a match with the changing environment; 'Capabilities' emphasises the key role of strategic management in adapting, integrating and reconfiguring internal and external organisational skills, resources and functional competences to match the requirements of a changing environment. A firm's dynamic capabilities are determined by: 1) its managerial and organisational processes (how things are currently done); ii) its present position (its current resources); and iii) the paths available (strategic alternatives available to the firm and path dependencies) (ibid). The notion of dynamic capabilities is linked with, and closely aligned to, the concept of organisational learning (Dickson, 1992; Mahoney, 1995; Slater and Narver, 1995).

The literature offers many definitions of dynamic capabilities that can be seen as an adaptation of Teece et al., (1997) work. A few examples are as follows:

i) Dynamic capabilities are, 'the firm's processes that use resources, specifically the processes to integrate, reconfigure, gain and release resources, to match or even create market change. Dynamic capabilities thus are the organisational and strategic routines by which firms achieve new resources configurations as markets emerge, collide, split, evolve and die' (Eisenhardt and Martin, 2000, p. 1107).

ii) 'A dynamic capability is a learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness' (Zollo and Winter, 2002, p. 340).

iii) Dynamic capabilities 'are those that operate to extend, modify or create ordinary capabilities' (Winter, 2003, p. 991).

Thus, dynamic capabilities indicate the firm's ability to update and improve the sources of its own competitive advantage. It reflects a firm's ability to achieve new and innovative forms of competitive advantage despite path dependencies and core inflexibilities (Teece et al., 1997). A firm's international expansion path is a dynamic process of capability development (Jiang, 2005). A foreign market entry is not just an

exploitative action, through which a firm seeks to transfer its existing resources and capabilities and generate rents in a new market. It is also an exploration opportunity for a firm to develop new capabilities and potentially break new path (Jiang, 2005).

- **Competences**

A competence has been defined as, “a cross-functional integration and co-ordination of capabilities” (Javidan, 1998, p. 62); and as a set of skills and know-how in strategic business units. Another scholar has defined the concept as, “the ability to sustain the coordinated deployment of assets in ways that help a firm achieve its goals” (Sanchez, 2004, p. 521).

Competences are commonly agreed to reside in individuals and teams of individuals, implying that the competence concept involves a cumulative hierarchy. This cumulative hierarchical notion is based on competences, capabilities, and dynamic capabilities, respectively, according to Savory (2006). Another notion of hierarchy is the ‘first-order competence’, which comprises customer and technological competences; and integrative competence, which is the ability to combine the previous competences (Danneels, 2002). A final example of a hierarchy involves three competence categories: distinctive competences, which are the most important in a company; necessary competences, which do not differ from those of competitors but which are needed for operational reasons; and protected competences, which can hurt the company if misused (Heikkila and Cordon, 2002).

- **Core Competences**

The concept of “core competence” was introduced in the early 1990s and is defined as “the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies” (Prahalad and Hamel, 1990, p. 82). Later, the definition was expanded to “a bundle of skills and technology that enable a company to provide benefit to customers” (Hamel and Prahalad, 1994, p. 199). Where a firm creates new core competences that allow it to benefit its customers. There are three criteria that distinguish a core competence from a competence, as follows (Prahalad and Hamel, 1990; Hamel and Prahalad, 1994). It:

- (i) Must contribute significantly to customer benefit from a product.
- (ii) Should be competitively unique and as such must be difficult for competitors to imitate.

(iii) Should provide potential access to a wide variety of markets.

Accordingly, a competence that satisfies the above three criteria is assumed a core competence. The criteria imply a hierarchy of quality between a core competence and a competence.

- ***Strategic Flexibility***

The RBV literature refers to the notion of strategic flexibility; continuously changing market conditions require the development of strategic flexibility (Hitt et al., 1998; Englehardt and Simmons, 2002; Uhlenbruck et al., 2003). Strategic flexibility has been defined as, 'the capability of the firm to pro-act or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage' (Hitt et al., 1998, p. 9). Thus the development of dynamic capabilities is critical to success (Teece et al., 1997) and strategic flexibility is positively related to firm performance, helping companies to respond to crises in their competitive environment (Hitt et al., 1998; Grewal and Tansuhaj, 2001). The ability to leverage existing competences is important, but the firm must be equally adept at diversifying its competence base (Chakravarthy, 1997).

Dynamic capabilities allow firms continually to have a competitive advantage and may help firms avoid developing core rigidities, which inhibit development, generate inactivity and stifle innovation (Leonard-Barton, 1992). The concept of organisational agility described by Mische (2001) is similar to strategic flexibility, being, 'the capacity to quickly and efficiently create, redeploy, reconstitute and reallocate the resources of the organisation in a manner that optimises their use in an environment or allows them to create new environments' (p. 235).

Concepts such as distinctive competences (Selznick, 1957) and core competences (Prahalad and Hamel, 1990), capabilities (Dosi et al., 2000) and dynamic capabilities (Teece et al., 1997) all fit within the RBV. Resources such as capital, technology, marketing and management are important individually; in general, resources are more valuable if they are bundled together. The distinguishing mark of a core competence is the integration of a variety of individual skills (Prahalad and Hamel, 1990; Barney, 1991; Hamel and Prahalad, 1994; Barney, 1997). Because competences are hidden,

intangible and difficult to imitate, they are the source of sustainable competitive advantage (Barney, 1991; Mintzberg et al., 1998).

Core competences may become risky if they are likely to turn into core rigidities when a firm finds it needs to respond flexibly to major external change (Leonard-Barton, 1992). Prahalad and Hamel (1990) argue that this risk can be minimised if core competences are used to manage core products that, in their turn, can be used to serve unrelated markets. They define core competences as the abilities of employees to learn how to develop and manage strategic capabilities, especially how to integrate different technologies through cross-functional management and collaborative working.

- ***Absorptive Capacity***

Cohen and Levinthal (1990) defined absorptive capacity as “the ability to recognise the value of new information, to assimilate it, and apply it to commercial ends. It is also a key factor to innovation capability”. Whilst dynamic capabilities depend upon knowledge absorption and knowledge diffusion (Dosi et al., 1990), Cohen and Levinthal (1990) define absorptive capacity as the firm’s ability to value, assimilate and apply new knowledge. Insufficient absorptive capacity may hinder organisational learning processes (ibid). Zahra and George (2002, p.186) extend the definition of absorptive capacity to ‘a set of organisational routines and processes by which firms acquire, assimilate, transform and exploit knowledge to produce a dynamic organisational capability.’ They differentiate between potential absorptive capacity, which combines the acquisition and assimilation capabilities, and realised absorptive capacity, which combines the transformation and exploitation of knowledge. The latter two capabilities reflect the firm’s capacity to leverage the knowledge that has been absorbed.

- ***Causal Ambiguity***

According to the RBV, some resources are not mobile; for example, knowledge-based human assets are difficult for other firms to imitate and firms can reduce the threat of employee turnover by making such assets more firm specific, socially complex and ambiguous. A firm that relies on such knowledge attains high returns because there is no competitive market to bid up wages (Klein et al., 1978).

Causally ambiguous knowledge assets are hard to imitate because the link between the economics of the resource and its performance is not easily defined (Lippman and

Rumelt, 1982). Knowledge-based human assets are causally ambiguous because many social and cognitive processes are not well understood and identified. Such assets tend to defy imitation because they have a strong tacit dimension that is complex (Peteraf, 1993). The development of the knowledge base of most firms is “path dependent” in the sense that it is dependent upon preceding levels of learning and development activities. Would-be imitators are thwarted by the difficulties of discovering and repeating the developmental process by simply copying because they do not have the historical context to develop the knowledge base (Lee, 1999).

In summary, the development of the literature on the RBV has seen the creation of a number of sub-fields such as core competences theory and dynamic capabilities theory. Different concepts have emerged from the RBV such as, resources, competences, capabilities, dynamic capabilities and core competences Wernerfelt (1984), Barney's (1986, 1991) and Peteraf's (1993).

Wernerfelt (1995) views dynamic capabilities as a form of firm-specific resource, he considers Prahalad and Hamel as responsible for the diffusion of the RBV into practice with the introduction of the ‘core competency’ definition, Wernerfelt (1997a) suggests that different RBV terms can be grouped into the following categories; knowledge assets (competences), resources for which change is largely stochastic (‘the evolutionary perspective’), first-mover advantages (‘commitment’) and second-order resources (‘dynamic capabilities’).

The RBV can be viewed as a broad framework containing these central tenets but which does not involve restrictive assumptions (Hoskisson et al., 1999), unlike Porter's framework and the industrial organisation approach, which assume full knowledge of production and homogeneous factors of production. Given the nature of the RBV, ambiguities about what constitutes a resource may be intractable. At the same time, the absence of restrictive assumptions may have a positive influence as it may encourage pluralism in theory development. The RBV has seen a proliferation of perspectives that build on its central tenets (Lockett and Thompson, 2001; Lockett, 2005).

A distinction can be drawn between the equilibrium (or static) conceptualisation (e.g. Rumelt, 1984; Barney, 1986, 1991) and the dynamic (or capabilities) view of the RBV (e.g. Collis, 1994; Teece et al., 1997); although Helfat and Peteraf (2003) suggest that this dichotomy may not be so clear-cut. The KBV has also emerged as a sub-branch of

the RBV (Grant, 1996). The KBV is important as it addresses the 'existence' question, arguing that firms exist because they are more efficient at protecting knowledge from imitation and expropriation than markets (Liebeskind, 1996).

Within this thesis two strands of literature are used to develop the conceptual framework. This section has discussed the SM literature and the RBV theory. The following review gradually moves from the SM literature and presents the theoretical underpinnings of the research in the IB and multinational activity literatures.

2.3 The International Business Literature

This section provides a literature review of the most seminal approaches to the phenomenon of international business and their link to the SM literature.

After the 1960s the capital flows between developed countries intensified and triggered the necessity for international production. These changes needed to be reflected in the literature and existing theories, the main drawback of which was their inability to explain both cross-investments between countries at a similar level of development and investments between the same industries.

Hymer (1960/1976) proposed a plausible solution to this particular problem by applying firm's theory within its industry and therefore establishing the determinants of internationalisation. His main idea was that a firm increases its size at the early stages within its national market boundaries.

As concentration and market power rise, the same happens to the firm's profits. After a certain point, however, it is impossible or unprofitable to increase concentration in the home market. This is the point when such firms decide to invest abroad and transform into multinationals. International investments are a means through which these firms can further extend their networks to other markets. Hymer's original objective was not to evaluate the operations of MNEs but to explain why national firms went abroad. There is still, though, a point to be clarified about Hymer's intentions. His explanations of international operations were more a theory of the firm than a theory of industrial organisation. It was Kindleberger's (1969) interpretation that related Hymer's explanations to industrial organisation theory. MNE was seen not as an agent involved in oligopolistic interaction with other firms, but as a result of monopolistic competition in differentiated products.

An alternative way of interpreting international investment stems from the 1930s with the criticism by Coase of neoclassical economics. In this case the emphasis is placed on the efficiency of transactions made within an organisational unit. It is the modern theory of internalisation of markets applied to international production. Buckley and Casson (1976) introduced transaction costs into the international operations of firms. Licensing local firms or exports from home country are the main alternatives to the internalisation of production as represented by foreign direct investment. Different organisational structures of the firm can emerge from this approach from globally integrated MNEs (Williamson, 1973), where the control is centralised and hierarchical, to completely decentralised MNEs (Rugman, 1981).

Building on previous work by Linder (1961) and Posner (1961), related to international trade, Vernon (1966) developed the product cycle model (PCM). The main argument of the PCM is that high incomes and demand in the US promoted innovation in the development of new products. This empowered US firms with a significant competitive advantage, which could be exploited initially through exports and then through import substituting investment in Europe. Then as products matured, cost considerations become important and thus production would be moved to cheaper locations. The way locations change and develop through the process of inward and outward FDI is discussed in the industrial development path (IDP), developed by Dunning (1981). Its main assumption is that the balance of inward and outward investment in a country is closely related to the level of national development. At the first stages of development, countries have both very little outward and inward investment. This leads to a net outward investment close to zero.

As countries develop, significant flows of inward investments are made. Their outward investments though are still limited and therefore their net outward investment is negative. Finally, at advanced stages of economic development, outward investment takes off, until the balance between inward and outward investments reaches zero again. Subsequently, Dunning (1986) made a further elaboration of IDP, explaining the character and composition of investment at each stage of the IDP. Early investments are mainly resource seeking but this evolves to market, efficiency or strategic asset seeking behaviour, as firms mature and countries develop. Comparative advantages and other regions could be selected for international production. Vernon's work would have been incomplete without Hirsch's (1976) clarification of the intermediate factors of production that was needed for the manufacturing of specific goods.

The above-mentioned approaches to international production show to a large extent the different ways which one can use to explain international production and emergence of modern MNEs. Each one addresses different questions and therefore results in an alternative mode of analysis. The desirability to synthesise miscellaneous elements from a variety of approaches guided the emergence of Dunning's (1979) eclectic paradigm. This is not another theory of international production; rather its role is to offer an overall analytical framework for empirical investigation. According to this paradigm, MNEs hold competitive or "ownership" advantages against their competitors. Then firms invest in locations that are attractive due to their "locational" advantages. The way firms decide to enter new markets is the third ingredient of the eclectic paradigm. Internalising markets through foreign direct investments, rather than export, requires the existence of advantages stemming from that internalisation.

This element of internalisation can be seen from a different perspective with a starting point of Buckley and Casson's work of 1976. A more strategic view of their work was their attempt (in 2007) to formalise Penrose's model of "*The Theory of the Growth of the Firm*" (1959) and apply it to the strategic decisions of MNEs by comparing it to the model of Buckley and Casson (1976). Penrose's (1959) concentration on product diversification was used as complementary to Buckley and Casson's (1976) emphasis on innovation. Their findings showed that Penrose's theory provided a tractable formal model, which has important implications for the strategy of MNEs. The analysis of the appropriate modes of internationalisation can be integrated with a satisfying account of the trade-off between product diversification and foreign market penetration. They recognised the contribution of Penrose's book to the analysis of geographical expansion patterns, sequential decision making and learning in the MNE, as key factors in international strategic management.

2.3.1 The Market Power Approach - Hymer

Stephen Hymer (1960, 1976) further advanced the explanations for FDI and MNEs. Until his thesis appeared, neoclassical trade and financial theory described the economic environment as frictionless; companies were competing in perfectly competitive markets, no transaction costs existed and the only thing that moved capital from one country to another was responses to changes in interest rate differentials. This arbitrage theory of international investments emerged in the late 1930s from the work of Iversen (1935). In this framework of analysis there is clearly no role for the

MNE. FDI was just capital flows from one country to another, as if it was an invisible hand and not firms that conducted these flows. Even before Hymer there were efforts to understand these roles. For example, Dunning (1958) focused on explaining the location of investments within the boundaries of nations or industries. However, this approach was very limited and did not focus on individual firms. For these reasons the work of Hymer became so distinct in the IB literature. He was the first to acknowledge the existence of individual firms, i.e. MNEs, as the driving force for FDI.

The maintenance of control over productive activities from MNEs is the unique feature that characterises FDI. Hymer's work deviates heavily from the previous literature that deals with international capital flows just as an international exchange process of assets or claims (Aliber, 1970). More precisely, Hymer (1960, 1976) explains the emergence of MNE's as a reaction of firms to market imperfections. Separation of international markets, minimisation of competition and exploitation of advantages are the main driving forces underlying the phenomenon. Two further issues must be analysed in relation to Hymer's influence on the modern IB literature. The first relates to the dynamic characteristics of firm ownership specific advantages. He places great emphasis on the changing nature and advancement of these advantages. The second is his contribution to the understanding of the advantages of international diversification.

Hymer ignores entirely the Coasian (1937) theory of the firm. To him, MNEs are always a phenomenon due to monopolistic reasons and locational factors play a very limited role. The geographical distribution of FDI and the interrelation of locational and firm-specific advantages are almost neglected. Although there are elements that are not analysed by Hymer, his contribution to the modern understanding of MNEs is crucial. He casts light on MNEs and FDI from a completely different perspective to the previous literature. His thesis is a turning point in the international economics literature.

2.3.2 Internalisation Theory, Buckley's and Casson's Approach

Internalisation of markets was addressed systematically by Buckley and Casson (1976) in their book entitled *The Future of Multinational Enterprise*. This alternative theory for the explanation of the emergence of MNEs derives from the work of Coase (1937). The main argument behind this approach is the efficiency of transactions between distinct units of productive activity. Internalisation theory deviates from the traditional neoclassical approaches to trade and investment by adding to the analytical framework the transaction costs of such activities. The relative transaction costs between

exchange through the market or through the internalisation of the market define the manner in which MNEs behave. The formation of a multinational network may take various shapes across a formation matrix, from a globally integrated MNE where the control is centralised and hierarchical within the group (Williamson, 1973), to a large decentralised MNE where control is at the lowest level (Rugman, 1981).

Special emphasis in internalisation theory is placed on the creation and distribution of knowledge. Proprietary firm-level knowledge proved an ideal and relevant case for the exposition of the internalisation concept. This issue was systematically addressed by Buckley and Casson (1976) in, for example, their invocation of buyer uncertainty. Their major concern is with the MNE as both a “developer and transferor of various kinds of knowledge and skill” (Buckley and Casson, 1976, p.109). Buckley and Casson (1976, p. 35), having underlined the view that since proprietary knowledge is a “public good within the firm” with low transmission costs, its “exploitation...is logically an international operation. For similar reasons, the search for relevant knowledge in a particular field is also an international operation”. This would lead to MNEs operating as, “an international intelligence system for the acquisition and collation of basic knowledge relevant to R&D, and for the exploitation of the commercially applicable knowledge generated by R&D”.

2.3.3 Microeconomic and Macroeconomic Theories of Foreign Direct Investment

There is a difference between FDI as a macro level variable and between firms undertaking investment overseas. The first aspect refers more to the economics approach of FDI at a country level and the second has elements of the SM literature.

Microeconomic Literature on FDI

The microeconomic foundation of FDI rests on the theory of the firm (Coase, 1937; Williamson, 1975, 1979) and the theory of the firm’s internationalisation (Hymer, 1960). The last reference focuses on an oligopolistic explanation of internationalisation, where transaction costs are analysed. Hymer (1960) articulated the process of FDI as an international extension of industrial organisation theory. However, it is worth noting that Penrose was one of the first contributors to the literature on large international firm and FDI. Her 1956 article in the *Economic Journal* was published before Hymer’s PhD thesis. Penrose (influenced by Vernon, 1966) articulated the view that government action might ensure that multinational firms made a larger contribution to economic

growth. At a time when firm theory was shaped by anti-government or anti-monopoly views, Penrose's theory on how firms and government can influence economic growth was closer to theories of economic development than to theories of the firm.

In the 1960s, scholars working on the determinants of FDI gave specific attention to locational variables (Vernon, 1966, 1974; Wells, 1972). In the 1970s, apart from research on the internationalisation process of firms (Johanson and Vahlne, 1977), attention switched from the act of FDI per se to the firms actually making the investment. The research focused on the reasons why firms choose to set up or acquire foreign value-adding activities (Buckley and Casson, McManus, Hennart, Rugman, and Swedenborg, cited in Caves, 1982 and 1996).

Macroeconomic Literature on FDI

A more general strand of literature that diverges from the firm-specific approach of FDI is that of the macroeconomic developmental approaches. Building on previous work by Posner (1961) and Linder (1961), Vernon (1966) presented the Product Cycle Model (PCM) in the mid 1960s.

According to the hypothesis of PCM, firms engage in foreign production in reliance on some real or imagined monopolistic advantage. This advantage can be specialised as an innovation lead for the MNE. This innovation lead is provided by the home market of the MNE and is used to expand to foreign markets. At the first stages of an innovative product, this is exported to markets sharing similar characteristics with the home market. As the product begins to standardise, its production can be located to other countries.

The standardisation process offers two benefits; firstly, it allows reduction or avoidance of the costs of implementing the product to individual market's needs, and secondly, it captures economies of production on a global scale. Finally, the product reaches its mature stage and the MNE seeks to exploit economies of scale by establishing various component plants in both advanced and developing countries.

Vernon's PCM is further enriched by Hirsch (1976). His work aims to answer two questions: when an MNE chooses to serve foreign markets and how to serve these markets. Hirsch overturns the assumptions of the Heckscher-Ohlin-Samuelson-Stolper models one by one and then builds a unifying model of international investment. He proposes three main driving forces behind FDI activity. The first is the existence of firm

specific know-how and other intangible income-producing assets; the second is export marketing cost differentials; the third is the costs of control and co-ordination of foreign and domestic operations. These three factors determine the “when” and the “how” of international activities.

Dunning's Investment Development Path

A more general macroeconomic approach was then proposed by Dunning (1981). According to the Investment Development (Cycle) or Path (IDP), the international investment position of a country may be explained by the eclectic theory of international production. Three factors determine the position of a country. Firstly, the possession of assets or rights by home-based enterprises that other international competitors do not possess. Secondly, the way enterprises perceive these advantages and the way they are utilised. Thirdly, the decision to locate any part of the production chain outside the home country. Dunning then distinguishes four stages of development related to the net outward investment of the country. In stage one there is no outward investment since the home-based firms do not possess any ownership advantage. But there is no inward investment either, since the country has insufficient location-specific advantages. During the second stage inward investments become commercially viable mainly for three reasons: firstly, the availability of a cheap labour force will attract rational investments to make a business or operation more efficient and profitable; secondly, the exploitation of natural resources; and thirdly, well-populated developing countries might attract import-substituting investments. The third stage of IDP is the most interesting one; in this stage domestic firms will upgrade their competitive capacity.

The sectors which have strong comparative locational advantages attract inward FDI, whilst the opposite holds for outward FDI. Domestic firms which have already promoted their capabilities start to invest abroad. In the last stage the country becomes a net outward investor. Dunning measures the level of development by GNP per capita and relates it to the country's international investment position.

2.3.4 The Synthesis of Various Theories of International Investments – Dunning's Eclectic Paradigm

The need to synthesise various aspects of the approaches of MNEs and FDI and the desire to find an appropriate framework for their empirical investigation led to the emergence of the eclectic paradigm. It is important to clarify that this is not another

theory of FDI and MNEs. Despite this, for the last two decades, the eclectic paradigm has remained the most influential analytical framework for MNEs. Three sets of factors are assumed to explain multinational activity. The first of these is the ownership or competitive advantages (O) of firms seeking to engage in FDI. Property rights, intangible assets, specialised management capabilities, organisational and marketing systems, and innovative capabilities are just a few examples of ownership advantages.

The second set is the locational characteristics (L) of alternative countries or regions. Low input prices, a productive and skilled labour force, well-developed infrastructure, attractive investment policies and country-level competences, represent the major locational attractive factors. The third set of factors is the internalisation (I) advantages. Exploiting market failures is the main argument behind this last type of benefit. Lowering search and negotiation costs, control of market imperfections and compensation for absence of future markets are just a few internalisation incentive advantages. The paradigm declares that it is the combination of these factors and their exact configuration that defines which firms become MNEs; when they become MNEs; where they locate their productive activities; and how they engage in international production. Dunning (2000) characterised the eclectic paradigm, “as an envelope for complementary theories of MNC activity”.

Thus, an essential condition for a firm to invest abroad is to possess an ownership advantage. Some critics of Dunning have built on the argument that OLI-theory lacks variables that explain agglomeration tendencies (Braunerhjæl and Svensson, 1996). However, ownership advantages include not only tangible resources such as size, assets but also intangible ones such as technology, a trademark, or a firm’s experience that are essential in the RBV of the firm (Barney, 1991; Peteraf, 1993). The RBV is compatible with traditional theories related to FDI because ownership advantages are conceptually similar to firms’ specific resources - the internal factors being those that generate competitive advantages (Fladmoe-Lindquist and Tallman, 1994). However, as mentioned in the introduction to Chapter 1, the internalisation advantages relate to firms’ costs and benefits of different trade negotiations and of coordinating multiple economic activities (Dunning, 2001). Therefore, as the present study is investigating MNEs activities rather than MNE networks, the internalisation theme of the paradigm does not presently apply.

2.3.5 Rugman and Verbeke: The Firm-Specific Advantages and Country-Specific Advantages Approach (The theory of multinationals)

As previously discussed, the literature on IB analyses the growth and foreign expansion phase of MNEs. The starting point of this theory of the MNE (Rugman, 1981, 1996) is the proposition that an MNE invests abroad to further expand its FSAs. The FSAs are proprietary to the firm; these can be technology based, knowledge based, or they can reflect managerial and/or marketing skills (Rugman and Verbeke, 2003). The FSAs need to be distinguished from the CSAs, where the latter are available to all firms located in that country; in contrast FSAs are the capabilities of each specific firm.

The MNE is defined as a firm with value-adding activities in at least two countries. It is able to achieve a satisfactory economic performance only if it can build on some type of FSA that, at the simplest level, is non-location bound, i.e. easily transferable across borders. Non-location bound FSA can take two main forms. First, it may reflect a functional, production-related proprietary asset, typically technological, manufacturing or marketing know-how. Second, it may refer to an organisational capability to efficiently coordinate and control the MNE's asset base (Rugman, 1981; Dunning and Rugman, 1985; Dunning, 1988). The FSA concept thus covers a very broad set of unique company strengths (competences and capabilities), which have been analysed and classified in much more detail by scholars supporting the RBV of the firm (Rugman and Verbeke, 2003).

It is worth noting again that the importance of FSA transfer to explain MNE success has been widely researched for four decades, beginning with the seminal works of Dunning (1958), Hymer (1960, published 1976) and Vernon (1966). One of the most detailed descriptions of the significance of internal FSA transfer in MNEs can be found in Rugman (1981). This work, as well as much of the earlier mainstream transaction cost-based literature of the MNE, for example McManus (1972), Buckley and Casson (1976), Magee (1977), Caves (1982), and Hennart (1982), focused on the need to avoid FSA dissipation when penetrating foreign markets.

There are many cases of MNE subsidiaries in host countries performing specific value creating activities, which are fundamentally 'embedded' in these host countries' knowledge development systems. Evidence to support this appears in Cantwell (1989, 1992, 1995), Dunning (1994, 1995), Florida (1997), Shan and Song (1997), Kuemmerle (1999), and Rugman and D'Cruz (2000), amongst others. However, this

embeddedness often appears to arise for particular value chain activities (or product lines) only rather than for the entire range of activities performed by the subsidiary.

Nordberg and Verbeke (1999) identified types of value chain-driven research in the context of inter-organisational knowledge transfer within the MNE. They suggest the emphasis should be on three types of affiliates:

- I. The subsidiaries which act as a home base for the creation of new R&D knowledge in order to build at least partly on their host country knowledge development systems, including the non-business infrastructure (e.g. local human resource pools of scientists and engineers, university laboratories, specialised public research centres) and are responsible for its global exploitation;
- II. The affiliates that perform the role of regional headquarters typically at the level of the American continent, Europe and Asia;
- III. The affiliates that result from global mergers and acquisitions and have lost their former corporate headquarters but remain fully responsible for the global exploitation of a number of product lines under their control.

To help formulate the strategic options of the MNE, it is useful to identify the relative strengths and weaknesses of the CSAs and FSAs that an MNE possesses. The CSA/FSA matrix, Figure 2.1, was developed from Rugman (1981, 2006), and provides a useful framework for analysis and discussion of these issues.

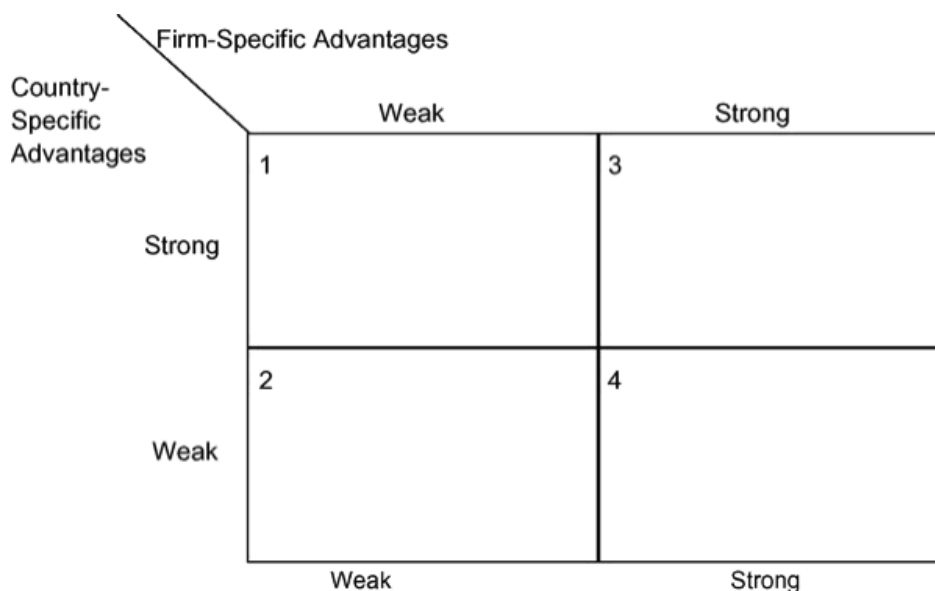


Figure 2.1 The CSA/FSA Matrix

Source: Rugman (1981, 2006).

In the above matrix, quadrants 1, 2, and 4 can incorporate the three generic strategies suggested by Porter (1980): cost leadership, differentiation, and focus respectively.

Quadrant 1: firms are generally the cost leadership ones. They are generally resource-based and/or mature, internationally oriented firms producing a commodity-type product.

Quadrant 2: firms represent inefficient, floundering firms with neither consistent strategy, nor any intrinsic CSAs or FSAs. These are firms with little global exposure and are preparing to exit or to restructure.

Quadrant 4: firms in this quadrant are generally differentiated firms with strong FSAs.

Quadrant 3: firms generally can choose to follow any of the three generic strategies listed above because of the strength of both their CSAs and FSAs.

2.4 Internationalisation and Knowledge

RBV theory advocates the employment of under-utilised resources in new markets or businesses in order to increase their economies of scope. Two measures of ex ante competitiveness are technology and management skill (Johanson and Vahlne, 2003, 2006), which fit into the RBV theory, as tacit knowledge that has been used to explain diversification (Chatterjee and Wernerfelt, 1991) and with IB theory as intangible resources that create monopolistic advantages (Caves, 1971), which may facilitate cross-border investment.

There is evidence to suggest that industries are becoming increasingly knowledge-intensive and high knowledge intensity is associated with high levels of internationalisation. Markusen (1998) highlights that MNEs are found in industries in which knowledge capital and knowledge-intensive production are important. The increased knowledge intensity of firms and industries is driving different needs from internationalising firms and together with agglomeration effects, which are more common in knowledge-intensive industries; this is also influencing internationalisation decisions. An asset augmenting approach to FDI is emerging as firms accumulate knowledge and learning. The increased level of intangible assets indicates an increased mobility of assets across borders in comparison to fixed tangible assets (Brennan and Garvey, 2009).

The role of knowledge is thus important in internationalisation given that organisational capabilities are the basis for competitive advantage (Sharma and Vredenburg, 1998; Kusunoki, Nonaka, and Nagata, 1998), and given that capabilities are based on the ability to use resources to achieve organisational goals (Amit and Schoemaker, 1993; Helfat and Lieberman, 2002). A venture's ability to enter foreign markets can be linked to its accumulated tangible and intangible resource stocks (Westhead et al., 2004). The knowledge-based view has emerged from the RBV by focusing on intangible resources (Grant, 1996) rather than on physical assets.

In this perspective, knowledge is the most important resource and heterogeneous knowledge bases across firms are the main determinants of performance differences (DeCarolis and Deeds, 1999). The development, integration, and transfer of knowledge should be regarded as a critical aspect of the strategic management of internationalisation (Johanson and Vahlne, 1990, 2003, p. 90).

Dunning (1998) describes key features of a new world economy that impacts international locational factors; among them are the rising significance of knowledge or information-intensive industries and advances in transport and information and communications technology (ICT).

Petersen et al., (2003) highlight that knowledge now plays a far more complex role than was assumed in the internationalisation models of the 1980s and they note how

this partly explains the emergence of a new phenomenon in internationalisation, the “Born Global” phenomenon.

The “Born Global” phenomenon is a relatively new research area; it lacks a definition, as there are disparate opinions about the characteristics of the phenomenon (Madsen and Servais, 1997). The role of knowledge at firm level emerges as one of the key differences in the “Born Global” internationalisation process as opposed to the traditional internationalisation models reviewed earlier. This encompasses the importance of the accumulated international knowledge of the founders and managers in internationalisation process and market selection (Brennan and Garvey, 2009).

At the firm level, two International Process Models have emerged in Europe and the U.S. Andersen (1993) has termed these the Uppsala internationalisation models (U-Models) (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) and the Innovation-related models (I-Models) (Bilkey and Tesar, 1977; Cavusgil, 1980). The U-and I-Models are to some extent similar as they focus on the behaviour of the firm and individuals within the firm. The models view internationalisation as a gradual incremental process.

The U-Model is the more dominant of the two models as featured in the IB literature. Based on a case study of four Swedish firms, Johanson and Wiedersheim-Paul (1975) found that firms internationalise according to a chain of establishment. The model assumes experiential knowledge as not only a method of reducing risk but as a vehicle for acquiring information and for generating opportunities abroad. The Johanson and Vahlne model (1977) implies that market commitment will be made in small incremental steps as firms gain experiential knowledge over time. They also note that firm size, technology, product line and home country affect the characterisation of internationalisation in different ways. Andersen (1977) notes this concept of firm-unique knowledge (experiential knowledge) assumes a time-dependent process according to a sequence of events.

An important change to the Uppsala model was introduced in Johanson and Vahlne (1990) and developed further in Johanson and Vahlne (1990, 2003, 2006, 2009), which discusses business relationship learning and commitment in the internationalisation process. The original version of the model focused on the focal firm only; later it focused on the relationship(s) between businesses and developing opportunities for new business through widening the circle of network of interconnected firms. The focal

firm thereby becomes indirectly linked and committed to each other and, to some extent, have a shared knowledge capital. In this way, the relationship provides a bridge into a new knowledge world and the opportunities created in the relationship have a wider significance than just business with the partner firm.

The I-Model is the innovation-related model; it assumes internationalisation as an incremental process although varying in stages. Internationalisation is presented in these models as an innovation of the firm, a learning approach (Brennan and Garvey, 2009).

Erkko *et al.*, (2000) highlighted that knowledge plays an important role in both the process theory of internationalisation and “the new venture”/“born global” theory of internationalisation. Petersen *et al.*, (2003) provide a summary of the key characteristics of knowledge in the U-Models, which also applies to the I-Models:

- The knowledge of critical importance to firms is market-specific;
- Knowledge is experience-based and is acquired in a learning-by-doing process;
- Knowledge is embedded in individuals and is not easily disseminated throughout the organisation;
- Market commitment increases proportionally with the acquisition of market knowledge.

As MNEs become more experienced, which is what the Uppsala model suggests; they begin to demonstrate more developed motives for their internationalisation process. In the early stages of the internationalisation process, MNEs exhibit resource and market-seeking behaviour. But once an MNE establishes a network, it becomes more experienced and as it accumulates knowledge from different markets, it begins to exhibit more strategic asset-seeking and efficiency-seeking motivations.

The Uppsala Internationalisation model (Johanson and Vahlne, 1977, 1990, 2003, 2006, 2009) is mostly characterised as a learning model of the internationalisation process (Forsgren, 2002), in which experience is the main explanatory construct (Sharma and Blomstermo, 2003). A number of studies have used various forms of experience to explain why firms enter foreign countries, invest in foreign countries or are more or less successful abroad. Foreign experience (Hohenthal, 2001), international operations experience (Yu, 1990), international experience (Delios/Beamish, 1999), entry experience (Chang, 1995), decision specific experience

(Padmanabhan/Cho, 1999) and other types of experience have all been used as explanations of various types of internationalisation behaviour.

Both managerial and technological capabilities are examples of intangible resources and their deployment in international markets via FDI does not diminish their overall value to the firm. In each case, these under-utilised resources may make the firm more likely to succeed in competition against rivals in general (Trevino and Grosse, 2001).

From an RBV perspective, business innovation is highlighted as another factor in achieving firms' strategic competitiveness. Emphasising global competition has led to increased focus on innovation as a means to develop and maintain firm-specific competitive advantages (Bettis and Hitt, 1995). Research has shown that product and process innovation may be important as firms seek to expand their operations internationally (Porter, 1990).

Many empirical studies have investigated firm-specific advantages in the form of R&D intensity and their effects on FDI; Vernon (1966) stressed the role of technological advantage as a fundamental determinant of FDI. Research at the firm level using primary (Chen and Chen, 1998) and secondary (Chang, 1995; Tan and Vertinsky, 1996) data, has confirmed this positive relationship between R&D intensive industries and international expansion. The reason for this relationship relates to the theories of internalisation (Buckley and Casson, 1976; Teece, 1986), which hypothesise that there is a tendency for firms to transfer knowledge via FDI rather than by exporting or licensing. The reason is that internalisation theory holds that there are cost savings associated with the transfer of information within subsidiaries of the same company.

2.5 The Bridge between the IB and the RBV

The literature review thus far has focused on RBV and IB perspectives. In the light of some of the limitations of these theories, and to better define the primary research into RBV and multinational motivations, the literature review had to be expanded further to present firstly, an analysis of the missing bridge between the RBV and IB literature; secondly, an analysis of the knowledge-based view and multinational motivation; and thirdly, alternative management theories examining industrial policy.

This links well with the main objective of the thesis, which is to connect the IB and SM literatures through the RBV theory in the context of MNEs locational decisions.

2.5.1 Introduction and Theoretical Perspectives

The competitive position of the firm is the outcome of a sequence of activities taken over time and is path dependent. To imitate that position may require following the same developmental path and that path may be prohibitive even if clear and unambiguous (Hooley et al., 2001).

Every firm develops a set of unique capabilities through learning (Pedler et al., 1997; Senge, 2006). Firms acquire knowledge through 'learning-by-doing' when conducting business. Lack of knowledge and experience is related to the limitation of options and possibly to higher costs. Firms initially follow a strategy that helps them develop a set of unique resources and capabilities. Unless they are motivated to change, they follow the path that has worked initially; this is adopted as a norm as it works. Path-dependent behaviour is also typical for the firms' co-actors (in this case the capital providers) not just firms themselves. There is evidence that when large firms decide to internationalise their capital provider tends to follow and establish itself in the new market. Buckley and Casson (2002) use the example of banks following their multinational clients when expanding into new host countries. Based on these findings it is logical to conclude that inward FDI determines which capital suppliers are able to establish their presence in the new market.

The literature recognises that the RBV has developed beyond its original formulation as an approach to sustainable competitive advantage into more dynamic concepts such as capabilities and dynamic capabilities theory (Collis, 1994; Teece et al., 1997, 2007). These literatures share the notions of path dependency and firm heterogeneity (Lockett and Thompson, 2001). Firms evolve along unique routes such that each firm develops its own distinctive resource/capability base conditioned by its own experience. These ideas are also central to Penrose's (1958) analysis of the firm, as the following quotation from Hercules (Penrose's case study on the Hercules Powder Corporation), illustrates:

"A firm is not confined to 'given' products, but the kind of activity it moves into is usually related in some way to its existing resources, for there is a close relationship between the various kinds of resources with which a firm works and the development of ideas, experience, and knowledge of its managers and entrepreneurs... In the explanation of the course of expansion of a particular firm

and of the limits on its rate of expansion, it is illuminating to put the chief emphasis on the firm's 'inherited' resources and productive services, including its accumulated experience and knowledge, for a firm's productive opportunity set is shaped and limited by its ability to use what it already has" (Penrose, 1960, pp. 2–3).

In the economics literature, research suggests that although the explicit use of the RBV in economics has been strictly limited, the implicit application of the central ideas behind the RBV are widespread (Lockett and Thompson, 2001). In particular, the influence of the dependency path on a firm's development through diversification and market entry, corporate refocusing and market exit, explain the innovative activity among firms' diversification and performance strategies. Most relevant to this research is the empirical application of the RBV in examining patterns of diversification via new market entry and corporate refocusing. Diversification decisions are driven by preceding factors such as a firm's existing and structural resources (Teece, 1982).

The literature has categorised the preceding resources that affect diversification decisions into physical, knowledge-based and financial resources (Teece, 1982). Econometric studies by Lemelin (1982), MacDonald (1985), Montgomery and Hariharan (1991) and Ingham and Thompson (1995), have confirmed that diversification is not a purely random process driven by idiosyncratic managerial decisions, but instead follows a pattern consistent with the exploitation of existing identifiable resources (Lockett and Thompson, 2001). Lemelin (1982) found that diversification tended to occur across industries using similar resources. Firms with greater availability of knowledge-based resources tend to expand into related markets (Chatterjee and Singh, 1999).

2.5.2 RBV and Internationalisation Theory

Key gaps identified in the RBV literature centre on the difficulty of identifying which resources are associated with FDI decisions and which characteristics make them valuable; the failure to link research on RBV with the environmental and industry context; the failure to identify the link between specific firm resources and capabilities with the ability to create and implement firm strategies and the lack of research at the resource level, rather than at aggregate firm level.

Despite the fact that RBV has been used in the FDI literature (Buckley and Casson, McManus, Hennart, Rugman, and Swedenborg, cited in Caves, 1982 and 1996; Rugman and Verbeke, 2003), in general no RBV analysis has studied FDI within the Irish context. The examination of the application of the RBV and FDI has demonstrated that there is a growing body of knowledge in this area, but so far there have been no empirical studies into the Irish context RQ2. In particular, there has been no application of RBV in the analysis of FDI into Ireland. This therefore represents a significant gap in the literature, which is addressed by this research.

2.6 FDI Motivations

This research models FDI as indicating patterns in the strategic expansion of MNEs operations, as they approach globalised competition with organisational structures configured as 'resources, capabilities and dynamic capabilities'. The IB literature (Dunning and Lundan, 2008) identifies four types of FDI motivations:

(i) Market seeking (MS) refers to production within a country with the objective of supplying the local market or/and a broader region as economies of scale are captured from the regional market. This motivation is usually driven by either the size of the host market's ability to potentially provide the necessary volumes of demand that can lead to economies of scale in production or by product-specific characteristics which necessitate local and regional production necessary. This motivation is usually seen as dominant in downstream manufacturing industries that deliver goods with substantial local adaptation and in certain fragments of the services sector, i.e. telecommunications, tourism and banking and finance, where the product's production and quality is determined primarily by direct contact with the final consumer (Bartlett and Ghoshal, 1989).

(ii) Resource seeking (RS) is the most straightforward of all motivations for a firm's internationalisation. It refers to cases where the company is actively searching for resources abroad that are either non-existent or relatively expensive in its home country. Although most researchers, when examining resource-seeking motivations, refer to primary materials or natural resources, it is important to clarify that resource seeking encompasses also investments abroad that are related with other intangible resources i.e. human capital, when those are scarce in the home country. The majority of resource seekers will be manufacturing companies, especially those with upstream activities that are in constant need of cheap and good quality raw materials. The abundance, on the other hand, of natural resources in certain countries will attract

primarily those resource seekers (Behrman and Wolfe, 1984; Dunning, 1993; Dunning and Pitelis, 2008).

(iii) Efficiency seeking (ES) involves relocation of the production of specific existing goods to a particular country with the objective of enhancing the cost-efficiency of their manufacture in order to enhance (or defend) MNEs' competitiveness in those (usually higher-income) markets where they are already well established. This motivation has a rather dynamic aspect and requires a constant evaluation of the operational and cost needs of the multinational network. This motivation is also directly related to gaining cost-competitive advantages by organising production and distribution in the most efficient way. ES behaviour is close to interdependent global strategies and usually pursued by industries where products are in the mature stage of their product life cycle (Vernon, 1966), or competition is first and foremost based on cost competitiveness (Porter, 1986).

Both MS and ES represent ways in which MNEs seek to enhance the benefits they can secure from their mature competitive technologies, as embodied in successful established products.

iv) Strategic asset seeking (knowledge seeking) relates to the internationalisation and the ways in which firms pursue the medium and long-term regeneration of their competitive scope. This motivation can be seen in a variety of ways in which MNEs organise and, in effect, involve themselves within the national system of innovation (Nelson, 1993; Lundvall, 1992) of their host countries. This behaviour is usually associated with high technology industries, where the swift transition from one stage of the product's life cycle to the next creates a necessity for corporations to move rapidly into new product development.

2.6.1 The Resource-based View, Diversification and Market Entry Mode

Penrose's ideas have stimulated the development of RBV in the SM literature. The RBV relates firms' resource endowments to their competitive advantages and thus their ability to earn rents (Barney et al., 2001). This equilibrium conceptualisation (Lockett, 2005) primarily aims to explain firms' financial performance. On the other hand, dynamic RBV focuses on the process dimension of Penrose's work and aims to explain the behaviour of firms over time in terms of, for instance, foreign entry modes (Kogut and Zander, 1993), internationalisation processes (Johanson and Vahlne, 1977, 1990) or product diversification (Chatterjee and Wernerfelt, 1991). The second line of study

is more in line with Penrose's own intentions of explain firms' investment behaviour (Lockett and Thompson, 2004; Rugman and Verbeke, 2002, 2004).

RBV suggests that diversification is an outcome of emergent growth strategies, which in turn are driven by firms' resources. Thus, firms continuously develop new resources and then seek new applications for them. Firms accumulate resources in a dynamic way through internal growth such as organisational learning (Fiol and Lyles, 1985), as well as through acquisition of external resources (Kogut and Zander, 1993; Teece et al., 1997; Uhlenbruck et al., 2003). However, resources come in bundles that are indivisible and, especially in the case of tacit knowledge-based assets, are difficult to transfer using market mechanisms (Kogut and Zander, 1993). Hence, some resources are 'slack', i.e. they are not necessary for current operations, but can be used to grow internally (Teece, 1982). Hence, firm growth and diversification arise from the internal processes of resource accumulation and redeployment (Meyer, 2006).

With motivations being of such critical importance, for both theory and practice, it is important to understand what may drive changes within them. The motivations of multinational enterprises when investing abroad relate to the environment of the host country. The effect of the external environment on corporate competitiveness cannot be ignored. According to internationalisation theory, firms' competences are not only necessary to compete in the local market, but are also an essential condition for the expansion abroad. Caves's (1996) explanation of the internationalisation of the firm suggests that firms choose to become multinational when the specific assets they possess are more economically transferred across international boundaries.

Firms seeking to extend their profitable activities typically require assets to complement their existing resource bundles and frequently need to obtain these from existing firms. Mergers and acquisitions, joint ventures and other collaborative associations have been analysed quite extensively as alternative mechanisms for the acquisition of complementary assets for domestic and foreign expansions alike. Research suggests that, where a choice exists, joint venturing tends to be associated with a lack of specific expertise (of markets, technology, cultures, etc.) on the part of the firm concerned. Singh and Kogut (1989), using foreign entrants to the US, Hennart and Reddy (1997) for Japanese entrants to the US, and Thompson (1999) using domestic and foreign expansions by diversifying UK utility companies, all report that having controlled for size, prior market experience encourages expansion by acquisition rather than joint venture. Such a result is supportive of the RBV in that it confirms that outsiders with

incomplete resources need to secure specific resources via cooperation with the insider. In some cases, firms are able to purchase the relevant resources by acquiring a suitable company. This notion leads to further internationalisation of the firm as it shapes the firm's investment motivation.

2.7 Conclusion

This chapter has reviewed the RBV and internationalisation literature. It highlighted the key gaps in the literature that are connected with the resources, capabilities and core competences that are associated with locational decisions of MNEs. The gaps include the failure to link RBV with the environmental and industry context, the failure to identify the link between resources and capabilities and the ability to implement firm strategies and the lack of research at the resource level rather than at aggregate firm level. The literature reviewed draws on IB theories to adapt an existing model of MNEs motivations regarding locational decisions. The chapter provides the theoretical underpinnings for the development of the conceptual framework. The following chapter presents the conceptual framework utilised and explains how insights from the literature review are used to inform the development of that framework.

3 Chapter 3 Conceptual Framework

3.1 Introduction

The objective of this chapter is to validate, through a conceptual framework, Research Question 1 (the meso-level) *“How does the resource-base view theory help explain the process of location choice of MNEs and provide an understanding of the process through which MNEs formulate their investment ‘motivations’?”*

The usefulness of the framework is in the major academic contribution of this thesis in that (i) it provides a new perspective in examining investment motivation; (ii) the new framework will act as a tool of analysis for matching firms’ competences with country competences; as such MNEs can utilise the framework in evaluating their locational decisions; (iii) policy makers could use it to evaluate and target specific inward investment.

Furthermore, the chapter will develop, justify and propose a conceptual framework and consequently develop the propositions for this thesis.

Firms are deemed motivated primarily by what they perceive to be in the interest(s) of their stakeholders. Most of the literature in traditional neo-classical economics asserts that profit maximisation is the driving force of a modern business enterprise (Dunning, 1993, p. 54). Thus the goal of the owners of the firm is to maximise the value of the equity stake over a given period of time. The post neo-classical theories of the firm assert that where output is supplied in other than perfectly competitive market conditions, firms need not be constrained by maximising the rate of return on their capital. Behaviourist theories argue that because of the difficulty of identifying the appropriate conditions for profit maximisation and to avoid attracting competition or unwelcome government attention, firms will be content in ‘satisfying’ objectives rather than maximum profits (Simon, 1959; Cyert and March, 1963).

The underlying premise of this chapter is the proposition that whatever firms do, they strategically seek to maximise the use of their resources in a given situation through opening up opportunities. The central idea is that the starting point for a firm is the possession of resources. These resources become competences, which then lead to them becoming core competences and the core competences develop into motivations. Fundamental to the argument is that the firms exist because they are able to

coordinate [certain types of competences] human and other activities more efficiently in comparison to that adopted by other market participants. For example, resources and core competences are led by top management team (TMT) motivations; knowledge and firm innovation can be measured by the number of new product introductions. Therefore, based on the firm's resources and core competences, motivations are developed through a variety of complementary and interrelated mechanisms that direct human activity towards achieving the goals of the firm.

The focus is on the firm's possession of a set of core competences. These core competences lead the firm to follow and exhibit certain motivations in its development path (firms' motivations were discussed in detail in section 2.6 of the literature review in Chapter 2). It is worth noting that the terms 'motivation' and 'behaviour' are used in this thesis in the following context: motivations precede behaviour as behaviour is observed as stemming from or building on from the firm's motivations.

These motivations will be presented in a set of propositions. The propositions will be developed and will emerge from the conceptual framework embracing the firm and country perspectives. Discussions of resources, core competences and the motivations of MNEs in investing in a foreign country are central to the conceptual framework of this thesis. Understanding why firms invest overseas is critical because the rationale for foreign investment underlies the very nature of firms and their motivation.

The conceptual framework is based on bridging the strategic management resource-based view of the firm and the IB multinational theory of the firm. Penrose's (1959) RBV, which evolved from the 'Theory of the Firm' (Coase, 1937) is the theoretical starting point. The strategic management stream of the literature provides explanations of firms' behaviour and the changes that a firm has to undergo, especially with respect to its internal environment, in order to respond to a changing and dynamic external environment.

Internally, the motivation of the firm is affected by: (i) economic factors (e.g. the size of the firm, the type of firm ownership and the firm's performance); and (ii) Internal RBV factors such as the firm's former experiences, managerial behaviour and preferences, type of resources and capabilities accumulated throughout its existence, and the firm's overall stance towards learning, innovation and change.

The top management team has a critical influence on strategic decision-making (Mintzberg, 1979; Hambrick and Mason, 1984) and hence on foreign expansion decisions of the firm. The RBV (Barney, 1991; Teece et al., 1997), which theoretically underpins this research concept, focuses on the dynamic aspects of resources. Therefore, different motivations for going abroad require different strategies and are associated with different resources and capabilities. They also necessitate corresponding organisational structures and processes and different managerial skills. An explicit understanding of the rationale for firms' foreign investments is also necessary to propose adequate structural responses from policy makers in recipient countries aimed at prompting inward investment (Farrell et al, 2004).

Furthermore, this thesis argues that the external environment, in which the firm is embedded, influences its decision-making process. The macro economic situation of a country, the extend of its financial system development, the institutional environment, industry composition, the quality of secondary and third level education, the level of business sophistication and the extent of technological advancement, all influence FDI-related factors such as the availability of, and access to, resources, the variety of external capital providers, the quality of the labour force and research and development.

From the perspective of the firm these elements are considered both for home and host country [a pull and push situation] investment decisions. Therefore, Porter's National Competitiveness concept (NC) (Porter, 1990) is indirectly embedded in this conceptual framework. This research believes that the institutional environment present in a country greatly affects the FDI and location choices of firms; the rising influence of internationalisation and motivational theories supports the relevance of its application. For the purpose of this research, the conceptual framework is built on the theory of the MNE, (Rugman, 1981, 1996), with particular focus given to the firm-specific advantage (FSA) and the country specific advantage (CSA) concepts of the international business environment and literature.

The remainder of this chapter is laid out as follows:

Section 3.2 presents definitions of concepts, organised according to the various levels of comprehension. This helps to support the development of the conceptual framework ("the framework"). This section will also explain the structure of the framework by providing a brief description of its individual elements.

Section 3.3 explains the composition of the framework and identifies its main variables and the linkages between them; this is followed by a set of propositions.

3.2 Definitions of Concepts

This section appraises both strands of the literature which address and evaluate core competences of the firm and their influence in the determination of its motivations.

3.2.1 A new theoretical approach: Why?

In the theory of the multinational enterprise, selected influential literature has provided important contributions to the understanding of multinational firms (Buckley and Casson, 1976; Dunning and Rugman, 1985; Dunning, 1988; Porter, 1990, 1998; Rugman and Verbeke, 1992; Dunning 1993 Shan and Song, 1997; Kuemmerle, 1999; Rugman and D'Cruz, 2000 Filippaios et al., 2004). According to IB theory, a firm engages in cross-border activities to exploit its specific ownership advantages (Dunning, 1993). These advantages may initially have been based on Porter's diamond of the home base (Porter, 1990, 1998). In the traditional strategic management theoretical perspective, firm strategies are designed to secure competitive advantage by responding to environmental changes and aligning firm strengths with external opportunities (Barney, 1991; Porter, 1985).

Independent examples whereby these concepts have been applied to the present research is limited; the existing theories fail to conceptually explain what factors influence a firm's FDI development and which resources contribute to the development of a particular FDI decision. The novel theoretical approach herein presented, which bridges traditional theories used in the strategy and IB research, is set within a new framework which furthers the understanding of the complex array of factors which influence FDI decisions. This new theoretical concept also initiates discussion about the motives and incentives behind firms' FDI decisions.

This thesis interprets the RBV primarily as a theory that offers insights into the decision-making behaviour of the firm. The primary interest of this thesis is core competences and the determinants on the FDI behaviour of the firm i.e. the firm's ability to create new strategic growth alternatives. Furthermore, dynamic capabilities development such as the creation of knowledge, in conjunction with the path dependency consideration, are also of primary interest. The dynamic capabilities

perspective discusses how the firm has to readjust to a rapidly changing business environment, resulting in the requirement to renew or alter its existing resources (Teece et al., 1997; Wang and Ahmed, 2007). An element of the focus of this thesis is on the impact these re-adjustments have on the location choices of firms.

The rationale for the requirement of this new theoretical approach is emphasised within the objectives of this study as it addresses the link between two sets of literature. The strengths of this research is in its ability to address issues, which the current literature does not explain. Chapter 2 of this thesis reviewed gaps within the literature covering the RBV and IB theories. Some of the key gaps identified in both literatures centre on the identification of those resources which are associated with locational decisions (motives); and the failure to link RBV with the environmental and industry context of FDI. In this thesis, the bridging between SM and IB adopts a qualitative approach to multinational behaviour; it addresses the link between core competence of the firm and its motivation.

3.2.2 The Resources Based View Perspective

According to the SM literature, two approaches are used and considered for evaluating/identifying firm competitive strategies, i.e. through: 1) the industry analysis approach and 2) the RBV of the firm.

The industry analysis approach, based on the concept of 'strategic positioning', emphasises a thorough understanding of the competitive position of the firm in the industry for its strategy formulation process (Porter, 1996, p. 65). The main focus in understanding this approach is that the markets and the competitors, and competitive advantages accrue from a clear exploitation of trends and opportunities. The multinational theory from the SM perspective is the RBV of the firm; it is viewed by academics (Porter, 1981, 2001; Madhok, 2002; Rugman and Verbeke, 2003) as a natural complement to the international business theory as internationalisation is about exploring the firm's competitive advantage abroad. However, the RBV approach takes into consideration that every firm has a resource portfolio encompassing physical (infrastructure), financial, intangible (brand name, public image), organisational (administrative systems, organisational culture) and human resources (HR). For academics who advocate this approach, their view is that it is this portfolio, which creates competitive advantages for firms (Krogh and Roos, 1995).

RBV theory concentrates on the identification of those firm-specific resources and capabilities which enable firms to gain and maintain a sustainable competitive advantage (Penrose, 1959; Barney, 1986) and enhance the value creation of the firm (Lockett et al., 2009). RBV, as part of the rapidly growing behavioural aspect of the SM literature, provides a framework for understanding how firms operate.

The application of RBV environmental conditions and industry characteristics is assumed to largely shape the firm's strategy. Furthermore, the resource-based stream of research emphasises the "resources" or "skills" perspective of strategy. As mentioned in the literature review in the preceding chapter, organisations have evolved so as to view the firm as a collection of unique skills and capabilities that influences its evolution and strategic growth alternatives (Barney, 1991; Dierickx and Cool, 1989; Dosi et al., 1988; Itami, 1987; Mahoney and Pandian, 1992; Nelson and Winter, 1982; Wernerfelt, 1984; Winter, 1987). The resource-based approach suggests that differences in internal firm characteristics, in particular idiosyncratic patterns of learning and asset (tangible and intangible) accumulation have important effects on the firm's ability to develop new products and processes across disparate markets.

With the ever-stronger influence of managerial and behavioural theories (Lockett and Thompson, 2001) in the sphere of international business the changing focus of firms on corporate growth issues (Levine and Zervos, 1998; Beck et al., 2000) and the changing status of firms as "learning units" (Teece et al., 1997), the exclusivity of a purely economic view of aspects of the firms' behaviour and decision making is no longer viable and this has to be set against managerial thinking. Considerations of the manner in which managers use the firm's internal resources and capabilities (Teece et al., 1997) and to what extent their decisions are based upon past experiences, the ability, willingness and readiness of their firm to dynamically develop and adapt, all contribute to the explanation of the FDI motives of the firm.

Mapping the main capabilities and core competences of the business and then specifying the contribution of tangible and intangible assets' towards those capabilities and competences is a complex process. The process of identifying core competences usually entails their identification by scanning and assessing company-critical resources, capabilities and competences (Prahalad and Hamel, 1990). These three factors are commonly referred to as "associated concepts". These associated concepts are defined interchangeably. For example, capabilities and competences are defined interchangeably by Spanos and Prastacos (2004); resources and capabilities by

Peteraf and Bergen (2003) and Ray et al., (2004); and skill, competence and capability by Hamel and Prahalad (1994). However, each concept is acknowledged to be substantial enough to have its own major research stream in the strategic management field (Barney, 1991; Sanchez, 2004; Teece et al., 1997).

Mills et al., (2002) provide a distinction between *resources* and *competences*. 'A resource is something that the organisation owns or has access to even if that access is temporary. A competence is an ability to do something. A competence draws on a set of building 'blocks' called resources' (Mills et al., 2002, pp. 9–14). The way a firm nurtures and develops its unique set of resources and competences, which includes knowledge, may be significant in determining its future strategies. Thus, a firm's competitive advantage is derived, amongst other factors, from its unique knowledge (Spender, 1993). A competence has also been defined as "a cross-functional integration and co-ordination of capabilities" (Javidan, 1998, p. 62) and as a set of skills and know-how resident in strategic business units. Another definition of the concept is "the ability to sustain the coordinated deployment of assets in ways that help a firm achieves its goals" (Sanchez, 2004, p. 521).

Understanding competences and trying to provide a framework for understanding them is difficult particularly in complex situations such as firms entering new markets by reapplying competences. Mills et al., (2002, p. 13) presented a framework that considers different categories of competence, comprising, 'core competences' (central to the strategy); 'distinctive competences' (recognised by customers); 'business competences' (typical of business units); 'supportive competences' (valuable in supporting a range of other activities); and 'dynamic capabilities' (resources important for change)'.

Core Competences are defined as a central set of problem-defining and problem-solving insights that enable the firm to create potentially particular strategic growth alternatives (Prahalad and Hamel, 1990). This notion of core competence is consistent with the early work on competences (e.g., Snow and Hrebiniak, 1980; Hitt and Ireland, 1985, 1986). Furthermore, core competences are developed from organisational learning. This learning process can be exclusive to the firm, accumulates firm-specific assets, skills and translates them into new products and processes. Furthermore, core competences, to be effective, must be continually evolving and changing via continuous organisational learning.

Competences that are operational, although core to the firm, are comprised of a combination of resources and from the portfolio of individual competences. Thus, the final outcome, i.e. collective competences, is greater than the sum of the individual competences. The concept was introduced in the early 1990s and is defined as:

“The collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies” (Prahalad and Hamel, 1990, p. 82)

Later, the concept was expanded to include “a bundle of skills and technology that enables a company to provide benefit to customers” (Hamel and Prahalad, 1994, p. 1990). Though its basis is fairly clear, the concept is defined in vague terms, consequently the concept is difficult to apply in practical situations. Three criteria that distinguish a core competence from a (mere) competence are as follows (Prahalad and Hamel, 1990; Hamel and Prahalad, 1994):

- i. A core competence must contribute significantly to customer benefit from a product.
- ii. A core competence should be competitively unique and as such, must be difficult for competitors to imitate.
- iii. A core competence should provide potential access to a wide variety of markets.

Core competences are observed to develop from a variety of a firm's activities. The criteria imply a hierarchy of quality between a core competence and a competence (Hamel and Prahalad, 1994). To address this hierarchy of core competences this thesis creates a categorisation by dividing core competences into two categories: (i) Upstream and (ii) Downstream. This categorisation represents one of the main academic contributions of this thesis.

3.2.3 Building a Categorisation for Resources and Competences: the new perspective

The basic premise of this thesis is that the resources and core competences of the firm command its strategy and motivations. For the construction of the conceptual framework, it is assumed that the key element is the categorisation and prioritisation of resources and competences.

In the construction of the framework, it is assumed that a firm would have competences in operations/manufacturing, product development and sales and marketing. It relies on the approach introduced by Woodward (1965) which considers that every enterprise has to perform activities related to the above three basic functions. Furthermore the 'core' functions are supported by other functions dealing with HR, finance and information systems (Woodward, 1965; Treacy and Wiersema, 1995; Slack, 2001). Slack (2001) adopted this approach, by explaining that some competences play a key role in achieving the competitive advantage of the firm (which explains the strategic core competences) whilst other competences play a more supportive role (which explains the generic competences of the firm). The competences that are relevant to achieving the strategic objectives of the firm are considered 'the core competences of the firm' (Hamel and Prahalad, 1994; Javidan, 1998; McDermott and Coates, 2007).

Due to the inexplicit nature of its core competences, to address the issue of the difficulty in determining which are the core competences of the firm, this thesis divides the core competences of the firm into two. This categorisation assumes the presence of hierarchy among the firm's core competences in order to differentiate them in order for specific market niches or products or services to be made.

As discussed, core competences can develop from a variety of firms' activities. Certain criteria imply a hierarchy of quality between a core competence and a (mere) competence, which leads to a categorisation of (core) competences (Hamel and Prahalad, 1994). An example of the hierarchy of core competences is that R&D core competence will have a higher ranking within the organisation than the marketing core competence⁷.

There has been little academic research into categorising the hierarchy of core competences apart from the work of Hamel and Prahalad (1994), who identified types of core competence by suggesting that competences are a clustering of skills and knowledge, which are combined into product concepts, investments, and the ability to influence the environment. Further to this view, an article by Fleury and Fleury (2005) examined the understanding of the linkage between individual, organisational and core competences as they relate to the competitive strategy of the firm. They demonstrated that a firm's competences are the wider group of its core competences. Resources and

⁷ Although the role of the marketing department is crucial it is not as crucial as the role of the R&D department where new ideas are being generated to produce goods into the market place; if no good ideas are generated and new products developed, the marketing department would not be able to function regardless of how competent the marketing department is.

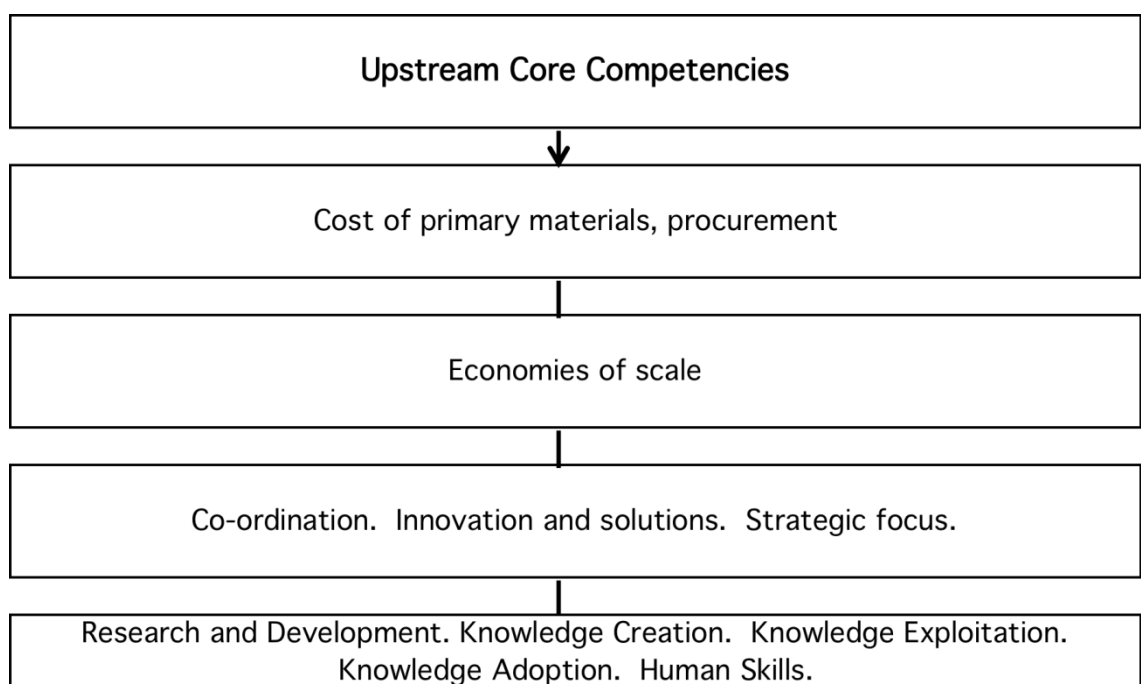
competences, when placed in the right environment lead to the development of the firm's core competences. Further discussion of this will follow in the Section 3.2.4 and 3.2.5 of this chapter.

Therefore, it is important to distinguish between the different types of core competences because the type of core competence may impact on how the competence is best leveraged and developed.

3.2.4 Upstream Core Competences

Upstream core competences include a firm's unique resources and capabilities related to the following themes listed in Figure 3.1, which provides an illustrated summary of the categories of upstream core competences that are discussed subsequently.

Figure 3.1 Categorisation of Upstream Core Competences



Cost of Primary Materials refers to a competence in sourcing primary materials through a variety of means, including reducing transaction costs or through vertical integration (Hart, 1995). Furthermore, pressed by globalisation, dynamic market conditions and associated competition, firms are increasingly relying on their suppliers to provide raw materials and component parts so as to focus on their core competence.

Procurement refers to a core competence in successfully managing supplier affiliation that can continuously provide reduced procurement costs. During the process of procurement, 'communication core competence' (in collaboration between the firm and its suppliers) should facilitate high procurement quality by providing effective division of work, specialisation, quick response and economies of scale (Parry, Graves, James-Moore, 2006). Moreover, favourably negotiated deals and bargaining power can gradually cut down the procurement cost of products to the firm.

Co-ordination refers to a core competence in communication, involvement and deep commitment to working across organisational boundaries and in the ability to interlink specialty areas, equipment and processes (Javidan, 1998). This capability which deals with the interactions of the physical items and functional areas can provide the firm with a competitive edge within its industry.

Economies of Scale refers to a core competence in implementing and choosing effective production and distribution strategies. These strategies materialise in an efficient production skill and cost resulting economies of scale (Prahalad and Hamel, 1990).

Research and Development (R&D) is, within the hierarchy of core competences, the most powerful core competence a firm can possess (Coombs, 1996). Internal development in R&D leading to new ideas and new product development can be categorised as the firm-primary source of core competence. Research and development in advanced technologies represents the seeds of future profits. An example is R&D competence to innovate, to develop products and to adopt and create individual customer solutions can provide the firm with a competitive advantage, which may result in higher than normal returns.

Innovation and Solutions Innovation and experimentation are considered organisational processes which initiate the development of core competence. Through exploration of new technology, the development of new peripheral technologies or products and

expansion into other industries firms can gain new core competences (Prahalad and Hamel, 1990).

Technology Core Competences give the firm the ability to design and manufacture these new technology based products (Prahalad, 1998). These competences could involve design and manufacturing skills, equipment, know-how or processes.

Strategic Focus refers to the core competences of the firm which focus on and exploit internal characteristics in order to build competitive advantage. Acquisition and R&D alliances are also considered important methods for acquiring and leveraging a particular competence (Graebner, 2004, Campbell and Faulkner, 2006).

Exploring Opportunities via careful management can be a source of competitive advantage. One of a firm's core competences could be due to steps taken to successfully identify and exploit opportunities (Prahalad and Hamel, 1990). For example, through the commercialisation of a new technology and product a firm can acquire new competences in the areas of technology, markets and integration. The new competences could give firms the ability to pursue and develop new opportunities while helping them develop attractive product market positions and advantages as first movers in their industries. To pursue growth opportunities, the firms must focus on the management of their abilities in product and technology development and the use of this competence-based perspective provides an awareness of how breakthrough developments are critical activities in capturing growth opportunities.

Knowledge Creation, Knowledge Exploitation, Knowledge Adoption are core competences, which can be identified as strategic capabilities that have the potential to be significant long-term revenue generators (Grant, 1996). Although other firms may be able to duplicate the design or formulation of a product, their ability to exploit it will not be as great since they do not have the knowledge base and learning comprising these core competences. The expertise, skill sets, and knowledge resident within such competences as well as the interaction of the competences with each other provide a barrier to duplication and exploitation. Furthermore, an example of knowledge exploration and adoption is the focus on training in knowledge-based firms, which has been to develop three core capabilities related to expanding intelligence, encouraging creativity and innovation and enhancing integrity in relationships (Kirk and Miller, 1998). Developing, accessing and integrating the specialised knowledge of its employees allows the firm to understand the conditions under which competitive advantage is both

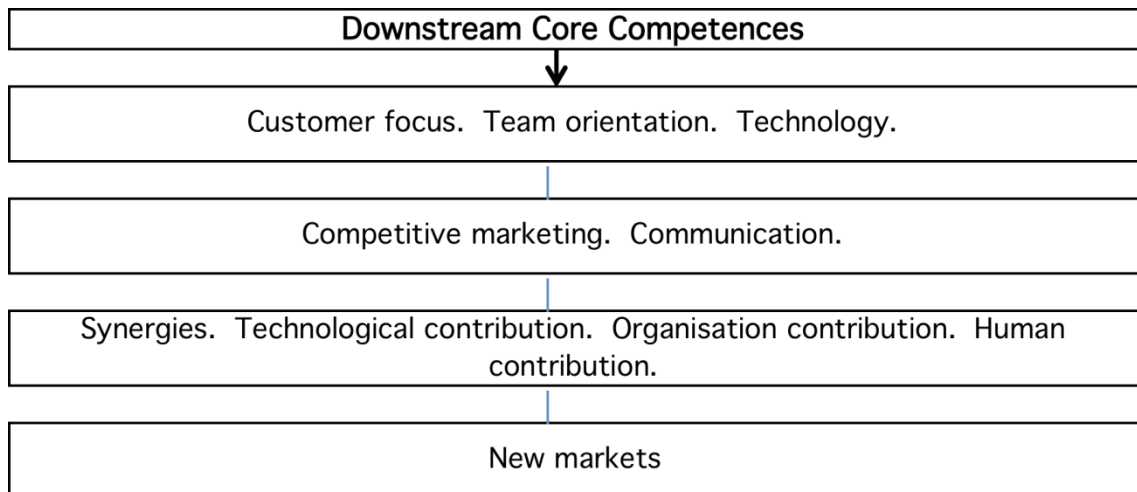
built and sustained (Eisenhardt and Martin, 2000). If employees are mobile, organisational capability depends more upon the firm's mechanisms of integration rather than the extent of employees' specialist knowledge. The greater the span of knowledge being integrated and the more sophisticated the integration mechanisms, the more difficult is it for any potential rival to accomplish replication.

Human Skills and Managerial Resources relates to managing people and the managerial perspective; as well as relating to the management capability of employees at a different level of the firm; it links to the 'strategic management of human resources' concept (Storey, 1989). Managerial responsibilities include the need to reposition the firm as opportunities change and its resource set evolves (Armstrong, 2003). Thus, managers' core competence includes being adaptive and proactive (Hafeez and Abdelmeguid, 2003). Effective managerial allocation of human skills that embody the core competences and the identification of people who embody the critical competences at different levels of the organisation and moving them across the organisation boundaries, are crucial to superior performance and to the direction of the firm.

3.2.5 Downstream Core Competences

Downstream core competences include a firm's unique resource and capabilities related to the following themes. Figure 3.2 provides an illustrated summary of the categories of downstream core competences that are discussed below.

Figure 3.2: Categorisation of Downstream Core Competences



Customer Focus is the downstream core competence that addresses customer needs (Javidan, 1998). Customer-focused knowledge captures information about customers, their needs, preferences, businesses and reactions to actions taken by the firm (Prahalad and Hamel, 1990). Some firms' customer focus core competences enhance and impacts their innovation, product quality, new product success, financial performance, and customer value.

Competitive Marketing this type of core competence is embodied in having a competitive and unique marketing asset and capability strategy which allows the firm to access new customers (Meyer, 2006). It provides value to the firm's existing customers and gives customers access to new products. For example, Apple Inc. has a core competence in the development and marketing of specific products such as iPods and related products.

Team Orientation team orientation is core competence in people management; planning and organising competences and execution projects to specifications, are all, considered of importance to the firm (Hafeez et al., 2002b, 2004). An effective team orientation competence ensures that core competences and programme goals are met. It ensures schedules are prepared to enable staff ample time to shadow and become familiar with the team. In addition to team orientation, other competences that appear to be the likely core attributes for the success of the team leaders are ethics, awareness of customer needs, time management, speaking with impact, commitment to quality and team understanding.

Organisational and Human Contributions This core competence relates to the skills of the employees' personal competences. Personal competences are those particular human skills and knowledge that can enhance the firm's core competence (Javidan, 1998; Hafeez and Abdelmeguid, 2003). The expertise, knowledge, skills and motivation of employees and the degree to which they are appreciated by management are key elements in capturing the maximum benefits achievable from the organisation's core competences in pursuit of its objectives. For example, the relative share of human and organisational contribution in developing innovative solutions and their implementation to specifications highlights that both core competences are tremendously reliant on people's competences. This supports the notion that firms' core competence has a strong link with individuals' core competences.

Communication relates to firms with core competences in communicating their systems and information management as a way of establishing common understanding with respect to organisational targets and administrative systems through which the firm is managed. Effective communications enable the firm to provide a speed of service to their customers and a better understanding of their employees' organisational needs as well as their customer needs (Javidan, 1998; Torkkeli and Tuominen, 2001; Hafeez et al., 2007). As a consequence, communication is also fundamental to achieving the firm's goals.

Synergies relates to the use of core competence as a tool for integration among strategic business units (Prahalad and Hamel, 1990). For example, in many multi-business companies, the effective integration of individual business units into strategic business units and the realisation of potential synergies within and between them will yield market and industry competitive benefits to the firm. According to Javidan (1998), co-ordination among strategic business units can be difficult because it requires open lines of communication, an appropriate reward system, and a committed managerial and a team-based organisational culture. However, in some firms not all of these requirements exist, a core competence in co-ordination and integration of business units requires collective organisational learning; it helps the firm in identifying and exploiting problems and opportunities.

Technology this is the most easily identified core competences of the firm. It includes technical experience and knowledge and is also comprised of hardware, software, equipment and processes. It relates to the organisation of work and the delivery of value to the customer. As an example of delivering speed of service and value to its

customers, all staff in Apple retail shops are equipped with mobile tills.

Technological Contribution this is a tangible core competence that relates to the firm's intellectual assets' characteristics and is required for the execution of innovation (Torkkeli and Tuominen, 2001; McEvily, et al., 2004). Innovative solutions are of key importance for a successful organisation's core competence development and are closely related to human skills and organisational contributions.

New Markets such core competence refers to the way a firm presents and places itself in a new market (McDermott and Coates, 2007). It also refers to a firm taking advantage of its core competences in a way that provides opportunities for the firm to enter new markets. It relates to the firm's research into new markets and its strategies for positioning itself in that market in terms of its customers, target market, cultural understanding and image.

Thus, the explanation of the different elements within the constructed framework leads to the conclusion that competences and capabilities in the resource-based perspective represents a combination of knowledge, skills and technologies, which collectively provide opportunities for the firm and are difficult for competitors to duplicate. This, in turn, asserts core competences as the determinant of the motivations of the firm. Core competences cannot remain static; only those firms that continue to invest and upgrade their competences are able to create new strategic growth alternatives. Some academic work in this area has focused on the development and outcome of the learning organisation that can result in dynamic core competences, which is a concept similar to dynamic capabilities (Lei et al., 1996).

As seen from the foregoing evaluation, utilising the core competence concept makes it possible to explore how competitive advantage is linked to unique resources and a firm's special assets. In order to achieve the aims of this thesis the following section will link these core competences to firm motivations.

3.2.6 The International Business Perspective - Foreign Direct Investment and Multinational Theory

Traditional conceptualisations of FDI were initially formulated with reference to firms producing and selling physical products, where the possession of tangible assets was a major source of value creation, and focused on the need to access physical assets

and markets and to cut costs, as major drivers of foreign expansion (Behrman, 1974; Dunning, 1993). The IB theory, argues that a firm will invest abroad only if it benefits from an ownership advantage over domestic firms (Dunning, 1993). As stated by Dunning (1993), a firm engages in cross-border activities to exploit its specific ownership advantages.

As discussed in the literature review, firms invest overseas for different reasons (Farmer and Richman, 1966; Behrman, 1969). The “international business scholar community” and the “Penrose school” (Penrose, 1959 and Dunning, 1993, respectively) contributed significantly to the research agenda in this area. Since the 1990s, as discussed in the literature chapter, several academics of IB have analysed the relevance of the Penrose RBV theory model in the light of the ‘theory of firm’.

MNEs deploy their tangible and intangible assets in international business environments with a view towards increasing their competitiveness and profitability. In some cases the deployment of such assets in other countries may strengthen the firm’s resource base, and improve its capabilities to restructure and compete in world markets and consequently advance its performance (World Investment Report, 1995). The potential sources of multinational internationalisation benefits include:

Exploiting Market Opportunities Location advantages underscore a firm’s internationalisation (Dunning, 1977, 1980, 1988) because of prospective market opportunities and country-specific endowments. A firm can exploit market opportunities through intangible assets and internalisation benefits (e.g. Buehner, 1987).

Differences in national endowments The increased focus on the developmental and innovative activity of different national subsidiaries of multinational corporations has made location selection an important strategic decision for senior managers (Porter, 1990). A firm’s core competence in taking advantage of national endowments gives it a competitive edge over its rivals. Ghoshal (1987) argues that locating innovation initiatives in nations that are more innovative than others will enhance the probability of successfully developing those innovations.

Economies of Scale and Scope major internalisation benefits are attributed to economies of scale and scope, in particular the efficient leverage of intangible assets across geographic markets (Caves, 1971; Ghoshal, 1987; Kim *et al.*, 1993; Kogut, 1985; Kogut and Zander, 1993). The essential emphasis by academics on firm-specific

intangible assets indicates that internalisation theory corresponds largely with the RBV of a firm in the context of international expansion (Capar and Kotabe, 2003; Rugman and Verbeke, 1992, 2001, 2003; Tallman and Li, 1996).

Furthermore, the rate of development of new products, processes and organisational routines in multinational corporations, the need to adapt to local markets and host government pressures to locate high value-added activities (including innovation focused ones) in their countries, have all substantially increased the rate at which multinational corporations innovate (Ghoshal, 1987). This tendency to innovate and adapt to local markets may constrain the firm's ability to create economies of scale and scope.

Risk Diversification internalisation theory argues that the need for leveraging firm-specific intangible assets underscores the propensity for a firm's internationalisation, which, in turn, is positively associated with the firm's performance. The benefits from international diversification originate from a competence in sales of goods to, or within, foreign countries whose economic fluctuations are less than perfectly positively correlated with those fluctuations in the home country. The benefits of international diversification are enjoyed by multinational firms and their shareholders; it is the researcher's view that national governments in both the home and host countries may wish to take notice of this previously unrealised gain from international trade (Lessard, 1976; Rugman, 1976).

Bargaining power due to large scale of operations the firm may have a large propensity to joint venture as a means of exploiting its firm-specific advantages, especially when the bargaining power of multinational firms is high due to the size and scale of its operations. For example, a dominant firm in a technologically intensive industry will prefer to engage in asset exploiting FDI and at the same time has the bargaining power to do so (Lecraw, 1984; Kobrin, 1987).

As discussed in the literature review, the theory of the MNE, (Rugman, 1981, 1996), proposes that a firm goes abroad to further take advantage of its firm-specific advantages (FSA). The FSAs are resources that a firm possess and which provide it with a competitive edge over its rivals. These resources can be technology based, knowledge based, or they can reflect managerial and/or marketing skills (Rugman and Verbeke, 2003). The FSAs are different from the CSAs as the latter are external advantages and are available to all firms located in that country; in contrast, FSAs refer

to firm-specific capabilities.

It is evident from the literature that there has been a substantial amount of empirical support for FDI theories (e.g., Vernon, 1971; Grant, 1987; Grant, Jammine and Thomas, 1988; Kim et al., 1993). The FDI literature has identified four key motivations that drive MNEs internationalisation (Flowers, 1976; Knickerbocker, 1973; Behrman and Wolfe, 1984; Dunning, 1993; Kuemmerle, 1999; Graham, 1998; Chung and Alcacer, 2002; Wesson, 2004; Zaheer and Manrakhan, 2001; Filippaios et al., 2004; Nachum and Zaheer 2005). As discussed in the literature chapter, the key MNEs investment motivations represented in Figure 3.3 are: 1) resource seeking, 2) market seeking, 3) efficiency seeking FDI, 4) strategic-asset seeking FDI (capability exploiting motive). Each firm can follow a single motive or, as happens in most cases, a combination of two or more of these when deciding to internationalise.

Figure 3.3 International Business Motivations



The following section assesses the extent to which the major resources and motivations identified in the literature are likely to drive a firm's FDI.

3.3 A New Conceptual Framework with the Help of Existing Concepts

It has previously been stated that a clear distinction is possible between the observed behaviour of the firm and its motivations. The linkage between the intangible elements of the firm, i.e. its core competences, and their influence on its motivation and international business behaviour.

The collected data for the empirical work is based on the firm's behaviour, which resulted from its motivations. This empirical data analyses will lead to an understanding of the firm's motivations and will also build an understanding and categorisation of the firm's core competences. A firm's motivations are not explicitly stated by the data. This thesis observes the attributes⁸ that a firm refers to which leads the researcher to draw an inference with regard to the type of investment motivation the firm is referring to. Detailed discussions of this will follow in the methodology (Chapter 4, section 4.5).

Building the conceptual framework relies on several strands of the literature and the links between the elements of each strand are of particular importance. The SM and IB literatures are complimentary and some benefits can be gained by drawing on both strands. Considering the complexities that face multinational corporations in the last decade, drawing on one strand of literature is no longer sufficient to analyse firms' behaviour.

It is worth noting that there is a lack of research on the impact of core competences on firms' investment motivations required linking country (location) and firm level approaches. The existing concept of the value chain may not be applicable to the present context, because treating the MNE as a value chain makes it extremely complex and complicated. A discussion as to why the conceptual framework that is developed in this chapter is not a value chain is set out in detail in Appendix 3.1 in Volume 2 of this thesis.

Stemming from the basic neo-classical economic assumption that firms are value maximising, resources are considered as the first determinant of firms' development and growth choices (Coase, 1937; Williamson, 1975). For example, the top management team is an important resource and has a critical influence on strategic motivation and decision-making (Mintzberg, 1979; Hambrick and Mason, 1984), since the knowledge embedded in the team determines the organisation's ability to leverage and exploit its other resources (Penrose 1959; Barney 1986; Mahoney 1995).

⁸ The researcher defined and extracted the attributes and themes of the relevant information through an intuitive process and knowledge of the industries. The classification of the attributes was decided in accordance with their relevance to fulfil the objective of the research. For each firm, within the sample for this research, the following attributes are considered: the sectors level of employment, level of investment, number of project and the narrative about the firm motivation.

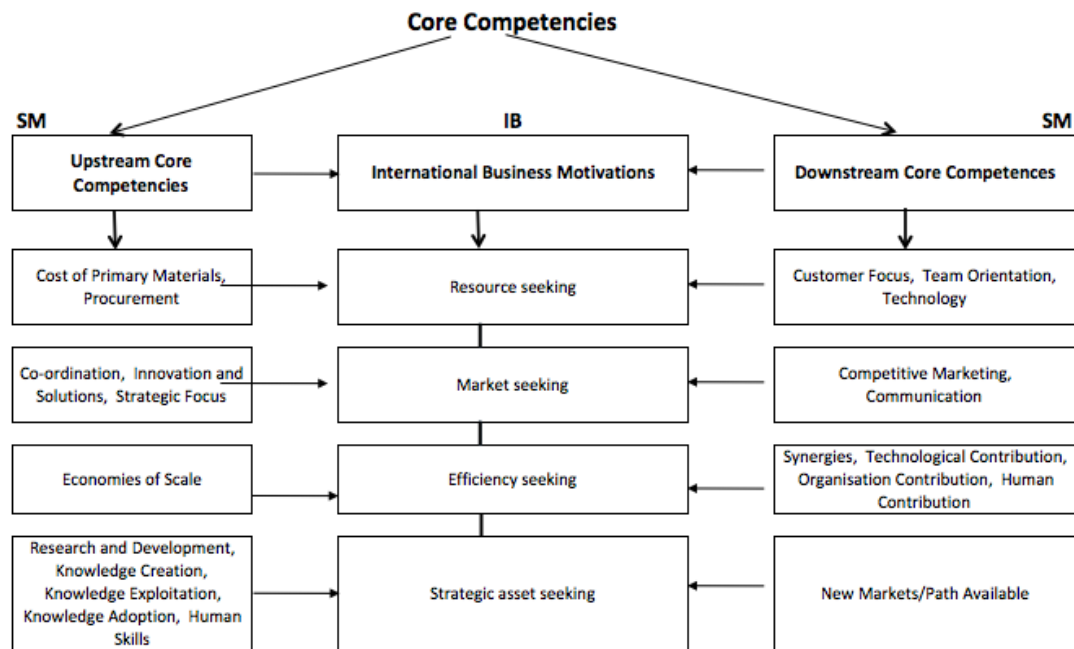
Despite the close relationship between the firm's resources and their effect on FDI motivation, few studies have linked these two subjects from a global perspective. The link between resources (core competences) and firm FDI motivations have previously been neglected. Since the nature of the relationships can be reflected by the proximity of the firm's motivation to its core competence, there is room for more in-depth analysis of the impact of resources on firms' FDI decisions.

The key explanations in this thesis are based on the motivations of MNEs when investing abroad (Behrman and Wolfe, 1984; Dunning, 1993; Filippaios et al., 2004; Dunning and Pitelis, 2008), i.e. how does a firm own and use its resources which results in motivations (strategic asset seeking or market seeking); and how are the motivations then related to the host country environment, for example a firm investing in Ireland. A relationship between MNEs' motivations to invest abroad and host country resources is established and explored in pursuit of foreign investment.

Drawing and building on the work of Behrman and Wolfe (1984), Dunning (1993), Dunning and Pitelis (2008), and Filippaios et al., (2004), this thesis develops a new framework for multinational motivations (see Figure 3.4). This framework categorises firms' core competences and motivations as follows:

- i. Core competence: upstream and downstream competences
- ii. MNEs investment motivations: (MS) market seeking; (RS) resource seeking; (ES) efficiency seeking; and (SAS) strategic asset seeking.

Figure 3.4 Conceptual Framework – Link Between Firms’ Resources and Motivations



Some of the key constructs, linkages, indicators and references relating to the above conceptual framework are included in Appendix 3.2. The construct integrates the literature with the findings in the industry context. This construct informs the development of the outline research questions and provides a reference point for the data analysis.

3.4 Development of the Propositions

The development of the proposition starts with the generic argument that certain core competences will be associated with the firm exhibiting certain behaviour. As discussed in the previous section, the central idea defined by the IB perspective is that the existence and possession from the firm’s perspective of specific upstream/downstream core competences will lead the firm to exhibit specific motivations. The developed framework offers a link between the different upstream/downstream core competences with specific motivations. As demonstrated in Figure 3.4, a resources-seeking motivation is usually linked with core competence in the cost of primary

material and procurement from an upstream perspective and a core competence in customer focus, team orientation and technology from a downstream perspective.

Market seeking is usually linked with upstream core competences in economies of scale and downstream core competences in competitive marketing and communication. Efficiency seeking is linked with an upstream core competence in coordination, innovation and strategic focus. It is also linked with downstream core competences in synergies, technological organisational and human contribution. Finally, strategic asset seeking is linked with upstream core competences in R&D knowledge creation, innovation and exploitation and human skills. It is also linked with downstream core competences in evaluation and exploitation of new markets and paths available.

Following the above discussion a set of propositions is developed below. The nature of the propositions is positive in tone since the aim is to identify how many upstream and downstream core competences a firm might have.

Resource Seeking Investment is primarily exhibited in the first stages of internationalisation; it is the most basic of all motivations for a firm's internationalisation. This motivation is primarily with reference to physical, tangible resources, which are immobile and costly to transport. A fundamental assumption underlying the conceptualisation of the resource-seeking motivation has been the immobility of the resources sought (Behrman, 1974; Dunning, 1993). Dunning and Pitelis (2008) categorises three types of resource seeking FDI:

- 1) The first type comes from firms that are seeking physical resources of one kind or another. Access to primary and natural resources or access to cheap resources will most likely be the driving force for such FDI.
- 2) The second type is cost minimisation for those MNEs that seek plentiful supplies of cheap and well-motivated unskilled and semi-skilled labour.
- 3) The third type of FDI is prompted by the need for firms to acquire technological capabilities, management and marketing expertise and organisational skills that do not exist in their home countries.

One could argue that the third type of resource seeking listed above relates more to a strategic asset seeking investment. This is different from the perspective adopted for

this research due to the manner in which the literature addresses this type of investment, as the literature views it as a part of the initial stages of the organisation development. When the organisation has the resources required and the capability to operate, it starts looking for resources such as those listed in 3) above. Therefore, this is a resource-seeking proposition with a strategic element attached that will eventually lead to market seeking behaviour. Thus, the main difference for type 3) above is that the discussions are about early internationalisation initiatives whilst SAS refers to MNEs that are already established.

Customer focus from a downstream core competence perspective looks at customer demand through accumulated knowledge and information about customers, their needs, preferences, businesses, and reactions to actions taken by the firm (Prahalad and Hamel, 1990), so effectively resource seeking is a motivation that complements this customer focus.

Team orientation from a downstream core competence view looks at people management; planning and organising competences, execution, which are all considered of importance to the firm (Hafeez et al., 2002b, 2004). An effective team orientation competence ensures that core competences and programme goals are met.

Technology allows the organisation (MNE) to access resources or technologies and integrate them quickly into the whole context of the organisation. Thus, firms that are able to absorb information about the markets with customer focus; team orientation and technology will go after the resources. These resources, on the other hand, will allow them to enhance that capability and possibly engage later in a market seeking behaviour.

The resource-seeking motivation is therefore driven by a need to access tangible resources not available in the home countries of the investing firms, or only those available at higher costs than could be obtained in other locations. Thus in order for the firm to maintain its core competence it has to 'go after' such resources. Based on the above argument the following propositions can be put forward:

P1: The existence or possession of upstream core competences such as the cost of primary material and procurement leads the firm to exhibit a resource-seeking investment motivation.

P2: The existence or possession of downstream core competences such as customer focus, team orientation and technology leads the firm to exhibit a resource-seeking investment motivation.

Market-seeking investment is undertaken in order to serve particular markets by local production and distribution, rather than by exporting from the home country. Several major reasons are recognised in the literature as driving this type of investment:

- 1) The imposition by host governments of a variety of trade/import barriers on foreign made goods and services, which raises the costs of servicing a particular market via exports.
- 2) The reduction of transaction costs, primarily those arising from transportation.
- 3) The need for proximity to actual and potential customers in order to be aware of and better meet their specific tastes and needs in product or service adaptation terms.

Therefore, if a firm can achieve coordination, strategic focus and innovation in a particular market, that is a motivation for the firm to seek investment in that market. Exploitation of the potential for serving regional/peripheral economies is one of the main motivations for market seeking multinationals. This is usually driven by either the size of the host market, which can potentially provide the necessary volumes of demand that can lead to higher scale of sales and production, or by product-specific characteristics that make local production necessary. This latter usually refers to a certain degree of product adaptation either with regard its production, sales/distribution or after sales-service. However, many standard products are increasingly being developed on a global rather than a local basis (Christensen *et al.*, 1998; Katz and Shapiro, 1994), thereby eliminating the need for local adaptation in order to serve particular groups of customers.

Based on the above arguments the following two propositions can be put forward:

P3: The existence of upstream core competences such as coordination, strategic focus and innovation leads the firm to exhibit market seeking investment motivation.

P4: The existence of downstream core competences such as competitive marketing and communication leads the firm to exhibit market-seeking investment motivation.

Efficiency-seeking investment is driven by the intention to spread value-adding

activities geographically in order to take advantage of differences in the availability and cost of factor endowments in different countries. Essentially, this is a decision by the MNE on how best to configure its activities internally, in line with the comparative advantage of different locations (Zaheer and Manrakhan, 2001), in order to maximise efficiency and reduce costs. The spread of activity geographically involves a great deal of coordination and knowledge transfer, which for reasons of market failure of various kinds is better undertaken internally rather than externally (Kogut and Zander, 1993). In this case crucial for internationalisation are the following:

- 1) The cost structure of production
- 2) The potential benefits that an MNE can acquire by relocating its production from one country to another.

Therefore, this motivation has a rather dynamic aspect and requires a constant evaluation of the operational and cost needs of the multinational network. This motivation is also directly related to gaining cost competitive advantages by organising both production and distribution in the most efficient way. This efficiency-seeking behaviour refers to interdependent global strategies and is usually pursued in industries where products are in the mature stage of their product life cycle (Vernon, 1966) or competition is first and foremost based on cost competitiveness (Porter, 1986).

Based on the above argument the following propositions can be put forward:

P5: The existence or possession of upstream core competences such as economies of scale leads the firm to exhibit efficiency-seeking investment motivations.

P6: The existence or possession of downstream core competences such as synergies leads the firm to exhibit efficiency-seeking investment motivations.

Strategic asset seeking investment or capability seeking motivation is identified as another motive that influences the locational choice of firms. This fourth motivation addresses not intermediate but medium to long-term goals of the company in its search for sustaining a competitive edge over its competitors. This motivation can be seen in a variety of ways in which MNEs organise and in effect involve themselves, within the national system of innovation (Nelson, 1993; Lundvall, 1992) of their host countries. This behaviour is usually associated with high technology industries, where the swift

transition from one stage of the product's life cycle to the next creates a necessity for corporations to move rapidly into new product development.

Research published by United Nations Conference on Trade and Development (UNCTAD) suggests that strategic asset-seeking FDI is mainly concentrated in knowledge and information intensive sectors (UNCTAD, 1997). Strategic asset seeking is geared towards protecting and augmenting an existing ownership-specific advantage of an investing firm by the acquisition of new assets, or by a partnering arrangement with a foreign firm (Mudambi, 1993). Such FDI is motivated by strategic considerations (especially in oligopolistic industries) and partly because the availability of the assets sought, such as technical knowledge, learning experiences, management expertise and organisational competence, tend to be concentrated in advanced industrial countries, or the larger developing countries. Krugman (1991) set out a formal examination of the changing nature and significance of external economies and how these are leading to a more concentrated pattern of certain kinds of FDI, particularly that of strategic asset-seeking investment in knowledge-intensive sectors.

Within the IB and FDI literature, several researchers have described the importance of the capability-exploiting motive as one of the main drivers of FDI (Vernon, 1966; Ghoshal and Bartlett, 1990; Hakanson, 1990). Researchers have pointed out the essential dual role of resources and industry conditions in organisational success (Porter 2001). The firm's FDI motive may be a firm's need to augment its knowledge base (Cantwell, 1989; Florida, 1997; Howells, 1990b; Kogut and Chang, 1991; Porter, 1991; Pugel and Kragas, 1996). Furthermore, firms often invest overseas in response to competitive pressures as a reaction to competitors' actions (oligopolistic reaction), or to advance the firm's competitive position (Knickerbocker, 1973; Flowers, 1976; Graham, 1998).

Such competitive pressures are likely to influence firms in high technology industries more than those operating in more traditional industries, because imitating competitors as a driver for international expansion is more likely in environments subject to rapid change and modification of the 'rules of the game' (Martin et al., 1998). Rapid innovation and technological change introduce a high degree of uncertainty and risk (Knickerbocker, 1973; Flowers, 1976).

Based on the above argument the following propositions can be put forward:

P7: The existence or possession of upstream core competences such as research and development, knowledge creation, knowledge exploitation, knowledge adoption and human skills leads the firm to exhibit strategic asset-seeking investment motivation.

P8: The existence or possession of downstream core competences such as the ability of the firm to create, transfer to and exploit new markets leads the firm to exhibit strategic asset-seeking investment motivation.

3.5 Other motivations for MNE activity

There are other reasons for multinational activities, which do not easily fit into the four categories described above. These are classified by Dunning (1993) into three groups;

Escape investment some FDI is made to escape legislative or macro-organisational policies by home countries.

Support investment the purpose of this type of investment is to support the activities of the rest of the enterprise of which they are part. This relates to traded investments of MNEs which are designed to promote and facilitate the export of goods and services from investing companies and/or to assist in the purchasing of foreign-produced goods and services from the country in which the investment occurs.

Passive investment is a type of investment undertaken when the foreign investment is treated as direct if the investing entity has a financial equity interest in the foreign company which is sufficient to give it control or influence over decision making.

These types of motivations are not considered part of the thesis. The focus of the thesis is on resources and core competences, which do not form a relevant role in such investment.

3.6 Conclusion

Building into the conceptual framework are factors of firm's resources that are valuable, rare, non-imitable and non-substitutable (VRIN) (Barney, 1991). These resources form the foundation for the internationalisation incentives of the firm and its operational efficiency. They are generated in the process of organisational transformation, which involves reconfiguration, leverage, learning and integration (Bowman and Ambrosini, 2003). The reconfiguration processes transform, recombine and consolidate assets.

Learning represents a vital capability for the firm. Integration concerns the firm's ability to coordinate and integrate its resources and assets. Dynamic capabilities both feed into the VRIN resources, to create the robustness and operational capabilities for success and provide the basis for strategic flexibility, the ability to respond to changes in the environmental and industry context (Bettis and Hitt, 1995).

The bridging of the above relationships is captured in the conceptual framework presented in Figure 3.2, which aligns certain core competences with certain motivations of the firm. The framework proposes four-investment motivational relationships within two categories of core competences (upstream and downstream). This is based on the above-mentioned typology of core competences; the framework then explores the competitive motivations of the firm. The point to consider here is what would be the most appropriate competitive motivation for a firm, depending on its hierarchy of competences? To answer this question (i.e. to establish the determinant of FDI motivations), a categorisation of firm motivations is required. This relied upon the IB literature and the work of (Behrman and Wolfe, 1984; Dunning, 1993; Filippaios et al., 2004; Dunning and Pitelis, 2008), assuming that four different motivations would exist through which firms compete in the market: Market Seeking; Resource Seeking; Efficiency Seeking; and Strategic Asset Seeking.

The discussion within the conceptual framework highlights a crucial contribution of this thesis, which is how to empirically measure the motivations of a firm.

The theoretical elements of this chapter dealt with the conceptual contribution of this research through the analysis of the primary data. Based on this conceptual framework the theoretical elements will ensure that questions brought forth in this study are empirically measured.

This chapter has provided the theoretical underpinnings for the research into MNEs FDI. The next chapter presents the research methodology and explains how insights from the literature review are used to inform the research design.

4 Chapter 4 Research Design and Methods

4.1 Introduction

In this chapter a discussion and analysis is undertaken of the strategies and tactics to be adopted in pursuit of answers to the research questions. A description of the method used to select the various sources of data (mainly secondary data) is provided. Additionally the methodologies employed in analysing the data (qualitative in nature) are outlined, as are those used in presenting the findings from the analysis.

This research examines the outcome of the motivational structure of the firm and how those motivations are captured by the behaviour of the firm. Most studies within the literature have measured the manner in which MNE motivations target specific locational characteristics from a quantitative perspective. For example, using R&D to measure strategic asset seeking motivation, or using GDP, wage rates and productivity to measure market-seeking motivation. Thus, the focus on attitude and behaviour distinguishes this study from previous ones; a further distinguishing aspect of this research is its focus on the topics captured in the literature to date in terms of the attitudinal rather than the behavioural aspects of a firm's internal motivations.

The research questions addressed in this thesis are as follows:

Research question (RQ1): How does the resource-base view theory help explain the process of location choice of MNEs and provide an understanding of process through which MNEs formulate their investment 'motivations'?

Research question (RQ2): What are the main motivations for firms locating in Ireland?

Research question (RQ3): What are the core capabilities of firms locating in Ireland?

The methodology will be focused around a discussion as to the manner in which this thesis from an empirical perspective addresses the research questions. The methods employed in the research will be developed through using existing ideas from the diverse literature to further develop and conceptualise RBV and MNE motivations, in seeking to achieve the goal of the research to utilise a coherent set of interrelated concepts, which provides a basis for FDI choice. This provides the foundation for the empirical analysis. Furthermore, the implementation of this research is based on ideas

drawn from existing theories and empirical knowledge and therefore this PhD will adopt a deductive approach that will be discussed in detail in the following sections.

The chapter is organised according to the Bryman and Bell (2007) research guide. It discusses and justifies the chosen methodological strategy and describes the process of investigation adopted for this research. This guide was used to provide a well-organised and coherent framework for the qualitative research which builds on designing a conceptual framework and to empirically investigate this framework. The chapter seeks to present a set of clear and simple methodological explanations in order to enable the reader to better comprehend the steps and rationale as to how and why certain methodological considerations were followed. Simplicity of approach is the primary reason for the selection of the Bryman and Bell research guide. The remainder of this chapter is comprised of five sections:

4.2 – Overview of the Research Strategy and Tactics: this section provides an overview of the research design in broad terms. It provides justification for the qualitative approach of this research, which is deductive in nature. The objectives are to address the research questions from the information deduced from the empirical work. It describes and justifies the use of the explanation building approach, text analysis and content analysis all within the ‘framework system’ of Richie and Lewis (2003) in order to deduce the key themes and categories that emerge from the empirical data documents, which will determine the output of this analysis.

4.3 – Setting the Research Context: this section will discuss the methodological contextualisation. It will justify the research settings and rationale for foreign firms investing in Ireland. It will explain the criteria for sample selection. A more detailed justification of the qualitative approach is provided in this section alongside the criteria for selection of companies incorporated in this study.

4.4 – This section describes the fieldwork undertaken: the data collection procedure adopted and the unit of analysis chosen (the firm and location). It will demonstrate the manner in which the sample was gathered by the FDI Market database. It will also provide some background information on the originality of the data and how the information was put together. The predominant source of data was 98 documents encompassing a cross-section of projects within the chosen companies, covering a broad array of functions. This section will describe the process the FDI Market database used to collect the material.

4.5 – Explaining the Coding Process: the conceptual framework provides guidance for the empirical research. This section will explain the linkage between the conceptual framework (nodes) and the coding process, i.e. how the nodes were developed. It will also discuss the coding process through NVivo. It will explain the various stages of the coding process with a snapshot taken at each stage. The structure of the coding process will be revisited at each stage of the coding process. To facilitate a deeper understanding by the reader and to enable the constructed coding tree to be aligned with the literature and to reflect the data in a more consistent way, the researcher followed a process of trimming the tree down through elimination, adding and merging some of the nodes. This process enabled the tree to be better populated in a manner whereby it provided a better understanding of the empirical data and the codes.

4.6 – Evaluation of how the Analysis was conducted: this section mirrors the steps taken for the analysis of this research. It justifies the use of certain themes that emerged from the data, so as to justify and cross-reference them with the conceptual framework. It highlights the manner in which the researcher arrived at certain themes and patterns and the reasoning for the division of the analysis into three chapters. From the conceptual framework certain important themes emerge which correspond with the data; these themes relate to answering the propositions put forward in chapter three. This section leads to the analysis chapter.

4.2 Research Strategy and Tactics

4.2.1 Research Strategy

This section provides an overview of the research design adopted. It describes and explains the rationale for the qualitative approach used in this research.

4.2.2 Theory and Research Approach

The first issue to consider when establishing the research strategy is the nature of relationship between theory and research, namely whether theory guides the research (conceptual deductive analysis approach) or whether theory is derived from research (inductive approach) (Bryman and Bell, 2007). Table 4.1 maps the main characteristics and differences between deductive and inductive research approaches.

Table 4.1 Deductive and Inductive Research

Deduction	Induction
<ul style="list-style-type: none"> • Scientific principles • Moving from theory to data • Need to explain causal relationships between variables • Collection of data • Application of controls to ensure validity of data • <u>Operationalisation</u> of concepts to ensure clarity of definition • Highly structured approach • Researcher independence of what is being researched • Necessity to select samples of sufficient size in order to generalize conclusions 	<ul style="list-style-type: none"> • Gaining an understanding of the meanings humans attach to events • Moving from data to theory • Close understanding of the research context • Collection of data • More flexible structure to permit changes of research emphasis as the research progresses • Realization that the researcher is part of the research process • Less concern with the need to generalize

Source: Adapted from Saunders *et al.*, 2003, p. 89.

Although involving some elements of an inductive approach, this research can best be classified as deductive. The deductive approach was adopted as the most appropriate one for the following reasons:

(i) This research seeks to identify gaps within the SM and IB literatures and then applies those gaps and engages within industry/firm analysis.

(ii) This approach adopted in this research is a theory evaluation one where the objective is to evaluate, test and refine the conceptual framework, developed and presented in section three of Chapter 3. The framework provides an understanding as to firms' behaviour with regard to their motivations that can explain their FDI activities. The new conceptual framework applies RBV and IB locational motivational theories to identify explanations for this research. The aim is to test and refine as necessary the conceptual framework developed in chapter three

(ii) The methodology starts by drawing from the academic literature in the Strategic Management and RBV fields and seeks to identify gaps in the literature. Subsequently it engages in the analysis of the practitioners behaviours' through the examination of secondary data to "modify" and "co-produce" insights to bridge and/or modify the theory gaps previously identified (Van De Ven, 2007).

Consequently in this thesis, the theory guides the research. A conceptual framework was developed and the data was used to test the proposition.

4.2.3 The Research Approach

4.2.3.1 Ontological Dimension

The ontological dimension is concerned with the nature of reality. It relates to the beliefs held concerning the nature of the reality being researched (i.e. concerning what is real and what is not real). The two main positions taken are those of a single objective reality independent of the researcher and the other of multiple subjective realities, one for each participant in the research. These are referred to as the positivistic and interpretive paradigms, respectively (Bryman and Bell, 2007).

Positivists see the world as an objective reality and research itself as a way to capture this reality which is mirrored in the emerged knowledge (Fisher, 2007). For positivists (objectivist, scientific, experimentalist) reality in its pure form is objective, singular and external (Collis and Hussey, 2009). Positivists do not deny the existence of unreal views or un-provable views; the distinction is how validity can be determined.

Phenomenology (subjectivist, humanistic, interpretivist) in its pure form describes reality as subjective, multiple and socially constructed depending on the nature of the research problem. It is the researcher who decides whether the world is objective, singular and external or subjective, multiple and socially constructed and therefore only understood by examining the perceptions of the participants in a study (Collis and Hussey, 2009). Interpretivists believe that the world is subjective and affected by individuals, who are making sense of it based in their experience and background (Bryman and Bell, 2007). These beliefs, in turn, impact on how the research problem is defined, the approach is chosen for the research, how the phenomenon or phenomena under study are defined and distinguished.

An interpretivist approach (sub-set of phenomenological approach) was chosen as the current study aims to investigate, explore and understand MNEs FDI choices, as this approach allows the capture of the dynamic and evolving nature of reality more effectively than the positivist approach.

4.2.3.2 Epistemological Dimension

The epistemological dimension focuses on the validity of knowledge. In the positivistic paradigm the assumption is that the researcher remains independent of the phenomenon being researched. In the interpretivist paradigm it is accepted that the researcher and the subject being researched are not independent from one another. Following on from this, the debate involves a discussion of the issues of reliability and repeatability. The understanding of concepts such as validity, reliability or repeatability of research depends substantially on the research epistemological assumptions.

The rigor for this research is selecting and applying research methods aimed at minimising the subjective influence of the individual researcher in collaboration with supervisors and advisors through the process of visiting and revisiting some elements. To accomplish the aims of this research on MNE motivations, the collection of subjective information from firms is required. The reliability of the data collection is in the large number of documents (based on an extensive data source) and on the audit trail through the coding of the data (open coding enabled themes to emerge). The reliability of the research is based on the documentation of the research processes will be discussed in detail in section three of this chapter; the rigorous coding process is addressed in section four of this chapter, whereas the case studies (actively seeking contradictions within the cases), the database, and audit trail (Lewis and Ritchie 2003) will be discussed in section five of this chapter.

4.2.3.3 This Research Position Concerning Reality (Methodological Dimension)

The methodological dimension concerns the process of the research. The paradigm tends to determine the methodology. In this research the position is what counts as knowledge is the phenomenological, ontological position. The belief is that the world is subjective and affected by individuals, who are making sense of it based in their experience and background (Bryman and Bell, 2007).

4.2.4 Research Strategy and Design

The research strategy implies the choice between interpretivist and positivist research strategies. The identification of the gaps within the literature affirms the need to better understand the motivations of MNEs when it comes to FDI choice. An interpretivist approach has been used to answer the research question because of its emphasis on understanding the descriptions of the data. The concept of 'thick descriptions' (Geertz,

1973) guides the interpretation of the in-depth examination of firms' investment motivations⁹.

The focus of the research design is on the optimum means through which the research questions can be answered, the steps taken and the evidence required to do so. The research design consisted of five stages and activities, the components of which are set-out as sequential steps in Table 4.2 below.

Table 4.2 Outline of the Research Design

Stage	Activity	Related Chapters
Stage1: Formulation of research questions Literature review Development of the conceptual framework	<ul style="list-style-type: none"> ▪ Formulation of research questions ▪ Conceptual work 	Chapters 1, 2 and 3
Stage 2: Research Design	<ul style="list-style-type: none"> ▪ Exploration of means to evaluate refine and test the conceptual framework so as to answer the research questions. 	Chapter 4
Stage 3: Execution of the study Data collection and analysis	<ul style="list-style-type: none"> ▪ The empirical work 	Chapters 5 and 6
Stage 4: Interpretation of the findings	<ul style="list-style-type: none"> ▪ Identification of contribution to different areas of literature ▪ Converting the propositions into research questions 	Chapters 6, 7, and 8
Stage 5: Writing up the thesis	<ul style="list-style-type: none"> ▪ Completing and linking all chapters in a coherent way which answers the research questions 	All Chapters

The foregoing provides an explanation of each stage and associated activity taken by the researcher in the completion of this PhD. The table maps the scope of work associated with each stage of the research undertaken. The first stage began with the formulation of the research aims and objective, the literature review and the development of the conceptual framework. The second stage involved the research design, data collection and methodology through evaluation and exploration of

⁹ Geertz 'thick description' would require the researcher to undertake extensive fieldwork amongst FDI decision makers. This method is only used here to guide the researcher.

methods to refine and test the conceptual framework. The third stage comprises the empirical aspect of this PhD; it involves data collection and analysis. The fourth stage involved the interpretation of the findings of this research through answering the propositions and the identification of the contribution made by this research to furthering the understanding of different areas of academic knowledge; the final stage involved the writing up and the production of the thesis.

4.2.5 Method of Analysis

There are a number of approaches that may be adopted in analysing qualitative data. Some of the approaches to the analysis include: ethnographic accounts; life histories; narrative analysis; content analysis; conversation analysis; the framework method; discourse analysis; analytic induction; explanation building; grounded theory; policy and evaluation analysis Ritchie and Lewis (2003). One or more of these techniques are suitable for the analysis of this research, however the researcher found it appropriate to use the explanation building approach through a mixture of textual and content analysis and some elements of the framework method by Ritchie and Lewis (2003).

The explanation building and content analysis approaches were selected due to the nature of the available data which fits in well with these approaches rather than the alternative qualitative approaches as listed above. This study is made of a combination of methods, textual, content built within the framework method and the explanation building approach. In order to put the case for the use of these approaches in the context of this research the different elements are linked below.

Text Analysis

A wide range of approaches have been developed for managing and handling texts, in coding parts of a text, in the development of categorisation schemes used in the coding of texts. The approaches include qualitative text analysis (Kelle, 1995, Weitzman and Miles, 1995), discourse analysis (Polanyi, 1985); map analysis (Carley, 1993), and network analysis (Roberts and Popping, 1996). The advantages of each approach are dependent on the type of and amount of text analysed and the questions the analyst seeks to answer. Even with a single approach, variations regarding its application may occur. There is no single approach or technique, which is the most appropriate for all kinds of text analysis. For example, map analysis (Carley, 1993; Carley and Palmquist, 1992) is one methodological approach, which focuses not only on analysing textual data according to a set of categories or concepts but also on the relationships between

the defined categories. In that sense, map analysis includes content analysis. Depending on the aims of the text analysis, the textual data may belong to a single semantic domain, e.g. political speeches, or may cut across a number of semantic domains.

In empirical social sciences a dominant text analysis method has traditionally been content analysis. In fact, content analysis is often used interchangeably with text analysis. Content analysis is an analytical tool, a method, whose usage is not restricted to the social sciences only, but rather its application is broader, for instance, content analysis is used in humanities, psychotherapy, information science, linguistics (Alexa, 1997).

What does textual data mean? The general answer to this question may be in the lines of 'any text, which constitutes a relevant and necessary source material for answering the questions one is interested in' (Alexa, 1997, p.). There are many kinds of textual data that can be used for sociological text analysis: open responses to questionnaires, newspaper editorials, commentaries, titles, articles, different kinds of reports (company annual reports, memos, newspaper reports), journal articles, advertisements, public speeches, conversations, interviews, letters, slogans, keywords (Alexa 1997).

Text analysis is a significant part of this research. Textual data is a rich source of information and an important resource for analysts to interpret and describe social behaviour, structures, values or norms. This study uses a sample (98 documents) with substantial textual characteristics that will be discussed further in section three of this chapter, consequently the use of textual analysis tools is the methodology selected for analysing the data.

Content Analysis

Zuell et al., (1991) describes content analysis as a method which allocates scheme categories to text, based on defined variables. Content analysis is known to be a dominant approach in empirical qualitative research and is often used interchangeably with text analysis (Weber, 1990; Krippendorff, 1980; Früh, 1991). Content analysis is an analytical tool, a method, used in humanities, psychotherapy, information science, and linguistics. Content analysis enables qualitative analysis of large amounts of text in terms of what words or concepts are actually used in the texts.

Content analysis belongs to the general field of empirical research and empirical text analysis seeks to analyse communication as realised by textual data (as opposed to numerical/statistical data).

Although case studies have traditionally been found particularly useful for developing and refining theory in new areas of research (Eisenhardt, 1989), textual analysis in the form of content analysis is another way of testing and developing theory (Weber, 1990, Krippendorff, 1980). The researcher refers to the methodological approach in this thesis as *contextual analysis* (*Textual plus content analysis equals Contextual analysis*). As seen in the literature review, no systematic model (framework) has yet been developed to categorise and explain firms' core competences and motivations. The topic of the present research can therefore be seen as a new area of research, suitable for the case study method. The empirical analysis of this thesis is based on series of documents that explores multinational investment decisions and behaviour. The main objective of contextual analysis within this research is to arrive at a specific explanation of multinational behaviour, motivational structures or norms in a particular context to be investigated.

Explanation Building

Explanation building is one of the methods used to analyse the findings of research question one, addressed in Chapter 6. Yin (2003) refers to explanation building as a special type of method, which involves building an explanation while collecting data and analysing them. Yin (2003) recognises this procedure as 'explanation building approach'. Although this approach appears to be similar to grounded theory (analytic induction), Yin (2003) differentiates between them by defining explanation building as an approach designed to test theoretical propositions (albeit in an iterative manner), rather than to generate grounded theory. Since this research commenced with the theory, following which it identified the gaps within the literature and built a conceptual framework to address these gaps, it is therefore not testing theoretical propositions. On the basis of this it is logical to conclude that this is not grounded theory. The explanation building procedure uses the following stages (adopted from Yin, 2003 and Saunders *et al.*, 2007, p.491):

1. Devise theoretically based propositions. The propositions have been deduced from the literature as outlined in Chapter 2 and also the propositions are integrated in Chapter 3's discussion of the conceptual framework which bridges the streams of literature.

2. Undertake data collection through initial case studies so as to compare the findings from this exercise relative to the theoretically based propositions. The data collection process is explained in this chapter and the analysis is conducted in Chapter 8.
3. Where necessary amend the theoretically based propositions in the light of findings from the studies.
4. Undertake further iterations of this process until a satisfactory explanation is derived.

The data collection and coding processes are explained in the following sections of this chapter. This research identifies and answers the propositions in Chapters 3 and 8 respectively. The use of and linking between the text, content and explanation building methods are collectively utilised in this thesis under the framework method approach (described in the following section) through analysing textual data by organising themes, and concepts which are developed both from the research questions and the narrative account of the research respondents.

The Framework Method: An Integrated Approach for Textual and Contextual Analysis

The Framework Method (“the Framework”) is viewed by the research as an integrating approach for the various methods that were utilised including textual and content analysis. The method was originally developed at the National Centre for Social Research (NatCen), the largest independent social research institute in UK which designs and conducts studies in the fields of social and public policy. The Framework was specifically devised in the context of applied policy research and is now widely adopted by those working in the areas of social related research (NatCen, 2004).

Ritchie and Lewis (2003) describe the ‘Framework method’ and succinctly highlight the following:

“Unlike quantitative analysis, there are no clearly agreed rules or procedures for analysing qualitative data” (Ritchie and Lewis, 2003, p. 200).

The Framework takes a thematic approach to analysing textual data by organising it along themes and concepts that are developed both through the research questions and the narrative accounts of the research respondents. A key strength of the framework method is that it offers a comprehensive stage-based approach to analysis

that is both systematic and highly visible to all stakeholders involved in the research project. Though the Framework approach is generally inductive it also allows the inclusion of *a priori* as well as emerging themes which is the approach adopted by the research. Under these conditions, it could be argued that the Framework provides an alternative to other analytical techniques that a researcher might also consider appropriate such as grounded theory, in which themes are drawn directly from the emerging analysis rather than being guided by pre-specified concepts or assumptions.

Broadly mapping against Miles and Huberman's (1994) general approach to the analysis of qualitative data, there are three main activities in applying Framework:

1. Data management: Familiarisation with the data; identifying initial themes and concepts and building a thematic framework by linking themes and categories; using the thematic framework to label the raw data; sorting the data by concepts or themes by locating similar material together in thematic charts and simultaneously reducing the data by summarising or synthesising it.

In this thesis for the first phase of the data management process the researcher familiarised herself with large excel spread sheet based sources and information (Appendix 4.1. contains a CD of the full data). The researcher defined and extracted the attributes and themes of the relevant information through an intuitive process and knowledge of the industries, by examining the sector's level of employment, level of investment, number of projects and the narrative about firms' motivation. It is worth noting here that the narrative was drawn from company releases and interviews with the TMT, and newspaper articles.

The boundaries had to be established in order to condense the information on the 98 sources/cases to keep the number of variables manageable. This entailed a selection process, which involved assigning certain attributes to each document, condensing and eliminating some information (see Appendix 4.3 for a summary of documents attributes and Appendix 4.4 for a detailed summary of the documents).

Part of the data management project was an intuitive process. The researcher had to be selective by filtering through the information for a large

sample of companies, each of which represented a case which included information on the form, sector, level of employment, level of investment, source country, number of projects, narrative on firm or sector. The classification of the attributes was undertaken in accordance to their fit with fulfilling the objective of the research. The following were the selected attributes: year of investment, firm, sector, source country of investment, number of projects and narrative on the motivation for investment.

2. Descriptive accounts: Once the data management process is complete the next activity in Ritchie and Lewis's (2003) Framework is to develop descriptive accounts, which comprises three steps: detection, categorisation and classification. This part of the data management process involves the construction of a thematic framework. The framework enables the analyst to take the themes and concepts that emerged at the familiarisation stage and place them in order of conceptually related groups.

The descriptive accounts involve the researcher looking across cases to note the range of what has been labelled with the aim of identifying on-going activity, observing similarities and differences across the broad themes identified in the thematic framework; and from these creating typologies or classifications that first deepen and then broaden the initial themes.

Detection involves looking across all cases to identify the range of respondents' perceptions within each sub-topic. The key dimensions derived from the detection process are distilled further into a more refined set of categories that enable greater sensitivity and discrimination in assigning the descriptive data to higher conceptual themes. Finally, related categories are grouped and assigned to classes at a higher level of abstraction. Ritchie and Lewis (2003) advocate the execution of this process by extracting each piece of data within a sub-topic and summarising it on a separate sheet of paper; in this way, similarities and differences are easier to spot.

For this thesis, the construction of the conceptual framework from the literature was a bridging process. The researcher had to establish the themes that became the road map of through which labels were allocated to

tree nodes. The challenge for the researcher was to ensure that the selection of the nodes was consistent with the literature, in addition to managing the number and level of variables (see appendix 4.2). For example, it was important to identify the number of variables that relate to the TMT, the firm capabilities, dynamic capabilities etc. The researcher had to select the variables that most appropriately met the objectives of the research. Because this necessitated a bridging process, the selection of the tree nodes and the coding process had to consider the country-specific advantages and the firm-specific advantages, within the context of government policies and the SM and IB literature. The process involved the construction of the tree nodes and the themes by using the conceptual framework and the literature. (See a copy of the tree node in section four of this chapter)

3. Explanatory accounts: This necessitated an interpretation and explanation as to how and why the data took the form presented. The final stage of Framework builds on the activities conducted at the data management and descriptive accounts stages so as to facilitate explanations about the data. Here, the analyst seeks to identify patterns and associations in the data and to interpret their underlying meaning and using this understanding to draw conclusions about how or why the phenomena took the form it did.

The foregoing discussion of the textual analysis and the framework approach is linked to this research. The key aim of the methodology section is to describe the frameworks and ideas/approaches and provide a supporting justification for the selection of chosen methods from a variety of perspectives.

4.2.6 Conceptual Framework and Propositions

Miles and Huberman (1994) note that the conceptual framework serves several purposes: (a) identifying those elements to be included in the study and those to be excluded; (b) describing the relationships which may be present based on logic; in this study theory is used as the basis for this purpose; and (c) providing the researcher with the opportunity to group general constructs into intellectual “bins” (Miles and Huberman, 1994, p. 18). The conceptual framework serves as an anchor for the propositions of this study and is referred to at the stage of data interpretation.

The framework developed for this study is designed to explore multinational motivations and their related decision-making processes. The relationships between the proposed constructs of the framework will emerge as data is analysed, using the approaches discussed above including the content and textual analysis of emerging themes/patterns; allied to this will be the development of verification of the propositions set out in Chapter 3 of this thesis. These specific propositions guide this study and each has a distinct focus and purpose. The propositions were based on the literature and theories and their generalisation is based on the empirical data. The proposition guided the data collection and the subsequent discussion.

4.3 Research Setting

4.3.1 Methodological Contextualisation

This section will discuss the methodological contextualisation, including the justification for the qualitative approach for this research and the criteria for selection of companies incorporated in this study. It addresses the research settings and the rationale for choosing foreign firms investing in Ireland.

4.3.2 Field Contextualisation

Methodological contextualisation is particularly important in studying multinational motivations. The objective of this thesis is to identify the deciding factor(s) influencing a firm's investment decision in terms of location choice. This is fulfilled by examining the specificity of the field of research and highlighting some of the issues associated with conducting management and IB research.

The challenging aspect of this specific research on multinational investment decisions is bridging the two sets of literature on strategic management (RBV) and international business (MNE internationalisation motivations) where different theories are established within the two fields. The difficulty stems from the absence of similar (existing) research to replicate from existing models due to the conceptual differences between the two literatures. These issues are investigated in answering Research Question 1: How does the resource-base view theory help explain the process of location choice of MNEs and how does it help in understanding the formulation of MNEs motivations? This question will address the conceptual contribution of the thesis.

One final point on the conceptual validity of this research, the categorisation of the core competences could raise a question as to 'why some of the upstream core competences are not downstream core competences?' Appendix 4.5 provides an explanation for the conceptual validity of the categorisation of core competences in this thesis.

4.3.3 Research Settings

As mentioned in the literature review chapter, few empirical studies provide a link between the resources based view (RBV) and FDI. One of the main gaps within the RBV is the lack of explicit contextual application of the theory (Dess *et al.*, 1990; Miller and Shamsie, 1996; Johns, 2001). This complexity of the multinational corporation necessitates the development of a new general conceptual framework, encompassing the resources based view of the firm (Barney, 1991; Teece *et al.*, 1997; Teece, 2007). Relating to this the motivations of firms (Behrmam, 1974; Dunning, 1993; Dunning and Pitelis, 2008) are intertwined with external factors such as the attractiveness of the location (Porter, 1990) and the multinational's activity. Since the 1990s Ireland experienced unparalleled levels of economic growth where its growth rates have been among the most rapid in the world. Ireland's ability to attract FDI was one of the defining features of the country's economic success. This economic success coupled with globalisation, brought about a level of complexity.

Data was obtained for the period of 2003-2009. There are two main reasons for choosing this timescale and to strengthen the use of qualitative data were, firstly, as is discussed subsequently in section two of Chapter 5, certain events in Ireland's development strategy introduced complex dynamics into the analysis of factors influencing the highs and lows of its inward foreign direct investment. These factors led to complexity in studying and analysing the development of the Irish economy, thus, Ireland makes an interesting case study in explaining FDI development and multinational behaviour and motivations related to it. This will be discussed further in Chapter 5.

Secondly, strategy research requires the collection of subjective information from multinational enterprises. It was difficult to obtain qualitative data on multinational motivations prior to this period due to lack of availability. Although, the researcher was constrained by the collection mechanisms due to the reliance on an external company to collect the data of the FDI Markets, the collection of data covering a six year period

is justifiably a long enough time horizon within which to observe strategic choices of firms.

Initially, the problem of data collection that the researcher encountered resulted from the lack of accessibility to the top management team in multinational corporations. In addition, it was difficult to conduct a survey through questionnaires and interviews within in a relatively large sample without access TMT within firms. This is supported by the common view in academia that the response rate for questionnaire based studies is generally low (Gaedeke and Tootelian, 1976; Snow and Thomas, 1994).

Quantitative data for FDI research is available from organisations such as UNCTAD and the World Trade Organisations. There is no similar resource for qualitative data; the objective of this thesis requires a level of detail, which could only be answered by a qualitative approach if this objective was to be achieved. Having spent three years exploring alternate means through which qualitative data could be obtained for this research¹⁰, the data access problem was overcome by purchasing the data from FDImarkets.com; further details of the FDI markets will be discussed in section three of this chapter. Although this data is available in the public domain, the FDI market has customised the dataset in order to match the objective of this research. Furthermore, this type of customised large sample data collection method would have been extremely time consuming for an independent researcher. Therefore, it is important to note that the originality of this empirical data is in the way the data was processed as will become clearer in the following sections of this chapter.

4.3.4 Research Design

The adopted research design is a combination of the procedures suggested by Yin (1994) and Eisenhardt (1989) for building theory from case study research. The main difference between the processes put forward by these two authors relates to the role of theoretical propositions in the research design.

The design of the present research followed Yin's (1994, pp. 21 and 28) suggestion of using theoretical propositions or similar theoretical devices in theory generation whereby in this research the propositions were developed before the data collection.

¹⁰ The researcher took a research trip to Dublin in 2008 to attend a seminar at the Institute of European and International Studies and to meet with local experts on inward FDI into Ireland. During the trip she met with Professor Frank Barry from Trinity College Dublin who suggested FDI Markets as a possible data source.

Due to the deductive nature of this investigation, a clean theoretical slate advocated by Eisenhardt (1989) was not attempted in this research). It was underpinned by the assumption that any research is susceptible to bias stemming from human subjectivity (see Mintzberg, 1979). This bias was reduced and made transparent through the validity and reliability measures discussed in the sections below.

4.3.5 Validity and Reliability of the Research

Kirk and Miller (1989) and Mason (1996) wrote on the validity and reliability of measuring the quality and rigour of the qualitative research method. LeCompte and Goetz (1982) recommended that qualitative researchers adopt criteria for judging the reliability and validity of their work. Their criteria include external reliability (the degree to which a study can be replicated); internal reliability (refers to the number of observers, one or team); Internal validity (refers to the match between the observed data and the theoretical ideas that were developed); and external validity (refers to the degree to which the findings can be generalised). (Bryman and Bell, 2003).

Lincoln and Guba (1985) and Guba and Lincoln (1994) proposed criteria for assessing the reliability and validity of qualitative research including: credibility (parallels internal validity); transferability (which parallel external validity); dependability (which parallels reliability) and conformability (which parallels objectivity).

Thus the validity of this research can be seen to be comprised of three components:

1) Conceptual Validity: includes developing and justifying the conceptual framework using the literature and documents. A strong analytical testing based on valid and reliable evidence with rigours analytical methods will demonstrate the conceptual validity of this research.

2) Internal Validity: through the empirical work: includes deciding on data collection methods, testing of the conceptual framework and drawing conclusions. This demonstrates the internal validity of the research.

3) External Validity: The extent to which the findings are transferable to other countries and situations will demonstrate the external validity of this research.

Reliability and Validity Biases: the bias was reduced and became transparent through reliability and validity measures. The reliability and validity is different for qualitative research relative to quantitative research.

Reliability: the term reliability implies that if research includes an experiment, a reliable outcome would expect to have the same results if the experiment is replicated many times over. If the results are different each time the test is conducted then the results are not reliable.

For the purposes of this research the reliability of the conceptualisation and the data analysis comes from the process of coding and re-coding. The coding process is described in detail below. To demonstrate the reliability of the coding process, the first 20 documents were coded, the codes were revisited and reviewed then the remainder of the documents were coded. The process of coding and re-coding will be discussed in detail in section 4.6 of this chapter. In addition, reliability was also achieved during the process of producing codes, where discussions took place with the supervisors', advisors and colleagues who are experts in the field. Agreement was reached on the reliability of the codes indicating that anyone taking the same set of documents and following a similar coding process they should arrive at the same findings.

Validity: there are three elements to validity:

1) The validity of the data: the researcher was constrained with regard to where and how to access the required data. The researcher was granted access to FDI Market.com database, an organisation supported by the World Bank who has sufficient resources to conduct this research. The researcher obtained 98 documents¹¹ covering inward FDI into Ireland for the 2003-2009 period. This number strengthens the validity of the research outcome, as the findings are reliant on all inward investment projects for the mentioned period. The 98 cases represent all recorded FDI projects into Ireland (the sample is 100% of the population over the time period 2003-2009).

2) The validity of the themes emerging from the data: if the themes and topics that emerged from the data were somewhat different to those identified by the literature then the issue of validity could be questioned. However, the themes identified in the analysis as outlined in subsequent chapters corresponds to and is closely aligned to

¹¹ The 98 documents consist of a mixture of interviews with TMT, company releases, and articles in commercial newspapers.

that contained in the literature. Aspects from the two sets of literature (SM and IB) including elements that corresponds to the CSA, MNE motivation, and RBV are included in the discussion of themes and are considered in the analysis chapters of this thesis (Chapters 6, 7 and 8).

3) The methodological validity: The process of selecting the codes is not random. The codes were constructed from the literature in an organised fashion (see coding section 4.6). The process commenced with the building of the conceptual framework, demonstrating the gaps within the literature and from the framework certain themes were generated and transformed into elements that are relevant to answering the research questions through the data. The elements are the lens that helps the researcher looks for answers within the data.

Generalisation of results:

The issue of validity relates to how far the results can be generalised. This thesis has: a) developed a conceptual framework that can be generalised; b) a methodology research design that can be generalised. Thus, the conceptual model that emerges from the literature does cover a wider perspective. The empirical application of the framework can be generalised because it can act as a tool that can be used in many different contexts and situations. However, the data cannot be generalised. The outcome of the thesis, i.e. managerial recommendations from the empirical exercise cannot be generalised, as the findings are country specific. However the government policies can be generalised in terms of a policies targeted approach to FDI decisions following the Irish example. The empirical data is context specific for the case of Ireland. The results may not be easily generalised; if the data set changes to fit a different context the findings will be different from one country to another. This research examines how Ireland's country characteristics fit with the way firms behave when investing in Ireland. Thus, the dataset is context specific and constrained but the conceptual model is not. The application of the framework is applicable to different contexts thus an area for further research is to compare to findings in different contexts.

4.4 Data Gathering Section

This section describes the fieldwork, the data collection procedure and the unit of analysis (the firm and location). The data gathering section is primarily about the identification of FDI markets as a valid and reliable source and the criteria for data collection. It will demonstrate where and how the sample was gathered by the FDI

Market database. It will also provide some background information on the originality of the data and how the information was compiled. The predominant sources of data were 98 documents undertaken with a cross-section of projects within the case companies, covering a broad array of functions. This section will describe the process which FDI Market used to collect the material. The data was collected by a group of economists who are experts in the field of FDI, employed by FDI Markets.

4.4.1 Data Acquisition Method

Qualitative research is useful for exploration and understanding of motivations and behaviour, whereas quantitative research is applied to measure how widespread these attitudes are. On the basis of this, qualitative research was identified as the most appropriate for the current study, which endeavours to examine.

- i. Ireland as a location and multinational motivation for locating into Ireland
- ii. The company specific advantages and their interrelationship with Irish locational characteristics for FDI.

4.4.2 Access to Primary Data

This stage required the choice of the qualitative technique(s) to be applied. There are different types available including face-to-face interviews, corporate documents and releases, focus groups, observation, ethnography, consultation, and experimentation. However, for the purpose of the current research the main ones considered as most appropriate were corporate documents and published interviews.

As mentioned previously, the researcher faced challenges in gaining access to documents and in the ability to interview the decision makers within multinational firms primarily due to their unavailability for interviews. Furthermore, the nature of multinational operations and associated research topics makes access to primary data problematic (Barro and Lee, 1993; Stanko and Lee, 2003). In the context of the present research, problems of access related to primary material, particularly corporate documents, were encountered as top management teams were reluctant to make these available for a variety of reasons, consequently requests were largely declined.

To overcome this obstacle the researcher resolved to gain access to the data from FDI Market, a reputable corporate location benchmarking company. Although this method of data collection may raise a number of challenges (e.g., issues with validity, problems associated with generalisability, value-laden documentation and reporting of the

findings), this method was selected because one of the fundamental aims of this research is to understand practice by means of practitioner's actions and practitioner's reflection upon the results / impact of those actions (Ebbutt, 1985), which is consistent with the objective of this thesis. Volume 2 of this thesis contains a copy of the entire communication stream with FDI Market in relation to obtaining the data (See Appendix 4.6).

4.4.3 Brief Description of the Data Acquisition Company

FDI Markets Benchmark (www.fdimarkets.com) is a unique corporate location-benchmarking tool accessed through an annual subscription. It is established as the industry benchmark¹² when comparing the competitiveness of locations for inward investment across all major FDI sectors. It contains detailed cost and quality data on locations worldwide and tools to compare the attractiveness of locations for specific investment projects. FDI Benchmark allows subscribers to:

- Prepare investment propositions: outlining key data and the strengths of a location for inward investment in a particular sector
- Obtain key data and information through consistent, responsive investor query handling
- Save research time and money as FDI Markets benchmark and aggregates all main, comparable information sources.

The FDI Markets database tracks greenfield FDI¹³ globally across all sectors in real time. The company was launched in 2003 and it has since tracked over 70,000 projects globally making it the leading database for foreign direct investment. Greenfield investment is defined here as investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist.

Investments are ranked by a team of 10 economists and linguists in Belfast examining over 8,000 information sources daily in over 20 languages. They go through all the sources looking for announcements of greenfield FDI and then add them to FDI online database making the data instantly available to clients. When they enter the projects

¹² FDI Markets is owned by the *Financial Times* and has links with the World Bank.

¹³ Greenfield Investment is investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist. (FDI Markets, 2009).

they capture where the company is from, where the destination of the investment is (country and city), sector and cluster the investment is in, as well as the business activity involved.

4.4.4 Data and Sample

The kind of data collected in this thesis is essentially textual gathered from a series of documents and corporate releases. The data collection was conducted as part of a larger project by FDI Market, which explored multinational decision-making process and their locational motivations. In total a sample of 98 documents was collected through a variety of methods by FDI Markets. The sample consists of all new inward greenfield investments by multinational into Ireland between 2003 and 2009 where the MNEs have identified a motivation for investment. The criteria used to ensure adequate coverage of inward FDI into Ireland in the selection of the 98 are:

- i. Data collected for all foreign inward investment into Ireland for the period of 2003-2009. The 98 documents cover the population of FDI into Ireland for the period of 2003-2009 where a motivation was identified by the MNE. The 98 documents undertaken with a cross-section of projects within companies, covering a broad array of functions.
- ii. To provide analytical rigor, two case studies encompassing the two sectors with two highest number of inward investment projects during the study period were selected. The cases will compare firms' motivations and will discuss elements of the country characteristics in relation to each sector. This will be discussed in further details in Chapter 7 of this thesis.
- iii. Analysis of the documents within the sample of 98 and across them. This process starts with the coding of the documents, the analysis builds on analysing the contents of the each, finding connections across documents and linking the findings with the literature.

The three key criteria for the selection of the sectors are:

- i. Number of Investment projects into Ireland in each sector: the Software & IT sector has 22 investment projects; the Financial Services sector has 16 investment projects.
- ii. Firms' attributes: Capital investment, number of jobs created
- iii. Nature of sector: Software & IT; Financial Services Industry

4.5 The Coding Process

The conceptual framework provides guidance for the empirical research. This section sets out the linkage between the conceptual framework, the development of the nodes and the coding process, i.e. how the nodes were used to code the data. It will discuss the coding process through NVivo. It will explain the various stages of the coding process with a snapshot taken at each stage. The methodology will be revisited at each stage of the coding process. This involves the process of trimming the tree down through eliminating, adding and merging some of the nodes so as ensure the tree is populated in a manner, which better reflects the literature and the conceptualisation.

4.5.1 Key Definitions

To ensure clarity, it is important to provide key definitions of the terms used, as listed below:

- i. Nodes: are key elements and ideas that emerge from the conceptual framework and the literature.
- ii. Actors: are organisations (firms, policy makers, location, and government) that engage in a particular activity or behaviour that are discussed in this thesis.
- iii. Code (coding procedures): is the tool that is used and applied. It is the process of analysing text, identifying cases where the actors mention of a specific node
- iv. Quotations: are particular instances where the actors make a specific reference to a node. Quotations are used to highlight key elements/aspects of the research

4.5.2 The Coding Approach

The data analysis is facilitated by computer-aided qualitative data analysis software, NVivo. An open coding approach is used to allow themes to emerge from the data. As patterns began to emerge the codes were clustered into groups to form categories in a process of axial coding (Strauss, 1987). During the coding procedure the researcher advances;

“creating and assigning categories, continue by exploring connections between them, and conclude by focusing on an integrating core” (Dey, 1999, pp. 146-147).

Relationships between conditions, actions and consequences are evaluated, and compared with the developed theory and literature (Andrade, 2009).

As discussed above, a central part of this qualitative data analysis involves extracting meaningful information from collected textual materials. The conceptual framework forms the basis for analysis as the codes¹⁴ are generated from the framework and the literature, which are assigned into themes. The research used a coding focused procedure on a particular area, which allows the building and clarifying of concepts through identifying relevant texts within the documents. Through a focus coding research method, the researcher examines all the data in a category, compares each piece of data with all other pieces and finally builds a clear working definition of each concept, which is then named, with the name becoming the CODE (Charmaz, 1983, page 117).

Content analysis of the documents and the coding process is based on a categorisation scheme, where words or phrases are given a code. As set-out earlier, the coding of this data is conducted utilising NVivo, within which all the codes fall under one heading namely the 'Tree nodes'¹⁵, followed by focused coding named 'nodes'. The focused coding requires the researcher to develop a set of analytical categories rather than just labelling data in a typical fashion. Modifying code themes is also an important aspect of this method. For this research the researcher developed the categories as presented for the empirical data and the literature. The first category related to country policies and advantages; the second relates to the firm's advantages and the third category linked elements from the SM (RBV) and IB (IB motivations) and country advantages.

The themes that emerge from the codes are variables that will measure motivations. Validating the coding process and the interpretation performed in the research depends on the agreement across the coding methods, the investigations and the researchers. Inter-coder reliability is important here as it refers to the coder's ability to relate to the themes and the manner in which those themes are to be applied to qualitative data.

¹⁴ A code is an abstract representation of a phenomenon (Strauss and Corbin 1998). A code is a mnemonic device used to identify themes in a text (Ryan and Bernard, 2000).

¹⁵ According to Bazeley (2010), the tree nodes are used to create a classification for concepts rather than showing theoretical links. The benefits from developing the tree nodes are: 1) Organisation: by creating order and logical system to put in new nodes; 2) Conceptual clarity: classifying codes helps to give meaning to them; 3) Prompt to code richly: it provides a useful tool for thoroughness of coding, when an interesting issue is raised in the data, the research will overview the structure of the tree to establish what other nodes are relevant and capture it; 4) Identifying patterns: of association between groups of nodes makes a significant contribution to the emergent analysis and certainly to the analysis of this thesis.

Reliability is important in that it indicates that themed codes are measuring the same object. Strong inter-coder agreement also suggests that the concept is not just a creation of the investigator's imagination and adds to the likelihood that a theme is also valid (Sandelowski, 1995).

4.5.3 Extension Level NVivo Nodes

The focus of the analysis will be on the depth of examination of the data from the 98 documents, a sample deemed to provide adequate coverage for all inward investment for the period to identify the key issues influencing FDI in Ireland for the period 2003-2009.

What emerged from the conceptual framework of this research was the creation of the first level nodes to facilitate an initial attempt at NVivo coding; the analysis of the documents was based on a combination of factors; the parameter of the study including 1) strategies and firms' motivations; 2) IB incentives; 3) strategies of firms' investing in Ireland.

4.5.4 The Development of the Codes

The broad nature of the coding allows codes to be easily applicable in the first instance to the texts. As a result swift initial analysis can be undertaken and the coding can be re-visited to check for frequency of occurrence of the word, theme or category. Figure 4.1 provided a summary of the basic categories as evidence on the manner in which these nodes were constructed and their linkage to the literature through the conceptual framework. The table demonstrates the process adopted by the researcher in developing the codes from the key concepts encompassed in literature.

Figure 4.1 integrates the different strands of literature that are associated with this research (please refer to the constructs Appendix 3.2). It summaries the constructs for the different strands of literature that are associated with RBV and firm FDI motivations. It also includes the constructs, linkages, and indicators relating to locational characteristics of investment decisions. All of the constructs (named nodes) are used in the coding of the data analysis.

4.6 Description of Data Analysis Method

The aim of this section is to highlight the manner in which, from the conceptual framework and the literature, the researcher identified the key themes and patterns that emerged after the coding process of the data is complete. This section discusses the empirical validation of the research. It will mirror the analysis process as categories for analysis emerged from the documents.

In order to answer the research questions, the use of the analytic strategy identifies key themes and patterns to search for in the data. Consequently the research and analysis will be conducted through attaching units of data to categories and the examination of these through emerging patterns. The analysis is guided by the theoretical propositions built in the conceptual framework, as set out in Chapter 3. The proposition will be tested for rigour, associated with the thoroughness with which the analytical process is carried out and by seeking to identify negative and contradictory examples and alternative explanations that do not conform to the patterns.

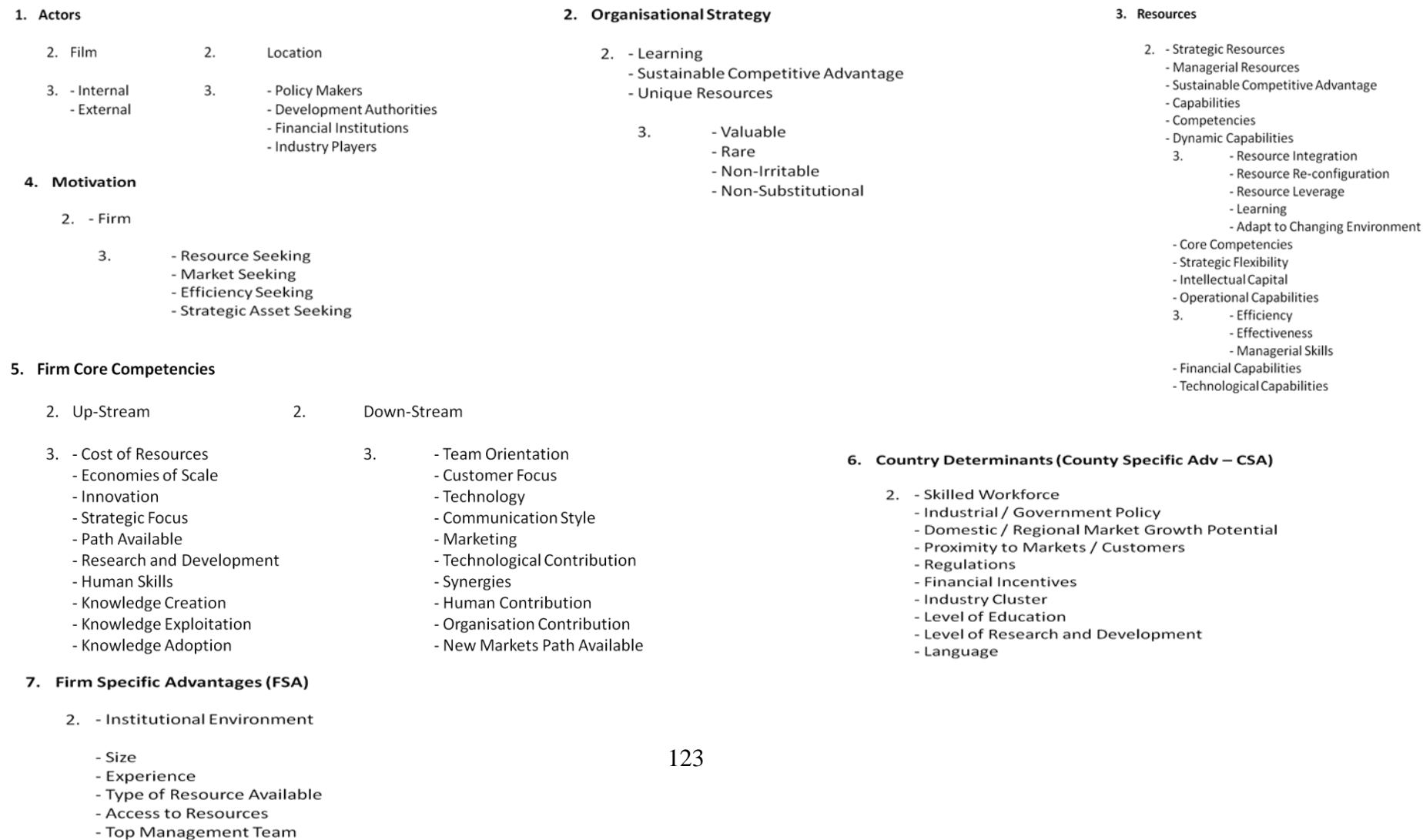
As stated in Saunders *et al.*, (2007), for this research, the pathway to answering the research questions depended on the following factors:

- The level of thoroughness in using the existing theories to clearly define the theoretical propositions and the conceptual framework as a guide for this study;
- The appropriateness and linking of the data to the theoretical propositions and the conceptual framework.

In this research, major themes were first derived from the research questions and used to guide the review of previous literature and collection of data. Minor themes were then generated from the analysis of data and examined in relation to the concepts and frameworks identified in the literature review. The research design therefore followed the Framework method by Ritchie and Lewis (2003) and some elements of the procedures suggested by Yin (1994).

The aim of the analysis chapters is to both describes how the analysis was performed and to present its findings as derived from the documents conducted as a part of this research.

Figure 4.1 Summary of the basic categories on the construction of the nodes



Stages of the Coding Process:

The researcher uploaded all the documents as a text file into NVivo, each document representing a given case¹⁶. The coding commenced by selecting portions of each text (each FDI project is a case) on the computer screen in manner similar to highlighting a passage of text on paper.

The first twenty richest cases were selected so as to clarify the nodes and trim the tree in a manner which would be beneficial to the study. Figure 4.2 provides an initial overview of one of the tree nodes once the initial coding of a sample of the first twenty richest cases¹⁷ was complete.

Sorting the codes into trees facilitated the clarification of ideas with regard to identifying common properties, which enabled the researcher to observe missing categories and address categories that overlapped.

The master list of codes was revisited and reviewed in order to make specific changes to allow for more focused coding, which was aligned with the objectives of the research. Some obsolete codes were deleted, while similar codes were merged or renamed. The reason for doing so relates to the argument put forward in the reliability section of this chapter. This process confirms that a consistent set of nodes is being used to process the data and to develop specific conclusions that answer the research questions.

Changes and the rationale for doing so after the first snapshot

The structure of the tree works as a classification system and hence the organisation of the nodes in the tree is open to revisions based on the researcher's in-depth knowledge of the coding process and the development of the nodes. Following coding of the first twenty documents through NVivo (see Figure 4.2 for a snapshot) the researcher commenced the process of reorganising the structure of the tree nodes. Patterns of association were identified between the various nodes, the researcher checked for consistency and salience of the nodes in order to achieve a logical fit. As a consequence the following changes were made:

¹⁶ Case: each case represents a new project of FDI into Ireland; each document from the empirical data is a case.

¹⁷ Rich case: refers to the cases that are longest in terms of text.

Merging of codes: once the first twenty cases were coded, the researcher proceeded to check for overlapping of particular codes and of concepts. This resulted in the merging of some codes including:

- Merging experience with skilled workforce
- Merging knowledge adoption with knowledge exploitation
- Merging skilled workforce with the top management team (for the Firm Specific Advantage category)
- Merging learning with knowledge creation
- Merging non-imitable, non-substitutable, rare and valuable all of which were merged with core competences
- Merging strategic resources with sustainable competitive advantage

Moving some of the codes: following the coding of the first twenty cases the researcher proceeded to check for particular codes which effectively had become similar as a result of the same quotations being consistently coded to both. This resulted in repositioning codes by grouping codes of lower order with higher order ones. The following are the quotations that were moved:

- Moving financial capabilities with capabilities (quotations which were coded to financial capabilities were coded simultaneously to capabilities)
- Moving intellectual capital to dynamic capabilities (quotations which were coded to intellectual capital were coded simultaneously to dynamic capabilities)
- Moving technological capabilities to capabilities (quotations which were coded to technological capabilities were coded simultaneously to capabilities)

Deleting of codes: once the twenty cases were coded the researcher proceeded to check codes that were not used and they were deleted because there was no reference to them in the documents; the codes concerned were:

- Deleting access to resources as it closely relates to skilled work force, favourable regulation and firm motivation
- Deleting institutional environment (no direct reference was made by firms)
- Deleting type of resources (no direct reference was made by firms)
- Deleting managerial skilled as firms referred mainly to top management team
- Deleting efficiency (no direct reference was made by firms).

Once the specific changes to the coding were completed the remaining 78 cases were coded and finalised, in addition to revisiting the original 20. Figure 4.3 represents the final overview of the tree nodes.

Figure 4.2 Initial Overview of the Tree nodes

Tree Nodes

Name	Sources	References	Created On
Actors	0	0	7/19/201
Firm	0	0	7/19/2010
External Environment	1	1	7/19/2
Internal Environment	1	1	7/19/2
Location	0	0	7/19/2010
Development Authorities	8	8	7/19/2
Financial Institutions	0	0	7/19/2
Industry Players	0	0	7/19/2
Policy Makers	0	0	7/19/2
Country Determinants (Country Specific)	0	0	7/19/201
Domestic Regional Market Growth	15	23	7/19/2010
Financial Incentives	1	1	7/19/2010
Industrial Governmental Policy	9	14	7/19/2010
Industry Cluster	1	1	7/19/2010
Language	2	2	7/19/2010
Level of Education	4	4	7/19/2010
Level of R&D	1	2	7/19/2010
Local communities	4	4	8/31/2010
Regional headquarters	6	7	8/31/2010
Regulatory Support	10	10	7/19/2010
Skilled Workforce (country view, ex	19	35	7/19/2010
Technology Infrastructure	8	11	7/21/2010
Firm Core Competencies	0	0	7/19/201
Down-Stream Core Competencies	0	0	7/19/2010
Communication	0	0	7/19/2
Customer Focus	13	16	7/19/2
Marketing	1	1	7/19/2
Team Orientation	1	1	7/19/2
Up-Stream Core Competencies	0	0	7/19/2010
Coordination	5	5	7/21/2
Cost of Resources	0	0	7/19/2
Economies of Scale	0	0	7/19/2
Human Skills (internal to firm	1	1	7/19/2
Innovation	1	1	7/19/2
Knowledge Adoption, Creatio	2	3	7/19/2
Path Available	2	2	7/19/2
Procurement	1	2	7/21/2
R&D	2	3	7/19/2
Strategic Focus	6	6	7/19/2

Tree Nodes

































Name	Sources	References	Created On
 Firm Motivation	0	0	7/19/2010
 Efficiency Seeking	8	11	7/19/2010
 Market Seeking	13	15	7/19/2010
 Resource Seeking	5	5	7/19/2010
 Strategic Asset Seeking	10	13	7/19/2010
 Firm Specific Advantages (FSA)	0	0	7/19/2010
 Brand	1	1	8/31/2010
 Expansion	16	22	8/31/2010
 Experience	6	7	7/19/2010
 Skilled Workforce Top Management	1	2	7/19/2010
 Organisational Strategy	0	0	7/19/2010
 Knowledge	0	0	7/19/2010
 Knowledge Adaption	0	0	7/19/2
 Knowledge Creation (Learning)	1	1	7/19/2
 Knowledge Exploitation	2	2	7/19/2
 Resource Seeking	0	0	7/19/2010
 Sustainable Competitive Advantage	0	0	7/19/2010
 Resources	0	0	7/19/2010
 Capabilities (Financial, Efficiency, etc.)	5	5	7/19/2010
 Competencies	2	2	7/19/2010
 Core Competencies (Unique Resources)	3	3	7/19/2010
 Dynamic Capabilities	1	1	7/19/2010
 Adapt to Changing Environment	0	0	7/19/2
 Intellectual Capital	0	0	7/19/2
 Learning	0	0	7/19/2
 Resource Integration	1	1	7/19/2
 Resource Leverage	0	0	7/19/2
 Resource Re-Configuration	1	1	7/19/2
 Operational Capabilities	0	0	7/19/2010
 Effectiveness	2	2	7/19/2
 Strategic Flexibility	4	4	7/19/2010
 Sustainable Competitive Advantage	2	2	7/19/2010

Figure 4.3 Final Overview of the Tree nodes

Tree Nodes

Name	Sources	References
Actors	0	0
Firm	0	0
External Environment	1	1
Internal Environment	1	1
Location	0	0
Development Authorities	31	32
Financial Institutions	2	2
Industry Players	4	4
Policy Makers	0	0
Country Determinants (Country Specific Advantages)	0	0
Domestic Regional Market Growth Potential	37	50
Financial Incentives	3	3
Industrial Governmental Policy	28	33
Industry Cluster	8	9
Infrastructure (Technology, Transport, Telecommunications)	17	21
Language	2	2
Level of Education	10	11
Level of R&D	8	11
Local communities	4	4
Regional headquarters	7	8
Regulatory Support	12	12
Skilled Workforce (country view, external)	38	57
Firm Core Competencies	0	0
Down-Stream Core Competencies	0	0
Communication	1	2
Customer Focus	34	40
Marketing	8	8
Team Orientation	1	1
Up-Stream Core Competencies	0	0
Coordination	21	25
Cost of Resources	0	0
Economies of Scale	1	1
Human Skills (internal to firm)	3	3
Innovation	9	10
Knowledge Adoption, Creation, Exploitation	5	7
Path Available	16	17
Procurement	3	5
R&D	19	21
Strategic Focus	29	30

Tree Nodes

Name	Sources	References
Firm Motivation	0	0
Efficiency Seeking	15	19
Market Seeking	38	44
Resource Seeking	13	13
Strategic Asset Seeking	26	29
Firm Specific Advantages (FSA)	0	0
Brand	37	38
Expansion	34	42
Experience	9	10
Skilled Workforce Top Management Team	1	2
Organisational Strategy	0	0
Knowledge	0	0
Knowledge Adaption	0	0
Knowledge Creation (Learning)	3	3
Knowledge Exploitation	3	3
Resource Seeking	0	0
Sustainable Competitive Advantage (Strat)	5	5
Resources	0	0
Capabilities (Financial, Efficiency, Techn)	25	26
Competencies	26	27
Core Competencies (Unique Resources)	15	15
Dynamic Capabilities	1	1
Adapt to Changing Environment	1	1
Intellectual Capital	0	0
Learning	0	0
Resource Integration	3	3
Resource Leverage	1	1
Resource Re-Configuration	2	2
Operational Capabilities	1	1
Effectiveness	24	24
Strategic Flexibility	5	6
Sustainable Competitive Advantage	6	7

4.7 Limitation

The limitations relate to the reliability and validity section of this chapter.

1. Generalisability of the Results

The first limitation concerns the extent to which the research findings, specific to Ireland, can be generalised. This could have been addressed by making use of a control group of firms that matched the key characteristics of the firms included in the

study, or alternatively a matched group of firms that had invested in a different but similar location to Ireland. The researcher was unable to expand the study to incorporate the above due to limited resources such as time and funds.

ii. The Use of Secondary Data

The second limitation stems primarily from the nature of the data, which is secondary in nature. The researcher did not have access to the TMT within firms and thus relied on third party interviews and documents. As a consequence, the researcher was not able to frame the questions put to the management team of the firms surveyed. Had the researcher conducted the interviews herself, questions would be incorporated in order to extract further information related to the nature of the firms' motivations.

iii. Reliability of the Data

The third limitation relates to the reliability of the data. The researcher recognises that firms' responses to the questions might be framed in ways designed to appeal to host country governments and agencies. The researcher therefore acknowledges the possibility that the data obtained may be missing information that could have influenced firms' decision making. The subjectivity of the coding process and the interpretation of the findings can also represent a limitation. However, this limitation was overcome by the rigorous coding process and the cross reference of documents and sectors.

iv. Alignment of Competences of the Firm Headquarter and the Subsidiary

Firms' competences are separate from the characteristics of the countries in which it invests. The researcher acknowledges the potential limitation of which the firms' competences arising from operating in the home country environment could be different to the host country. The impact of the home country based competences on the host country subsidiary merits further independent investigation.

v. Choice of Sector

A fourth limitation relates to the choice of sector. Although the Pharmaceutical industry has seen significant levels of FDI into Ireland, the 'Software & IT sector' (a research and development and manufacturing sector) and 'Financial Services' (a services sector) were chosen in order to develop the discussion and allow richer comparisons between the sectors. The expectations are that the Pharmaceutical and IT sectors would exhibit similar behaviours as they both fall within the research and development and manufacturing industries.

vi. The Use of Quotes

A final limitation is the multiple uses of the same quotes. Due to the nature of the documents, some sentences cannot be separated so as not to lose the context of the message as some quotes cover more than one point, which is relevant to the findings.

4.8 Findings Analysis

This section discusses the research findings and provides a summary of the analysis incorporated in the following three chapters. The research involves studying the location characteristics (macro level), the sector's characteristics (meso level) and the firm resources and competences (micro level). This approach will enable the researcher to validate the conceptual framework through an empirical evaluation. Therefore, in order to fulfil the objectives of this thesis the findings/analysis of this research will be divided into three sub-chapters as follows:

Chapter 6: The first part of the empirical analysis will discuss factors that attract firms into Ireland irrespective of the firms' characteristics. The analysis will demonstrate the links between the most populated clusters of nodes and will explain the relationship and themes. (RQ2 – The Macro Level).

Chapter 7: this will mirror the literature; it will approach the analysis through the industry lens. To empirically validate the conceptual framework, cases from two sectors will be selected to bring the findings into perspective. (RQ3 - The Meso Level).

Chapter 8: This purpose of this chapter is to verify the propositions through the data analysis. This will be done through identifying common threads such as the links between location and core competences. One of the gaps in the literature relating to the failure of RBV to take firms into considerations is answered by the propositions. By introducing the RBV to link company behaviour, this research addresses this RBV gap from an empirical point of view (RQ3 - The Micro Level).

The analysis will discuss factors such as skilled workforce as a motivation and how firms are considering this motivation. Within the analysis the researcher will evaluate the views of investing firms in relation to the type of resources they are seeking with

respect to deciding on Ireland as a location for investment (why certain resources are important to them).

Finally, the analysis demonstrates how the newly developed conceptual framework will explain how each sector (and consequently firms within the sector) operate in relation to resource allocation and investment decisions. The coded data (using NVivo) is used to explain the links between different codes. The identification of patterns between the codes will assert the validity of the research and the coding process through linking the findings from the empirical analysis and their mapping into the conceptual framework. The manner in which the different codes link together provides further proof as to the validity and reliability of the coding process.

4.9 Popular Factors (NVivo refers to these factors as Nodes)

After the coding process was completed, themes began to emerge which highlighted the most popular motivations with respect to firms' location decisions in Ireland. A full list of the different nodes and the extent of firms referencing and consideration of each node can be found in Figure 4.3. These popular motivations will be distilled from the final snapshot of the coded document in order to discuss the analysis and findings.

The main factors selected for this analysis were Firm, Location, Country Determinants, Firm Core Competences, Firm Motivations, Firm Specific Advantages, Organisational Strategy and Resources. The most populated nodes identified are listed in Table 4.3.

Table 4.3 Most Populated Factors Highlighting Motivations Of Multinationals Investing in Ireland

	Tree Node	Node (reasons)	Frequency mention
General Macro Location Characteristics	Firm	Development authority	32
	Country Determinants (country specific advantage)	Domestic regional market growth potential	50
		Industrial Government Policy	33
		Infrastructure (Technology, Transport Telecommunication)	21

Sector/Industry/ Firm Specifics		Skilled workforce	57
	Firm Core Competences	Customer Focus	40
		Coordination	25
		Path available	17
		Strategic focus	30
	Firm Motivations	Efficiency seeking	19
		Market seeking	44
		Resource Seeking	13
		Strategic asset seeking	29
	Firm Specific Advantages	Branding	38
		Expansion	42
	Resources	Capabilities	26
		Competences	27
		Core competence	15
		Effectiveness	24

The summary of the popular factors shown in Table 4.3 will be used as basis for the analysis in Chapters 6, 7 and 8. As the analysis in Chapter 6 is concerned with the different locational characteristics, the discussion will focus on skilled workforce (57 mentions) which is the most frequently mentioned motivation for firm investment decisions, followed by domestic regional growth potential (50 mentions), industrial government policy (33 mentions), and the development authority (32 mentions). The analysis in Chapter 7 will focus on the core competences and resources with little emphasis on locational characteristics; the chapter will incorporate a cross comparison between two sectors and will highlight the firm core competences including customer focus (40 mentions), branding (38 mentions), firm strategic focus (30 mentions), its coordination (25 mention), and path available to it (17 mentions). The analysis will also incorporate the firm resources including its expansion strategy (42 mentions), operational competences (27 mentions), capabilities (26 mentions), and operational effectiveness (24 mentions). Chapter 8 will focus on answering the research propositions, driven by merging the different motivations and the different locational characteristics that firms seek. Included in the analysis will be the market seeking motivations (44 mentions), the strategic asset seeking motivations (29 mentions), the efficiency seeking motivations (19 mentions) and the resource seeking motivations (13 mentions).

4.9.1 The criteria for justifying the cut-off point

The criteria for selecting nodes for analysis were determined by their importance and frequency of mention of each node. If the frequency of other criteria mentioned was low, they were de-selected as the analysis has been confined to those issues, which received the most references¹⁸. The most popular nodes are selected in terms of their frequency of mention and their importance with respect to the conceptual framework. These were divided into two groups:

- i. For locational factors five issues were selected for discussion. The frequency of the highest node is 57 and the lowest is 20. The cut-off point is 20 and the next frequency falls from 20 to 12. This cut-off point is the point where the remaining nodes drops substantially from 57 to 20; initially there is a smooth transition however when the frequency reaches 20 there is a large drop to 12, this drop is substantial, thus it justifies 20 mentions as the cut-off point.
- ii. For sector and firm considerations, fourteen issues were selected for discussion. It was essential to include all the firm motivations. The frequency between the highest nodes is 44 and the lowest is 13. The cut-off point is 13 mentions, the next frequency drops from 13 to 10. In addition, it is worth noting that the top two most populated nodes come from the country determinant skilled workforce, domestic and regional growth potential, the third most populated node comes from the market seeking firm motivation.

4.10 Conclusion

The chapter discusses and justifies the adopted methodological strategy and describes the process of investigation adopted for this research. This chapter discussed and described the method used to select the various sources of data and the methods used for analysing the data as well as presenting its the findings. The methods employed in the research are developed through using existing ideas from the literature to develop further and conceptualise RBV and MNE motivations. The aim of the research is to provide a coherent set of interrelated ideas, which provide bases for FDI choice. This established the foundation for the empirical analysis. The following three chapters will provide the analysis and findings for this research.

¹⁸ Following a textual analysis approach adopted in this thesis, it was decided whenever the frequency was low, nodes were deselected as the focus is on the top issues.

The chapter sets the research in its ontological and epistemological context. The chapter discussed the analytical procedures relevant to the analysis of the qualitative data and this study. A deductive approach is adopted in order to gain a deep understanding of the complex process of firm internationalisation decisions and motivations. An interpretive and qualitative multiple case study approach was selected to test the propositions and validate the conceptual model empirically. Even in Yin's (2003) explanation building, theoretical propositions are suggested. The chapter has shown that the process of analysing qualitative data can be useful for carrying out deductive analytical procedures.

Thus, the methodology used in this research is qualitative research, the access to secondary database commissioned from FDI Markets.com. The obtained data was in the form of documents collected by the FDI Markets on behalf of the researcher. The researcher set out and influenced the criteria for the design and nature of information gathered (see e-mail exchange in Volume 2) in the form of documents. The documents were gathered to make the case for Ireland from a secondary database. The summaries the information gathered were customised to fit in this research need and timeline.

The interpretive research methodology is related to data gathering and generating solid descriptions and interpretations and further allows theory building. Through a contextual analysis strategy of multiple cases, the resource-based view (RBV) and multinational internationalisation theory formed the theoretical lens through which to examine a firm's motivation for locating in Ireland. Data collection methods were adopted such as documents, documentation and observation.

The starting point for selecting key themes for analysis is the theoretical perspective and the conceptual framework. The richest most populated nodes in the sample point out the key themes from a theoretical perspective as well as the key themes from an empirical perspective. Themes for discussion were selected from the richest most populated nodes. This detailed analysis of the choice of themes is discussed in the introduction of the analysis chapter.

Chapter 6 will analyse the themes and patterns, Chapter 7 will empirically validate the conceptual framework; two cases from two sectors will be selected to bring the findings into perspective. Chapter 8 will verify the propositions through the data analysis. This

will be done through identifying common threads such as the links between location and core competences.

The analysis chapters thus are not just driven by the empirical data findings but are also driven by the conceptual discussion and the information that the researcher identified as relevant to this research. From an empirical point of view the discussion starts with the location (the macro level analysis) as it is important to move the discussion towards specific sectors (the meso level analysis) and then discuss the firm specific resources (the micro level analysis). This is how the analysis moves from macro (the country level) to meso (the sector level) to micro (the firm level) covering all elements of the conceptual framework. Therefore, this is a bridging unit where the discussions include the role of location, the role of RBV, firms' motivations and the strategic development of the firms.

5 Chapter 5 Foreign Direct Investment in Ireland

5.1 Introduction

The rationale for writing this chapter is that this PhD is location specific. One of the objectives of this thesis is to investigate the patterns of foreign direct investment in Ireland. Consequently there is a need to present the reader with a deep understanding as to how Ireland has developed economically and the structure of its industry and government policy. Some of the discussion that takes place in the findings and analysis chapters are supported by the information that is presented here. Appendix 5.1 provides an overview of Ireland's country conditions and highlights the locational advantages of Ireland.

The chapter describes and interprets Ireland's economic transformation¹⁹. Ireland's economic development is an interesting case of macroeconomic stabilisation and adjustment in a small and extremely open economy. This is a unique study in industrial strategy and modernisation, which covers the transformation of Ireland from a weak peripheral economy to a significant centre of high-technology manufacturing and advanced services. Its integration into the European Union offered great opportunities, but also unprecedented threats as is the case for the majority of small EU member states. Finally, Ireland is an interesting case study of social concentration and institutional innovation. These elements will be discussed in detail further on in this chapter.

Ireland has been one of the fastest growing economies in the European Union and the OECD since the 1990s. Rapid growth in exports, output and employment have led market analysts and other commentators to label Ireland as the 'Celtic Tiger'. This chapter reviews the policy approach that underpinned the country's economic transformation. It describes the external (macro-environmental and industry) and internal (governmental industrial economic strategy and social) context. Secondary data is interwoven with the literature to provide a rich description and framework within which Ireland's macroeconomic, industrial and European policies have achieved success in the past decade.

While the chapter attempts to weave the historic narrative of four of these themes together, it focuses in particular on the last of them. Since 1987, Ireland has conducted

¹⁹ The period covered by the empirical data for this study is 2003-2009 which includes one year post the financial crises of 2008.

economic and social policy by means of social partnership between the state, business and social interests. This provided the framework within which Ireland's macroeconomic, industrial and European policies have achieved success in the past decade. This chapter is organised as follows:

Section 5.2 describes and interprets Ireland's economic transformation. It outlines the background to Ireland's development history and strategy, the developments of the past decade, particularly the strengths and weaknesses of the outward-looking strategy adopted in the late 1950s. It describes the deep economic, social and political crisis of the 1980s, tracing it to both domestic pressures and the effect of European integration. It also outlines the new perspective on internationalisation and the social partnership approach developed in the late 1980s and pursued through the 1990s.

Section 5.3 outlines the analytical underpinnings of the inward investment strategy. It focuses on the Irish economy from a foreign direct investment and macroeconomic perspective. It describes Ireland's European integration and internationalisation progress.

Section 5.4 provides a report on foreign direct investment activities from 2003-2009. The report provides analytical underpinnings of the global, European and Irish inward investment.

5.2 Ireland's Economic Transformation and Development Strategy

This section provides the long-term background to Ireland's difficult economic and political history and a perspective on the developments of the past two decades. This is characterised by Ireland's transformation from a weak peripheral economy to a significant centre of high-technology manufacturing and advanced services.

Background: Ireland's Development Strategy

The nineteenth century saw Ireland experience de-industrialisation, famine and emigration which more than halved Ireland's population. Until its independence in 1922, Ireland was part of the British Empire and much of Ireland's produce was exported to England; this continued after 1922 to help support the English economy²⁰.

²⁰ In 1922 it was referred to as the English economy because England was the main economic entity for the UK.

The political drivers for radical economic transformation were very strong in Ireland. During the first ten years of independence Ireland continued to operate a free trade policy under its new government. During this time the main opposition party, Fianna Fáil, was proposing self-sufficiency and the imposition of high tariffs on imports. When the opposition party came to power in 1932 the Irish government introduced protectionism.

The Great Depression of the 1930s was marked by a severe outbreak of protectionist trade policies. The relatively new political independence from the UK was used, from the early 1930s to the early 1960s, to pursue a strategy of protection and import substitution. During the 'Economic war' with the UK, the UK government restricted Irish imports to the UK. Although, at the time, protectionism and self-sufficiency might have been ideals pursued for nationalistic reasons (and the country has shown growth as a result of these policies during World War II), the policy had a devastating effect on Irish economic growth after World War II as not only did it limit competitiveness through importation, but it also restricted businesses to trading internally within the state; as a consequence the development of export markets was restrained. As a result of this policy the government;

'had distorted the economy by wholesale subsidisation of economic activities, rather than letting entrepreneurial activity find the correct product for the correct market' (Garvin, 2004, p. 33).

Although protection contributed to increased employment in industry, this was not sufficient as the country witnessed vast amounts of emigration; consequently, it failed to solve the underlying developmental problem. Ireland had to switch to an outward-orientated strategy, which was prompted by the severe balance of payments difficulties, recession and emigration of the 1950's.

As mentioned earlier, in the late 1950's and early 1960's Ireland decided to switch from protectionism to an outward orientation. In 1966 the Anglo-Irish Free Trade Agreement was introduced which sought to liberalise trade with the UK as the country's major trading partner of the time. This decision sought to achieve the goal of developing an export economy by modernising and re-orienting the indigenous economy and attracting inward investment. Following liberalisation of trade and foreign ownership of companies, UK, German and US companies were first to respond to the new opportunities in Ireland. The period after 1960 saw a strong increase in living standards

and expectations. Incomes, wages and welfare provisions converged with those in the UK and the quantity, quality and range of consumer goods increased significantly. This emergence of economic growth, which continued until 1973, was a result of industrial policy combined with strong fiscal and financial incentives to encourage both inward investment and indigenous enterprise, an approach that has continued to this day.

Domestic Crisis, Economic Transformation and Issues of Restructuring

Despite the initial success of the outward-looking strategy, a combination of domestic factors and European integration produced a deep economic, social and political crisis in the 1970s and 1980s. Ireland became a member of the European Union in 1973. Its membership set in motion some important structural and psychological changes for the country at all levels. The Common Market provided an alternative to the United Kingdom and the United States.

During the 1970s, crude oil prices soared as a consequence of OPEC's actions. This led to an international recession in many oil-importing countries including Ireland. The economic consequences included rapid inflation, trade deficits, external debt and budget deficits. During this period, despite the slowdown in the world economy and following some initial adjustment its EC membership, the Irish economy performed relatively well through most of the 1970s. Ireland's recovered from the recession of 1974-75 through increased public spending and borrowing. This was driven by intensified political competition and the pressure of an increasing labour force, which resulted in pro-cyclical increases in public spending and tax reductions and buoyant domestic growth during the 1960s and 1970s. However, Ireland attempted to maintain growth during the 1970s which effectively postponed and covered up the real problems of Ireland's economy until the 1980's when the underlying weaknesses in the Irish economy were exposed.

As previously mentioned, while most countries sought to avoid the inflationary effects of OPEC, the Irish government, faced with intensified political competition and pressure of an increasing labour force, implemented pro-cyclical increases in public spending and tax reductions (O'Donnell, 1998). This resulted in a rapidly increase in fiscal deficits, pushing the overall borrowing requirement to almost 16 per cent of Gross National Product (GNP) in the late 1970s and early 1980s.

In 1979 Ireland abandoned its more than 150-year-old one-to-one link to Sterling to join the European Exchange Rate Mechanism (ERM), resulting in a switch from British to

German inflation rates. Fiscal correction and dis-inflation dominated government policy in the 1980s; this was initially pursued by taxation increases rather than expenditure reduction. The period of 1980 to 1987 was one of prolonged recession, falling living standards, a dramatic increase in unemployment and, the prospect of emigration as the best option for the young. Total employment declined by almost 6 per cent and employment in manufacturing by 25 per cent. The length and depth of this depression reflected (i) Ireland's balance of payments deficit and (ii) public finance adjustment and adherence to the ERM (O'Donnell, 1998). By 1987 Ireland had the second highest rate of unemployment in the EU, at 17 per cent, and the second highest government debt to Gross Domestic Product (GDP) ratio, at 114 per cent (the debt/GNP ratio was approaching 130 per cent) (Barry, 2000). However, a shift in government policy in the late 1980s/early 1990s led to fiscal stabilization which came about through a rapid cutback in government expenditure and an anti-inflationary policy, while a decline in government borrowing requirements reduced the debt-service burden.

Factors Behind the Turnaround

The doubling of the EU Structural Funds received by Ireland in 1989 and Ireland's economic recovery in 1987 meant that the economy could continue to develop in terms of public infrastructure even in the face of cutbacks in public spending. This was all underwritten by the newly constructed social partnership system that linked unions, employers and government. Each of these factors will be discussed in turn.

Social Partnership

In the mid-1980s the Irish government negotiated economic and social governance. The social partners acting in the tripartite National Economic and Social Council (NESC) put together an agreed strategy to escape from the circle of real stagnation, rising taxes and exploding debt. NESC's Strategy for Development (1986) formed the basis upon which a new government and the social partners quickly negotiated the Program for National Recovery to run from 1987 to 1990.

The Program for National Recovery, 1987-1990 (PNR), involved agreement between employers, trade unions, farming interests and government on wage levels in both the private and public sectors for a three-year period. Moderate wage growth was seen as essential to international competitiveness and to achieving control of the public finances. However, the PNR, and its successors, involved far more than centralised wage bargaining. It incorporated agreements on a wide range of economic and social policies including tax reform, the evolution of welfare payments, trends in health

spending, structural adjustments and Ireland's adherence to the narrow band of the ERM and the Maastricht criteria. On the macroeconomic level, each partner agreed that they would not generate inflationary pressures that would warrant devaluation and would not seek devaluation when external problems arose. The PNR also established a new Central Review Committee to monitor implementation of the programme and ensure on-going dialogue between government and the social partners on key economic and social policy issues.

Social Consensus and Partnership

Government spending cutbacks allowed reductions in taxation, while greater influence over aspects of economic policy provided trade unions with an impetus for wage restraint. Thus, political consensus was accompanied by unprecedented social consensus after decades of adversarial industrial relations and acrimonious strikes resulting in lost production. The new consensus culminated in an agreement between the social partners i.e. employers, workers, and government in the form of the Programme for National Recovery (PNR). It was the first of a series of three-year agreements, which commenced in 1987 and continued to early 2003.

The concept of social partnership continues to develop. In 2001, the social partners launched a National Centre for Partnership and Performance (NCPPE or the Centre) with a mission to refocus partnership and re-establish its momentum around key national priorities to meet competitive challenges by identifying and disseminating best workplace practice. The NCPPE translated past consensus at the national level to future workplace cooperation. A priority was to provide support for organisational change. In recognition of the diversity of enterprises and agencies in Ireland's economy, the Centre works actively with all firms and with government development agencies, education institutions, economic and industrial relations advisory bodies, and so forth. In summary, it adopts a forward looking, inclusive and flexible approach.

The Industrial Development Authority (IDA)

Ireland's Industrial Development Authority (IDA) was set up in 1949 as an independent agency of the Irish government. The establishment of the IDA has played a major role in changing Ireland from being a rural-based economy to an industrial-based one (Sweeney et al., 1999; Garvin, 2004). The IDA promoted and attracted high levels of FDI which helped Ireland reduce its high dependence on the UK market. When it was first founded the IDA started with a policy for attracting a large 'quantity' of FDI. Since the restructuring of Ireland's Education policy and its infrastructure, Ireland became

one of the few cases where the country began engaging in 'targeted FDI policies', targeted not only in terms of industries but also in terms of companies. The IDA now follows a more strategic policy into attracting 'quality FDI' such as the high value added industries. This strategy has contributed to the high growth of its economy during the 1990's and 2000's.

In 1952, the IDA was split into the IDA proper (to promote new investment) and a new industry board, which assessed projects and made decisions on development grants (Garvin, 2004). After 1965 FDI in Ireland became significant as a result of the positive promotion of Ireland as a key industrial policy by the government of the time. The significant level of FDI achieved resulted in a large increase in the numbers of people employed in manufacturing industries in Ireland.

Between 1949 and 1994, the IDA was responsible for Ireland's industrial planning and policy determination. Since the early 1950s to the present time, evidence suggests that the IDA has performed well in identifying, pursuing and securing prestigious FDI (O'Hearn, 1998; O'Sullivan, 2000). However, critics of the IDA later claimed that Ireland's economic strategy is overly focused and heavily reliant on inward investment (Acheson et. al, 2005). By focusing on overseas investment, the success of Ireland's industrial policy was being achieved at the expense of its indigenous industries. In an attempt to address this issue, in 1994, the Irish government reorganised the IDA into three separate organisations. 1) The IDA retained responsibility for attracting overseas investment. 2) The development of Ireland's indigenous industries was assigned to Forbairt, as a newly established government agency. 3) In an attempt to separate responsibility for policy formulation from policy implementation, the government established Forfás, a new agency to which it allocated overall responsibility for policy planning and determination. Recently, groups such as Irish Council on Science, Technology and Innovation (ICSTI) and the Information Society Steering Committee (ISSC) have been created to advise Forfás on issues concerning technology and its role in industrial policy.

Incentives Available for Inward Investment

The Irish government actively encourages overseas companies to choose Ireland as a European base. Part of the incentive package offered can be the availability of state financial assistance in the form of grant assistance to defray start-up or other costs.

In October 2006, the European Commission (the Commission) approved a revised “Regional Aid Map” for Ireland, as part of a wider review of regional aid across the enlarged EU. The Regional Aid Map defines the regions of an EU Member State which are eligible for regional investment aid (that is, aid based on the geographic location of the project) and establishes the maximum permitted levels of aid in such regions. Under the new Regional Aid Map, the Irish regions which continue to be eligible for regional State aid are the Border, Midland and Western region, the South East, certain small islands, the counties of Clare, Limerick, North Tipperary and Kerry and certain parts of Cork. From the beginning of 2009, however Clare, Limerick, North Tipperary, Kerry and Cork are eligible for regional aid to small and medium sized enterprises (SMEs) only.

Prior to the 2006 review of Regional Aid Map, all areas in Ireland were entitled to some form of regional investment aid. Going forward, businesses in Dublin and much of Mid Eastern Ireland, which are no longer entitled to regional aid, may still be entitled to other forms of aid including aid for research, development and innovation (R&D and I), training, environmental protection or aid to SMEs, where the conditions laid down by the Commission for such categories of aid are met.

The IDA and Shannon Development (a regional economic development agency) are the primary grant-awarding bodies to foreign inward investors.

Types of Grants Available from the IDA

In the case of regional aid, incentives may be given in the form of capital grants for the acquisition of fixed assets (that is, site purchase and development, buildings and new plant and equipment). In certain cases, aid may also be available for the acquisition of intangible assets such as patent rights, licences and know-how. The subsequent disposal of grant-aided assets is invariably restricted by agreement. Alternatively, regional aid may also be granted in the form of employment grants which are linked to the number of full-time and permanent job created and will vary depending on the location of the project and the activities to be undertaken.

In areas no longer eligible for regional aid, certain companies may be eligible to apply for grants towards the cost of major training initiatives, the development and expansion of an R&D facility, or “innovation” projects such as aid to new innovative enterprises or innovation in services. Companies can also apply for aid for environmental protection initiatives and aid to support certain risk capital investments.

The Irish Policy, Incentives and Economic Context

Ireland is a traditional recipient of FDI since the early 1950s. The country has long been recognised as a small open economy. The Department of Finance programme of 1958 noted that this is “a small country...exposed to the perpetual flux of world economic forces”. It also noted:

“one must be prepared at all times for fluctuations and upsets. A readiness to adapt to changing conditions is a sine qua non of material progress”.

A thought which remains as apt today, half a century later, when the internationalisation of the Irish economy, which has been a central feature of on-going government policy in the interim, has made possible the very real improvements in living standards that have been so evident, in particular over the past 20 years.

The list of multinationals currently operating in Ireland includes some of the largest companies in the worldwide technology, pharmaceutical, biosciences, manufacturing and financial services industries. Some of the key incentives that firms look for when locating in Ireland and the reasons for Ireland’s success in attracting FDI include:

- Ireland’s low standard corporate tax rate – corporation tax on trading profits is 12.5 per cent, which does not breach EU or OECD harmful tax competition criteria;
- Ireland has comparatively relaxed and liberal rules on transfer pricing;
- Regulatory, economic and people infrastructure of a highly developed OECD jurisdiction;
- EU membership;
- an English speaking jurisdiction in the euro-zone;
- and a Western European seaboard location; (characteristics which the country shares with the UK of course)
- As a common law jurisdiction, the legal system is similar to that of the US and the UK;
- The skills and experience of the country’s Industrial Development Agency (IDA)
- Provision of a specific tax credit for research and development activity;
- An extensive and expanding double tax treaty network with close to 50 countries, including the UK and the US; (Barry, 2004)

- An education system that is tightly integrated with the country's FDI-orientated development strategy; (Barry, 2007)
- The high quality of the telecommunications infrastructure

In the 1950s, the economy was dominated by farming with some manufacturing activity, while services represented a very low proportion of GDP. However, a gradual change of FDI structure took place, notably after Ireland's accession to the EU in the early 1970's, which led to a shift over time with the decline in agriculture (both in monetary terms and also as a proportion of GDP) and the corresponding rise in manufacturing and services through the country pursuit of foreign direct investment (FDI), a shift which has continued in more recent years with services outstripping manufacturing as a proportion of GDP.

During the 1990s and early 2000s, the number employed in industry and services increased steadily and expansion as particularly rapid in the areas of computer software/hardware, electronic engineering, food, pharmaceutical, healthcare and consumer products.

5.3 Framework for FDI in Ireland, European Integration and Internationalisation

This section outlines the analytical underpinnings of the inward investment strategy. It focuses on the macroeconomic perspective, Ireland's European integration and internationalisation progress.

Definition of FDI by European Union and the Irish Authorities

The European Union Yearbook defines FDI as *follows*:

"Foreign direct investment is the category of international investment in which an enterprise resident in one country (the direct investor) acquires an interest of at least 10 % in an enterprise resident in another country (the direct investment enterprise). Subsequent transactions between affiliated enterprises are also direct investment transactions". (European Union, foreign direct investment, Euro stat, Yearbook, 2001).

This definition gives the investor an effective voice in the management of the enterprise and a substantial interest in its business; FDI implies a long-term relationship between

the direct investor and the direct investment enterprise. Investment may take place through the establishment of an entirely new firm, so-called "greenfield" investment, or through the complete or partial purchase of an existing firm via a merger or an acquisition.

In recent years, Mergers and Acquisitions (M&A) have formed the largest share of worldwide FDI according to FDImarkets.com. FDI can however not be equated with M&A as these may include deals in which the investor acquires less than 10% of shares and as they do not include greenfield investments. The focus of this thesis is on the latter; consequently, it does not include mergers and acquisition in its analysis and findings of the research.

Foreign Direct Investment in the Irish Economy

Airline deregulation, in 1986, facilitated an increase of tourist numbers over the following decade, coupled with the commercialisation of the telecommunications system, which made it possible to attract new off-shoring IT-enabled services sectors. The lead-up to the Single Market saw a massive increase in FDI flows both into and within Europe, of which Ireland captured a sharply increased share. These beneficial factors all occurred against a backdrop of EU membership, a long-standing commitment to outward orientation, a low corporation tax regime and a rapidly expanding education system (Barry, 2007).

Ireland's record shows an impressive capacity to attract foreign direct investment; its strategy aimed at developing human capital (by investing in education, training and life-long learning) provided investors with a well-developed pool of resources. Furthermore, FDI inflows were concentrated in sectors where Ireland's position in term of R&D and human resources was already strong, thus developing 'a cluster of growth poles' (Sapir Group, 2005).

Legal Framework for FDI in Ireland

The country's policy aims at encouraging and attracting FDI. The majority of industries are open to foreign investors. Capital inflows are allowed freely into the market and repatriation is also allowed and guaranteed. Incentives are offered to both foreign and domestic investors and since the 1950s the IDA has functioned as a one-stop shop for foreign investors, thus making the process of investment easier.

The growing importance of the services sector to the Irish economy has been

recognised by the Government and other policy analysts for many years. The Forfás strategy “Enterprise 2010” showed that while employment in agriculture had fallen by 21% from 172,000 in 1989 to 136,000 in 1998, it had risen by 23% (from 213,000 to 264,000) in manufacturing, while employment in local services rose by 39% (from 611,000 to 847,000) and in internationally traded services by 380% (from 9,600 to 46,000).

The enterprise sector and the internationally traded sector, acted as the engine of growth in the 1990s. A report by Cox and Alm (1995) in international studies in services, forecast that internationally traded services would make an increasing contribution to growth in the years ahead as services become more important economically and international trade in services was facilitated by electronic commerce. By 2007 the services sector (not including construction (13%) or government services) accounted for just over 45% of total employment in Ireland in 2007 and the numbers employed had risen by almost half in the previous 10 years, from 651,500 in 1998 to 949,900.

“Enterprise 2010” acknowledged, among other things, that the advances and initiatives made in promoting competition and deregulation across different sectors of the economy (Industrial Policy Review Group, 1992) had helped create the underlying conditions necessary for strong growth. It also recognised that the impact of the Single Market in attracting investment into the EU had a positive effect on the Irish economy and that market liberalisation that resulted from the Single European Act had been highly beneficial.

These conclusions were echoed some years later by the Enterprise Strategy Group, (2004) which recognised that “opportunities in internationally-traded services across a range of sectors and activities will play a more significant role in Ireland’s economy over the next decade”, as well as giving more concrete evidence of the continuing shift towards services on a global level and some movement of services operations away from developed towards developing economies.

Similarly, the Government’s national statement on trade policy recognised that:

“the traditional importance of manufacturing trade is declining as services increase as a proportion of total international trade” (Department of Enterprise, Trade and Employment, 2005, p. 32).

This statement also referred directly to the negotiations then underway on the (then) draft Services Directive, noting the Government's approach of being "strongly supportive of its liberalising thrust" and that "advancement towards completion of the Single Market in Services is a significant opportunity for Irish service providers, as well as for multi-national service providers based in Ireland to increase their level of internationalisation" (Department of Enterprise, Trade and Employment, 2005, p. 33).

Ireland's European Integration and Internationalisation

When Ireland joined the EU in 1973, it was one of the poorer members and much has been made of the country's access to the EU's various financial transfer programs. What role did these transfers play in the extraordinary economic performance of the 1990s? The transfers were most important in the 1980s and the early 1990s; however, their importance has declined sharply since then. As a share of GDP, they peaked at 6.2 percent in 1991, with a sharp decline thereafter, falling below 2 percent beginning in 1999. The absolute magnitude of net transfers averaged approximately IR£700 million in the 1980s and IR£1.6 billion in the 1990s. Compared to other EU countries, Ireland has been perhaps the most-favoured recipient on a per capita basis (Braunerhjelm et al., 2000, p.70).

Some businesses in Ireland did flourish during the twentieth century, but two major issues have impacted the longevity of these businesses, namely the economic policies of successive Irish governments and the growth in competitiveness and globalisation.

Ireland had the 11th highest global economic growth in the period 1995-2005 with an average annual increase in real GDP of 7.4%, the highest across the EU, according to statistics produced by *The Economist* (2007, p. 32). Other relatively strong performers included Latvia (6.9%), Estonia (6.6%) and Luxembourg (5.1%).

This was a period when many of the other EU Member States fell into the lowest global growth category, such as Italy (1.3%), Germany (1.4%) and Austria, Belgium, Denmark, Portugal and Romania all at 2.1%. Some of these poorly performing countries had only joined the EU in 2004, with Romania having not joined until 2006. However, most of those with low growth rates have been members of the EU for many years.

Economic Development of Ireland

The Organisation for Economic Cooperation and Development (OECD, 2007) statistics

(Economic Survey: Ireland 1987 to 2006) give an indication of the massive growth in Ireland's GDP over recent decades. In 1985, the average annual volume growth over the previous 5 years had only been 1.8%, whereas by 2000 this had risen to 9.9%. The GDP figures in the Table 5.1, below, from the Central Statistics Office (CSO) at constant prices are directly comparable.

The efforts undertaken in the last years to upgrade the Irish economy are clearly mirrored in the country's GDP as a percentage of Gross National Income (GNI) per capita and its evolution during the last decade. In 2006, the GNI figure for Ireland was 86.1% of the GDP figure, which was broadly comparable with that observed in previous years (Table 5.1). In the same year, the Irish GNI per capita figure was over 40% higher than the 1997 figure when measured in constant 2005 prices i.e. an average annual growth rate of just over 4% over annum.

Table 5.1 Ireland's GDP and GNI, 1997-2006

	€b	€b	%	€000
			GNI as % of GDP	GNI at constant 2005 prices per capita
Year	GDP	GNI		
1997	68.1	60.8	89.3	24.1
1998	78.7	69.8	88.7	25.5
1999	90.7	78.0	86.0	27.4
2000	104.6	90.1	86.1	29.5
2001	116.9	98.9	84.6	30.2
2002	130.2	108.0	82.9	30.6
2003	139.4	119.1	85.4	31.8
2004	148.5	126.8	85.4	32.4
2005	161.5	137.5	85.1	33.3
2006	174.7	150.5	86.1	34.5

Source: CSO National Accounts, 2007

The relationship between GDP and GNI in Ireland is exceptional among EU countries, with Luxembourg the only other country where the difference between the two measures is more than 10% of GDP (see Table 5.2). The table reflects the importance of foreign direct investment for the Irish economy. After Luxembourg, with a GNI/GDP

ratio of 81.8, the next seven lowest EU countries apart from Ireland had ratios in the range 92.8 to 96.8. These were all new EU Member States.

It is evident that Ireland almost doubled its GDP per capita between 1997 and 2006, undergoing gradual and steady steps towards convergence with the EU average. This is due to the structural changes that the Irish economy underwent during the last years; the structure of GDP relative to GNI reveals these transformations.

Table 5.2 EU: GDP and GNI at Current Market Prices, 2006

	€b	€b	%
Country	GDP	GNI	GNI as % of GDP
Denmark	220.1	224.2	101.9
Sweden	313.3	318.7	101.7
Netherlands	534.3	543.1	101.6
Belgium	316.6	320.5	101.2
Finland	167.0	168.7	101.0
Germany	2,322.2	2,344.4	101.0
France	1,792.0	1,805.8	100.8
United Kingdom	1,912.7	1,922.2	100.5
Italy	1,480.0	1,477.6	99.8
EU 27	11,621.7	11,598.9	99.8
Slovenia	30.5	30.1	98.9
Austria	257.9	254.6	98.7
Spain	981.0	964.2	98.3
Greece	214.0	210.1	98.2
Lithuania	23.7	23.2	97.8
Bulgaria	25.2	24.6	97.5
Slovakia	44.6	43.4	97.5
Latvia	16.0	15.6	97.0
Portugal	155.3	150.5	96.9
Cyprus	14.6	14.2	96.8
Romania	97.7	94.5	96.7
Poland	272.1	261.5	96.1
Malta	5.1	4.8	95.6
Estonia	13.2	12.6	95.4

Czech Republic	114.0	107.9	94.6
Hungary	89.9	83.5	92.8
Ireland	174.7	150.5	86.1
Luxembourg	33.9	27.7	81.8
Switzerland	309.1	337.6	109.2
Norway	267.9	266.9	99.6
Iceland	13.3	12.3	92.8
Turkey	419.2	318.3	75.9
Croatia	34.2	:	:
Macedonia, TFYR	5.0	:	:

Source: Euro stat, CSO National Accounts, 2007

Lisbon Agenda

At the European Council in Lisbon, in March 2000, the Heads of Government of the then 15 Member States of the EU agreed to undertake a new strategy aimed at strengthening the EU's competitiveness by 2010. The goal was '*to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*' (*The EU Services Directive, Directive 2006/123/EC*). This strategy involved economic reforms for a complete and fully functioning internal market, including "a strategy for the removal of barriers to services".

Implication of Inward Investment

The role of foreign-owned industry in Irish trade performance is clear as almost 50 per cent of Irish manufacturing employment is in foreign-owned firms and a higher than EU average share of Ireland's services sector is also under foreign ownership; OECD (2001). Thus Ireland was by far the most FDI-reliant economy in the EU (Barry, 2004). This section looks at whether inward FDI has been diverted away from Ireland by the European Union expansion and the possibility that the enlargement has posed a threat to Ireland's continued ability to attract FDI.

While Dunning (1997) states that each previous enlargement, as well as the development of the Single Market, stimulated an increase in FDI both from outside and

within Europe, there is evidence that Ireland might find it difficult to retain the FDI that has been a key driver of its growth.

The Irish Times of 25 May, 2001 reported that executives in the US technology and pharmaceutical sectors foresaw a shift in the focus of corporate America away from Ireland, Scotland and the Netherlands to countries like Poland, Hungary, the Czech Republic and Estonia in the event of accession, particularly since controls over corruption and the establishment of a transparent business environment are likely to be an integral element of that scenario.

Ireland does not differ substantially from a number of the new accession states in terms of corporation tax rates and the skill levels of the population, while labour costs in Central and Eastern European Countries (CEEC) are very much lower. Thus, possibility of FDI diversion must therefore be taken seriously.

Macro-environmental Context

The main reason for the success of the Irish economy in recent years is the stages of development in its macro-environment. As noted in earlier discussion, Ireland as a sovereign country and a member of the European Union maintains good standards of administrative capacity and in general offers a favourable investment climate. This has been demonstrated through a number of measures, most notably low corporate tax rates and a high degree of direct subsidies to business. Between 1980 and 2003 approximately €5.5 billion was spent on direct financial assistance by government agencies (Lenihan *et al.*, 2005, p. 70). It can be argued that this resulted in improved competitiveness and greater capacity of traded sectors to capture market share.

The macroeconomic environment is crucial to Ireland's performance as a country. Ireland witnessed a dramatic improvement in public finance; debt was reduced from 97.3% of GDP in 1991 to 38.6% of GDP in 2000 and a deficit of 2.9% in 1991 became a surplus of 4.4% in 2000. Because of its high growth, regaining control of public finance certainly proved less painful and less harmful for short-term growth than in other countries.

A number of factors have been identified to explain Ireland's economic growth in the 1990s and first part of the 2000s. Firstly, on the macro-side, stabilisation was indeed an important part of 'getting things right'. By the mid 1980s, the fiscal deficit had grown

to over 12% of GDP and the public debt ratio was approaching 120%. The recognition of the need to address these imbalances led to both the social pacts after 1986 and a process of fiscal consolidation achieved by the government reducing expenditure; over the 2-year period 1988–1989, the ratio of expenditure to GDP was reduced by 9%.

The pain of adjustment was eased both by EU funding and an improved external environment with reduced interest rates and improving demand (Lynch, 2005). Barry *et al.*, (2001) and Andreosso-O'Callaghan and Lenihan (2006) note that EU structural funding served three main functions: to upgrade infrastructure; to assist private sector development in investment, marketing and innovation; and to contribute to human capital development. All in turn should feed through to improved competitiveness. As Andreosso-O'Callaghan and Lenihan (2006) added, however, a key benefit was actually timing, with EU funding coming when the government was otherwise very financially constrained; 'in reality there was no other conceivable way that the Irish government could have provided the same degree of resources without putting its corrective macroeconomic policies under threat' (p. 297).

Barry *et al.*, (2001) also note the timing effect in the sense that EU funding allowed the reinstatement of infrastructure projects that had been postponed under the 1987–1990 fiscal contraction. This also ties in with comments by Fitzpatrick Associates (2006) that a key impact of structural funding was to release resources in the 'pre-Celtic Tiger years' to 'kick-start' investment in research, technology development and innovation at a time when it would not have been possible from national resources alone. Overall, the direct impact of EU structural funding assistance starting in 1988 is modest but should not be underestimated. One study suggests that the cumulative effects of funding may have been to raise the level of GDP by over 4% (Schweiger and Wickham, 2005, p. 50). Another suggests it added at least approximately 0.5 of a percentage point to GNP growth during the 1990s (Barry *et al.*, 2001, p. 549).

5.3.1 FDI Trends

The sample for this research was discussed in the methodology chapter. This section provides an explanation of the development of FDI in Ireland during the period of this research

Foreign Direct Investment into Ireland

The following section examining FDI trends into Ireland contains firstly an analysis of FDI by number of projects, jobs created and capital investment, followed by an analysis of FDI by the country of origin, sector and business activity.

Project Trends Analysis

Between 2003 and 2009 a total of 1075 FDI projects were recorded coming into Ireland, an average of 153 per annum (Table 5.3). The number of inward investment projects peaked in 2005 at 192 and declined in 2007 to 116 projects, a subsequent increase in 2008, followed by a decline in 2009.

Table 5.3 Project Trends Analysis – Ireland

Year	Number of Investments projects	% Growth
2003	130	
2004	132	1.54%
2005	192	45.45%
2006	146	-23.96%
2007	116	-20.55%
2008	183	57.76%
2009	176	-3.83%
Total	1,075	n/a
Average	153	

Source: The Financial Times Ltd, 2010 - FDIMarkets.com

Jobs Created Trends

The number of jobs created has followed the same pattern as the total number of FDI projects with 2005 having been an exceptional year for Ireland (Table 5.4). In 2007 the number of jobs created declined by over 50% to 9,598. This is a far greater decline than that seen in the number of projects. The type of projects Ireland attracted in 2007 changed from being labour intensive projects to higher value projects, which require less staff. From 2003 to 2009, the average number of jobs created was 17,541 per annum.

Table 5.4 Jobs Created Trend – Ireland

Year	Number of Jobs created	% Growth
2003	19,370	
2004	14,565	-24.81%
2005	27,592	89.44%
2006	19,232	-30.30%
2007	8,987	-53.27%
2008	19,586	117.94%
2009	13,460	-31.28%
Total	122,792	n/a
Average	17,541	

Source: The Financial Times Ltd, 2010 - FDIMarkets.com

Capital Investment Trends

The total capital investment into Ireland has followed a similar pattern with 2005 being an exceptional year (Table 5.5). 2007 saw the capital invested in Ireland decline by nearly 40% to US\$4.16 billion from 2006 levels. From 2003 to 2009, the average capital invested into Ireland was US\$7.0 billion per annum.

Table 5.5 Total Capital Investment Trend – Ireland (January 2003-December 2009)

Year	Capex US\$ Mn	% Growth
2003	6,640.20	
2004	8,407.32	26.61%
2005	9,525.37	13.30%
2006	6,832.09	- 28.27%
2007	4,168.82	- 38.98%
2008	8,213.37	97.02%
2009	5,024.53	- 38.83%
Total	48,811.71	n/a
Average	6,973.10	

Source: The Financial Times Ltd, 2010 - FDIMarkets.com

Major Sectors Investing In Ireland

The biggest sector in terms of types of project Ireland has attracted is Software & IT Services (Table 5.6). There have been 174 recorded investments in this sector, representing over 16% of overall investment projects into Ireland over the period of 2003-2009. Table 5.6 highlights the growth from 2003 and that this momentum was maintained with 32 projects in 2007. Financial Services is the second major sector of inward investment, with a higher number of projects occurring in 2008 compared to previous years.

Table 5.6 Major Sector Investments In Ireland (January 2003 to December 2009)

Sector	2003	2004	2005	2006	2007	2008	2009	Total
Software & IT Services	16	20	22	26	28	30	32	174
Financial Services	11	13	13	25	25	29	18	134
Textiles	5	8	30	9	7	17	26	102
Consumer Products	7	9	21	19	1	13	11	81
Pharmaceuticals	10	13	7	11	8	11	14	74
Business Services	6	10	14	10	6	18	9	73
Food and Tobacco	8	6	10	8	4	20	14	70
Communications	3	3	15	5	4	3	9	42
Hotels and Tourism	6	9	23	2		1	1	42
Medical Devices	4	6	3	6	4	8	6	37
Semiconductors	7	2	2	2	2	4	4	23
Industrial Machinery, Equipment and Tools	3	4	4	4	1	4	2	22
Real Estate	6	4	2	2	6	1	1	22
Consumer Electronics		3	10	1	2	3		19
Leisure and Entertainment	8	4	2	2	1		2	19
Biotechnology	2	1	2	1	2	3	4	15
Beverages	2	3	1	2		5	1	14
Automotive OEM	9		1	3				13
Transportation		1	1	2	2	1	5	12
Coal, Oil and Natural Gas	6	2				1	2	11

Electronic Components	2	1	1	1	2	1	2	10
Healthcare	1	1	1		2	4	1	10
Business Machines and Equipment		4	2	2		1		9
Alternative/Renewable energy		1				1	5	7
Chemicals	1			1	2	1		5
Paper, Printing and Packaging	2		1		1		1	5
Space and Defence		1			2	1	1	5
Warehousing and Storage	1	1		1	1		1	5
Plastics		1	2			1		4
Metals			1		1	1		3
Wood Products	2				1			3
Aerospace				1			1	2
Building and Construction Materials					1		1	2
Ceramics and Glass	1		1					2
Automotive Components							1	1
Minerals							1	1
Non-Automotive Transport OEM	1							1
Rubber		1						1
Overall Total	130	132	192	146	116	183	176	1,075

Source: The Financial Times Ltd, 2010 - FDI Markets.com

Major Companies Investing in Ireland

In terms of the major companies investing in Ireland, pharmaceuticals companies dominate the list of the top ten investors in terms of the number of FDI projects (Table 5.7), including Intel and IBM, as highlighted in Table 5.7. Additionally Appendix 5.2 contains a list of all key FDI investors in Ireland for the period of 2003-2009; these included Pfizer, JandJ, Amgen, Genzyme, Eli Lilly and GSK responsible for many of the largest projects.

**Table 5.7 Major Companies Investing In Ireland - Top Ten Investors
(January 2003 to December 2009; Number of Projects)**

Company	Source Country	2003	2004	2005	2006	2007	2008	2009	Total
Tesco	UK	3	3	7	1	2	9	2	27
Marks and Spencer	UK	3			6	2	2	2	15
IBM	USA	1	2	1	2	3	3	3	15
Royal Bank of Scotland (RBS)	UK			1	1	8	5		15
DSG International (Dixons)	UK		1	10	1	1	1		14
Carlson Companies	USA	3	7	2	1				13
Aldi Group	Germany	2			1	1	4	5	13
Carphone Warehouse Group	UK	1		8	1	1		1	12
Intel	USA	3	1	1		1	1	2	9
Harvey Norman	Australia	2		1	6				9

Source: The Financial Times Ltd, 2010 - FDIMarkets.com

Projects by Business Activity

Examining the type of projects Ireland has been attracting in more detail, Retail has accounted for the largest number of projects with 282 since 2003, Table 5.8. This represents over 26% of the total inward investment projects into Ireland. However, in 2007 the number of retail projects fell by 60%, which was largely responsible for the overall decline in inward investment projects including jobs and amount of investment in 2007. In 2008, the fastest growing sector with 29 projects was Manufacturing, which declined again in 2009.

Activities in Research and Development, Design, Development and Testing combined witnessed year on year growth since 2003, reflecting the growing attractiveness of Ireland for knowledge-based industries.

Table 5.8 Top Ten Industry Business Activity - Project Numbers

Business Activity	2003	2004	2005	2006	2007	2008	2009	Total
Retail	27	32	76	38	14	44	51	282
Business Services	9	12	13	23	25	38	17	137
Sales, Marketing and Support	11	11	11	27	24	19	25	128
Manufacturing	25	17	19	13	11	29	13	127
Headquarters	5	15	10	13	10	12	20	85
Research and Development	8	11	7	11	9	8	11	65
Construction	10	11	23	3	1	5	2	55
Design, Development and Testing	2	2	7	4	10	14	14	53
Customer Contact Centre	11	5	8	5	1	3	5	38
Logistics, Distribution and Transportation	9	2	2	3	5	5	3	29
Shared Services Centre	6	4	7	2	1	1	3	24
Technical Support Centre		4	6	1	2	2	6	21
ICT and Internet Infrastructure	3	2	3	2	2	2	2	16
Electricity	1	1					4	6
Education and Training		2		1	1	1		5
Extraction	3	1				1		5
Overall Total	130	132	192	146	116	184	176	1,075

Source: The Financial Times Ltd, 2010 - FDImarkets.com

FDI Projects by Source (Origin) Country

Examining FDI projects by the source (origin) of investment, we see that the USA accounts for the largest number of investments with 418 projects from 2003-2009 Table 5.9, representing over 38% of total investment projects into Ireland over this period. The state of California accounts for the largest number of US originated projects, with 101 from 2003-2009 reflecting the strength of Silicon Valley. California alone accounts for over 24% of the total number of investment projects from US into Ireland over this period. The second and third source countries are both European, namely, UK and Germany, although the number of projects from the UK has declined slightly in 2007 then increased again in 2008 and 2009. The number of projects originating from Switzerland increased significantly in 2009: from a zero base in 2006 to 7 projects in 2009, the country with the highest growth rate since 2003 of FDI projects into Ireland.

Table 5.9 FDI Project - Country of Origin

Source Country	2003	2004	2005	2006	2007	2008	2009	Total
USA	44	59	71	61	43	77	63	418
UK	39	42	68	45	38	53	49	334
Germany	11	1	3	4	5	14	14	52
France	1	4	5	6	4	3	5	28
Canada		5	7	2	6		3	23
Netherlands	4	3	3	1	1	7	3	22
Japan	4	3	2	3	2	3	5	22
Australia	3	2	3	6	1	2		17
Sweden		2	5	1	2	2	3	15
Belgium			5	1	5	2	2	15
Spain		2	7	2			3	14
Italy	5	2				2	5	14
Switzerland	2	2	1		1	1	7	14
South Korea	8		1		1		1	11
Denmark			1		1	3	3	8
Bermuda	1		1	1	2		3	8
Hong Kong	1	1	1	1	1	1		6
Iceland			2	2		1	1	6
Norway	1	1	2	1				5

Turkey	1	1	1	1				4
Other Countries	5	2	3	8	3	13	6	40
Overall Total	130	132	192	146	116	184	176	1,075

Source: The Financial Times Ltd, 2010 - FDIMarkets.com

5.3.2 Historic Development of Irish FDI

This section reviews the historic events of the past century which contributed to initiating the boom in Ireland's economy and the factors responsible for sustaining it.

Foreign Direct Investment had a crucial role in Ireland's development, including an interventionist industrial policy, which has targeted certain sectors in attracting FDI. It has also recognised the limitations of FDI-based growth and has sought to better link foreign and domestic firms, while pursuing at the same time the development of indigenous capabilities and improvements in entrepreneurship, labour skills and research and development.

Table 5.9 highlight the historical development and events, which initiated the boom in Ireland's inward foreign direct investment during the 1990s. These factors can be classified as (1) inherited factors, over which the Irish authorities of the past two decades had little near-term control; (2) policy factors, for which the authorities were largely responsible; and (3) external events.

The most recent events in Ireland's development strategy contributed to the more complex dynamics in the study of FDI in Ireland and to the analysis of the factors behind the highs and lows in its inward foreign direct investment. These factors led to complexity in studying the development of the Irish economy. Therefore bridging the two literatures became essential in order to explain the development of Irish FDI and the behavioural motivations of multinationals locating in Ireland.

Table 5.9, in addition to addressing major external and internal events that influenced the level of investment in Ireland, also provides a historic account of how the SM and IB literature has developed in the same timeframe as Ireland's development. The table

provides a snap-shot of the period, level of FDI, the economic development witnessed in Ireland and the progress of the SM and IB literature.

It is important to note that, as evident from the table, since 1950 the literature starts developing rapidly in parallel with the rapid change in trade and economic activities in Ireland. The rationale for developing table 5.10 is that it provides three main benefits and insights;

1. A framework to track the evolution of FDI in Ireland in parallel with the evolution of the two literatures.
2. The evolution of FDI into Ireland, the introduction of protectionist trade policies in the 1930's resulted in low levels of FDI. However, the establishment of the IDA in 1949, the emergence of the common market in the 1950s and the switch from protectionism to the outward orientation in the 1960s resulted in moderate levels of FDI into Ireland. Industrial policy designed to attract foreign investment in the 1970's and early 80s resulted in high level of FDI into the country²¹.
3. It gives a visual link of the development between the SM and IB frameworks within the literatures (already discussed in detail in the literature chapter).

Coase's theory of the firm (1937) was developed alongside Iversen's Arbitrage theory (1935). Penrose's RBV theory (1959) was developed alongside Hymer's industrial organisation theory (1960) on the location investment of MNE. Porter's (1980) Theory of Competitive Advantage was developed alongside Williamson's (1973) internationalisation theory and Dunning's (1986) IDP. Wernerfelt's (1984) work on RBV firm-specific advantages was developed alongside Rugman's (1981) FSA and new trade theory. In Porter's (1990) developed the Diamond alongside Rugman's (1990s). This was developed alongside the globalisation literature which has expanded as a branch of the IB literature in recent years.

²¹ Although investment was low to moderate due to the recession of the late 1980s, investment in infrastructure and a programme of national recovery resulted in very strong investment during 1990s.

Table 5.10 Historic and Timeline Development of Major Influences on Ireland's Economic Development and FDI.

Date/ Timeline	Events/Decisions/ Development	External Activities/ Developments	Investment Trends	Strategic Management Framework for Analysing Firms Activities	International Business Framework for Firms Analysis
1932 to early 1960s	<ul style="list-style-type: none"> - New Government - Introduced protectionist and self-sufficiency trade policy <p>Anglo-Irish Trade War 1932-1938</p>	<ul style="list-style-type: none"> - Protectionist policies were in place: high tariffs, bans on majority foreign ownership in industry, and the establishment of state-owned enterprises in areas such as power generation, shipping, banking, and insurance. - The 'Control of Manufactures Act' was passed in 1934 demanding that at least half the issued capital 	Low	<p>One of the first developments within the SM literature for the explanation of emergence of MNE is the 'Theory of the firm' which is the work of Coase (1937). The main argument behind his approach relates to the efficiency of transactions between distinct units of productive activity.</p>	<p>One of the first developments within the IB literature was the 'Arbitrage theory' of international investments which emerged in the late thirties from the work of Carl Iversen (1935). In Arbitrage theory framework of analysis there is clearly no role for the MNE. FDI resulted from capital flows from one country to another, at that point there was no firm level the conceptual frameworks considered or existed.</p>

		and two-thirds of the capital with voting rights of new Irish companies had to be in Irish hands. Furthermore, a majority of the managers had to be Irish.			
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1949	<ul style="list-style-type: none"> - Establishment of 'The Industrial Development Authority' (IDA) 	<p>To assess investment decisions and promote new investments; had an outward focus</p> <ul style="list-style-type: none"> - IDA plays active role in soliciting foreign investment and provided substantial subsidies for many firms in the form of non-repayable capital grants, ready-made facilities, training and research-and-development 	Low	<p>The first published market experiments of <i>theories of industrial organisation and market performance</i> were those of Edward H. Chamberlin (1948)</p> <p>He explored the behavioural characteristics of markets and thought that the principles of monopolistic competition would be more useful than demand and supply in explaining the observed behaviour.</p>	
1950's to early 1960's	<ul style="list-style-type: none"> - Protectionist policies continued - Economy 	<ul style="list-style-type: none"> - Mid 1950s, the emergence of the Common Market (even though Ireland was 	Moderate	<p>The Resource-based View theory (RBV) emphasises the idiosyncratic resources and unique capabilities of firms first</p>	<ul style="list-style-type: none"> - Criticisms of neoclassical or Marxist macroeconomic led to the emergence of theories in International production and

	<p>stagnated, emigration soared</p> <ul style="list-style-type: none"> - Recession severe, balance of payments difficulties, and emigration. <p>Foreign trade remained tied in large part to the United Kingdom</p>	<p>not a member at that time)</p> <ul style="list-style-type: none"> - Significant change in government attitudes. - Ireland decided to switch from protectionism to outward orientation - first shift towards free trade - Foreign investment, particularly in exporting industries was welcomed. - In 1956 new investors' export-derived profits were made tax free for a fifteen-year period. - Restrictions on foreign ownership of industry were phased out - In 1958 a new era of industrial growth began. <p>The Control of</p>		<p>can to light through Penrose 1959 thesis.</p>	<p>trade.</p> <p>Heavily influenced by the work of Bain (1956), Hymer, (1968) focused only on explaining the location of investments within the boundaries of nation or industries. What makes the work of Hymer so distinct in the IB literature is his acknowledgement of the existence of individual firms, i.e. MNEs, as the driving forces of FDI.</p> <p>Hymer (1960/1976)</p>
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		<p>Manufactures Acts was repealed. The title of the act was changed from the Repeal of the Control of Manufactures Acts to “the Encouragement of External Investment’ Act (Garvin, 2004). Foreign-owned companies were encouraged to set up manufacturing facilities in Ireland and were more adept at spotting these opportunities than the Irish firms themselves. The bulk of grants paid by the IDA under the New Industry Grant Scheme went to foreign companies.</p>			
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1965	- New government	- FDI became significant as promotion of FDI as a key industrial policy	Moderate	Yes	<p>Stephen Hymer (1960/1976) applied firm's theory within its industry and therefore establishing the determinants of internationalisation. He advanced explanations for FDI and MNEs significantly. His thesis, neoclassical trade and financial theory described the economic environment as frictionless, before then companies were competing in perfectly competitive markets, no transaction costs existed, he acknowledged firms responses to changes in interest rate differentials.</p> <p>Hymer's dissertation represents a turning point in International economics literature.</p>
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1966	- The Anglo-Irish Free Trade Agreement	- Aimed to liberalise trade with the UK as the country's major trading partner of the time.	Moderate	Yes	
1969	- Policy focused towards regional development	- Effort to entice foreign, in particular American, investment in Ireland began to show measurable results by the end of the 1960s. - During the decade, 350 foreign companies were established and rapidly became leaders in the export sector	Moderate/ High	Kindleberger's (1969) interpreted and related Hymer's explanations to industrial organisation theory. MNE was seen not as agent involved in oligopolistic interaction with other firms, but as a result of monopolistic competition in differentiated products. This brought by another dimension to the explanation of firms' activities and behaviour.	
1960's to 1973	- Ireland saw an emergence of strong economic	- This was a result of industrial policy combined with strong fiscal and	Moderate/ High	Yes	After 1960s the emergence of capital flows between developed countries was the classic reason

	growth.	financial incentives to both inward investment and indigenous enterprise, this approach has continued to this day			for those countries to engage in international production.
1973	- Ireland joined the European Common Market	<p>- Joining the EU resulted important structural and psychological changes for the country at all levels</p> <p>- Immediate impact was a boom in agriculture as Irish exports gained free entry into a vastly expanded market at attractive prices</p> <p>- Ireland was positioned to reduce its historic dependency on the UK market</p> <p>-Foreign investment</p>	Moderate/ High		<p>Internationalisation theory: The literature on internationalisation began to develop quickly following Hymer's dissertation and the need for country and firm level analysis.</p> <p>For Williamson (1973) the Internalisation theory deviates from the traditional neoclassical approaches of trade and investment by adding into the analysis the transaction costs of such activities. The relative transaction costs between</p>

		continued to grow			exchange through the market or through the Internalisation of the market define the way MNEs behave. The formation of a multinational network may take various shapes across a formation matrix, from a globally integrated MNE where the control is centralised and hierarchical within the group (Williamson, 1973); to a large decentralised MNE where control is at the lowest level (Rugman, 1981).
1973 – 1980	- Domestic factors and European integration produced a deep economic,	- Foreign investment continued to create jobs. - In 1978, the Irish government negotiated a very favourable “compromise” with the	Moderate/ High	Hymer and Kindleberger view (1976), asserted the RBV theory view in which host country location must offer firms benefits that overcome the inherent disadvantages of operating in an	Buckley and Casson (1976) introduced transaction costs in the international operations of firms. Internalisation of markets was addressed systematically in their (1976) book entitled “The

	<p>social and political crisis</p> <ul style="list-style-type: none"> - High inflation due to loose fiscal and monetary policies and the rise in international oil price - Irish government's foreign borrowing and unemployment rose - Irish economic performance, compared to that of other 	<p>European Commission that enabled it to make a twenty-year commitment to a 10 percent corporation tax rate on <i>all</i> manufacturing, while still honouring the zero-rate, twenty-five-year commitments made to earlier investors</p>		<p>unfamiliar setting.</p> <p>Both Teece <i>et al.</i>, (1997) and Nelson and Winter (1982) took an efficiency approach to firm performance rather than a privileged market position approach (the latter being the underpinning for Porter's (1980) Theory of Competitive Advantage). They both emphasise internal factors of the firm rather than external factors as sources of competitive advantage. Also like Nelson and Winter (1982), Teece <i>et al.</i>, (1997) highlighted the importance of path dependencies and the need to reconfigure a firm's resources to</p>	<p>Future of Multinational Enterprise".</p> <p>An overall framework for FDI was developed by Dunning's (1977) OLI-theory which discusses the necessary conditions for FDI to take place.</p> <p>Dunning's also developed his eclectic paradigm (1979); it is a provision which relates to the theory of international production, the paradigm which offers an overall analytical framework for empirical investigation through the 'OLI' advantages.</p>
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	European countries, was well below average			enable the firm to change and evolve.	
1980 to 1987	<p>- Ireland had a period of prolonged recession.</p> <p>- Proximate cause of the crisis was due to the international recession, domestic fiscal correction and disinflation.</p> <p>- Government's budget deficit averaged 12 percent of Gross</p>	<p>- Foreign investment inflows slackened significantly because of a general slackening in investor confidence in European Community in general.</p>	Low/ Moderate	<p>Porter's (1980) theory of competitive advantage.</p> <p>Other dimension the RBV theory:</p> <p>(Lippman and Rumelt, 1982) looked at causally ambiguous knowledge assets as hard to imitate because the link between the economics of the resource and its performance is not easily defined</p> <p>Wernerfelt (1984), looked at the position of managers</p>	<p>Dunning (1986) made further elaboration through the Investment Development Path (IDP) by explaining the character and composition of investments at each stage of IDP.</p> <p>This traditional explanation of MNEs was developed in Rugman (1981, 2006) and Rugman and Verberke (2001). Where a set of firm specific factors determine the competitive advantage of an organisation. Rugman (1981, 1996, and 2006) defined the firm-specific advantages (FSAs). An</p>

	<p>Domestic Product (GDP) in the first half of the 1980s.</p> <p>Concerns about the country's creditworthiness began to spread to international investors.</p> <ul style="list-style-type: none"> - Government report in 1982 found that IDA policy was "overly generous towards multinationals" - In 1985, the government 			<p>The RBV conceded the role for managers in perceiving opportunities, matching them to the available resources and, within limits, augmenting the latter with additional resources as are necessary to implement its strategy.</p> <p>Teece (1982), Caves (1996), and Zaheer (1995) looked at firm-specific capabilities as the new competitive conditions of the host country, which can place a demand on the firm to reconfigure existing capabilities or acquire new capabilities.</p>	<p>FSA Is defined as a unique capability proprietary to the organisation (Chapter 8, Rugman 1981, 2006). Where the FSA may be built upon asset or product or process technology, marketing, or factor endowment, especially natural resources.</p>
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	decided to decontrol (deregulate) of both fares and flight frequencies between, Ireland–UK routes:				
1986/1987	<ul style="list-style-type: none"> - New government - Drastic change in fiscal policy in the face of high unemployment rates and growing concerns about the country's 	<ul style="list-style-type: none"> - Transformation of the Irish new telecommunications system. - Engineered substantial cuts in planned government spending - Introduced 'The Social Partners Agreement' - Negotiated the 	Low/ Moderate	Wernerfelt (1984) looked at firm-specific characteristics as critical to understanding the behaviour of firms regarding direct investment in any targeted country. Where there is difficulty in internal development, a firm can meet demands for new capabilities by entering dynamic markets, such as, forming	The new trade theories looking at international investments emerged from two separate perspectives. One strand supports the ideas that multinationals emerge endogenously due to imperfect competition and vertical product differentiation. Helpman (1984), Helpman and Krugman (1989).

	<p>finances.</p> <ul style="list-style-type: none"> - When Ireland joined the EU, it was one of the poorer members, and much has been made of the country's access to the EU's various financial transfer programs. - Some of the uses to which transfers were put in Ireland, particularly in the education 	<p>Programme for National Recovery to run from 1987 to 1990 (among government, unions, employers, and farmers)</p>		<p>strategic alliances or joint ventures or through purchasing the required capabilities bundled in a firm.</p>	<p>Flam and Helpman (1987) are the main delegates of this strand. The second vein corresponds to the economic geography of MNEs and the work of Krugman (1979), Markusen (1984), Dollar (1986) and Jensen and Thursby (1986). As the geographical distribution of FDI and the interrelation of locational to firm-specific advantages were almost neglected from the literature at this point. This second strand comes as a response to the failure of formal trade theory to provide a rational as to why MNEs exist at all.</p>
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	<p>sector, which dovetailed well with other initiatives.</p> <p>- Ireland has under gone major investment program for the telecom sector.</p>				
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1990s	<ul style="list-style-type: none"> - Favourable fiscal-policy reforms - Ireland felt the effect of Program of National Recovery and Globalisation -EU transfers played an important role in the economic performance of the 1990s. - Growth employment of foreign firms - EU Transfers were used in 	<ul style="list-style-type: none"> - Ireland has been one of the fastest growing economies in the European Union and OECD. Ireland average growth was over 8% p.a. in the late 1990s. - High employment in sectors such as was “insurance, finance, and business services,” in which much of the growth around 75% was internationally related. An important part of this activity is the “back office” work for major international banks, which determined that Ireland has the necessary human 	Strong/ High	<p>Further development within the RBV literature has seen the creation of a number of sub-fields such as core competences theory and dynamic capabilities theory. Different concepts have emerged from the RBV such as, resources, competences, capabilities, dynamic capabilities and core competences</p> <p>Wernerfelt (1984), Barney’s (1986, 1991) and Peteraf’s (1993).</p> <p>Teece, Pissano and Shuen (1997) suggested that firms could achieve and sustain competitive advantage by developing strong dynamic capabilities.</p>	Globalisation literature developed further and the new rules for multinational investment (Rugman and Grestin, 1997)
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	<p>Ireland, particularly in the education sector. By 1993, the share of science and technical graduates in the twenty-five to thirty-four age group of the labour force in Ireland was the highest of the twenty five OECD countries.</p> <p>- Ireland saw a rapid expansion in labour supply,</p>	<p>resources, communications infrastructure, and tax regime to provide an excellent location for pan-European operations.</p>		<p>Porter (1990) developed the diamond, where the country-specific advantages (CSAs) form a basis of the global platform from which the multinational firm derives a home-base “diamond” advantage in global competition.</p>	
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	<p>in part through net inward migration.</p> <p>The demographic shifts Ireland has experienced are unique within the EU, with an even balance between natural growth and migration (Salt, 2005, p. 49).</p>				
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5.3.2.1 Recent History

Overall, the current decade has been characterised by geopolitical risks and crisis in international markets such as the oil markets and also environmental concerns. These developments brought new challenges for firms and countries and consequently new perspectives on competitiveness; MNEs adjusted to evolving globalisation and created better linkages between their corporate strategy, structures and competences within the socio-economics of host and home countries which has benefited both. The company's motivations, capabilities and resources that initially lead to investments abroad are influenced by the host country's business environment and competitive position. However, as the business environment and the host country's competitive position changes²², their ability to respond to the changes and to adopt an emergent strategy which is timely and accurate determines their corporate competitiveness. All these factors have resulted in many changes to inward FDI into Ireland. In some cases this led to some MNE firms becoming 'transient' and leaving Ireland.

Table 5.11 provides a framework for mapping the evolution of FDI in Ireland in parallel with the evolution of the two literatures over the past decade. The table presents external and internal events that influenced the development of Ireland's economy and inward FDI. The developments include government policies, which continued to focus on attracting FDI; Ireland's further integration into the EU and the adoption of the single European currency; expansion of the EU as new countries joined and the rejection of the Lisbon treaty in 2008. Up until that point, Ireland continued to see very strong economic growth and inward FDI. However, following the financial crisis of 2008 Ireland was hit by economic difficulties and has since seen slower FDI growth and the exit from the country by some MNEs. Ireland endorsed the Lisbon treaty in 2009 and has taken many austerity measures to help its economy to recover.

Table 5.11 demonstrates the continued development of the RBV theory within the SM scholars and recognition for the theory by the IB scholars as a relevant to analysis of FDI (Johanson and Vahlne, 2003, 2006). Concepts such as knowledge-based view, capabilities and dynamic capabilities were explored further by the literature (Englehardt and Simmons, 2002; Helfat and Lieberman, 2002; Uhlenbruck et al., 2003; Teece et al., 1997, Teece, 2007). Furthermore, knowledge based FSAs and managerial capabilities were used to explain the behaviour of firms for foreign entry modes. (Lockett and Thompson, 2004; Rugman and Verbeke, 2002, 2004). The table provides an account

²² The need to respond to environmental pressures or the re-engineering process due to geopolitical changes and crisis.

as to how the SM and IB literature has developed at the same time as Ireland developed, thus given the complexity of the development it no longer suffices to use one set of literature to understand MNEs behaviour.

Table 5.11 Recent History 2000 - 2009. Development of Major Influences on Ireland's Economic Development and FDI.

The Literature Developments Demonstrate That No Single Stand Is Sufficient To Understand Changes To FDI Flows And MNE's Activities

Date/ Timeline	Events/Decision s/ Development	External Activities/ Developments	Investme nt trends	Strategic Management Framework for Analysing Firms Activities	International Business Framework for Firms Analysis
2000:	<ul style="list-style-type: none"> - Ireland had an income per capita of two-thirds that in the UK in 1990, reaching parity with the UK and EU average by the year 2000. - Ireland adopted the Single European Currency - IDA and 	<ul style="list-style-type: none"> - High growth in FDI especially in software, semi-conductors, Pharmaceutical and banking sectors 	Strong/ High	Key gaps identified in the RBV literature centre on the difficulty in identifying which resources are associated with FDI decisions and which characteristics make them valuable; the failure to link research on RBV with environmental and industry context; the failure to identify the link between specific firm resources and capabilities with the ability to create and implement firm strategies; and the lack of research at the resource level, rather than at aggregate firm level.	

	government industrial policies continued to focus on attracting FDI				
2001	<p>- June 2001: The Nice Treaty, to add new EU members from Eastern Europe, failed in a referendum, blocking its EU approval until Irish voters approve.</p> <p>- Events of</p>	- FDI growth continued in Ireland	High	Both RBV and OL were recognised as relevant concepts for research into Foreign Direct Investment and internationalisation, since they account for the history of a firm and how it adapts to a dynamic environment (Fey and Denison, 1999; Spicer et al., 2000; Makadok, 2001; Uhlenbruck et al., 2003).	The RBV theory and IB theory both advocate the employment of under utilised resources in new markets or businesses in order to increase their economies of scope. Two measures of ex-ante competitiveness are technology and management skill (Johanson and Vahlne, 2003, 2006), which fit into the RBV as tacit knowledge that has been used to explain diversification (Chatterjee and Wernerfelt, 1991) and into IB theory as intangible resources that create

	September 11 th – terrorist attack on US				monopolistic advantages (Caves, 1971), which may facilitate cross-border investment.
2002-2003	- Following September 11 th - January 2002: The euro replaced the punt as Ireland's official currency. October 2002: Irish voters	Small dip in FDI followed by an increase	High	Further research was conducted on the Knowledge-Based View. The role of knowledge became integral in internationalisation. Given that organisational capabilities are the basis for competitive advantage (Sharma and Vredenburg, 1998; Kusunoki, Nonaka, and Nagata, 1998), and given that capabilities are based on the ability to use resources	Further research was conducted on the FSA's (Rugman and Verbeke, 2003) These can be technology based, knowledge based, or they can reflect managerial and/or marketing skills. Petersen et al., (2003) highlighted that knowledge plays a far more complex role than assumed in

	finally approved the EU's Nice Treaty.			<p>to achieve organisational goals (Amit and Schoemaker, 1993; Helfat and Lieberman, 2002).</p> <p>In addition, the literature refers to the notion of strategic flexibility, in a sense; continuously changing market conditions require the development of strategic flexibility (Hitt et al., 1998; Englehardt and Simmons, 2002; Uhlenbruck et al., 2003). Strategic flexibility has been defined as 'the capability of the firm to pro-act or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage' (Hitt et al., 1998, p. 9).</p> <p>The development, integration, and transfer of knowledge should be</p>	<p>internationalisation models of the 1980s and they note how this partly explains the emergence of a new phenomenon in internationalisation—the “Born Global” phenomenon.</p>
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				regarded as a critical aspect of strategic management of internationalisation (Johanson and Vahlne, 1990, 2003, p. 90).	
2004 - 2005	- Continued growth - Ireland becomes the second richest country in the EU in GDP per capita terms and has resulted in the lowest unemployment rate in the EU-25: at approximately	Three factors are responsible for the growth include; (1) inherited factors, over which the Irish authorities of the past two decades had little near-term control; (2) policy factors, for which the authorities were largely responsible; and (3) External events. It is also useful to distinguish between factors responsible for initiating	Strong /High	To overcome the problems associated with tautology, Lockett (2005) identified two central tenets that run through Penrose's (1959) work which are path dependency and firm heterogeneity. "Building on these tents, the central hypothesis of the RBV can be re-specified to state that behavioural differences between firms arise because of historically determined differences in the firm's resource endowments" Lockett (2005).	Dynamic RBT, and aimed to explain the behaviour of firms over time in terms of, for instance, foreign entry modes. (Lockett and Thompson, 2004; Rugman and Verbeke, 2002, 2004).

	<p>4.5% during 2006 (Euro stat, 2006).</p> <p>- New countries joined the European Union with an infrastructure similar to Ireland – possible competitors for FDI</p>	the boom and those responsible for sustaining it.			
2006-2009	<p>- High inflation in Ireland</p> <p>- Difficult economic conditions</p> <p>- Government continued to</p>	- FDI growth continued but new phenomena of transient MNE's	High in some sectors plus transient	The literature recognised that the RBV has developed beyond its original formulation as an approach to sustainable competitive advantage into more dynamic conceptions of the RBV such as capabilities and dynamic capabilities	Meyer (2006) looked at Firm growth and diversification which arise from the internal processes of resource accumulation and redeployment.

	<p>pursue favourable Industrial policies to attract FDI</p> <p>- June 2008: Irish voters overwhelmingly rejected the Lisbon Treaty, based on such concerns as sovereignty, possible tax harmonisation, neutrality.</p> <p>- October 2009: Irish voters strongly endorsed the</p>			<p>theory (Collis, 1994; Teece et al., 1997, Teece, 2007).</p>	
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	European Union's Lisbon Treaty - 16 months after their first vote rejecting it plunged EU reforms into deadlock.				
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5.4 Conclusion

This chapter has presented the reader with an overview of how Ireland developed and the working of its industry and government. It described and interpreted Ireland's transformation from a weak peripheral economy to a high-technology manufacturing and advanced services economy. It describes the external (macro-environmental and industry) and internal (governmental industrial economic strategy and social) context.

The chapter described Ireland's European integration and internationalisation progress. It outlined the background to the country's development history and strategy, the developments of the past decade, particularly the strengths and weaknesses of the outward-looking strategy adopted in the late 1950s. It described the deep economic, social and political crisis of the 1980s, tracing it to both domestic pressures and the effect of European integration. It also outlined the new perspective on internationalisation and the social partnership approach developed in the late 1980s and pursued through the 1990s. The chapter also provided a report on foreign direct investment activities for the period of this study (2003-2009).

This chapter has provided an understanding of the internal (Ireland) literature (SM and IB) context for multinational FDI in Ireland. As Ireland developed throughout the years the two literatures have also developed in order to explain what is happening not only in Ireland but in other locations as well, thus the need to bridge the two literatures. The next three chapters present the findings and the analysis for the research questions and propositions.

6 Chapter 6 Analysis of Themes and Patterns for Country Determinants

6.1 Introduction

The chapter provides thematic detailed analysis of respondents' answers to gain an understanding of the motivations for foreign direct investment decisions related to Ireland. The chapter will address RQ2 of this thesis, "What are the main motivations for firms locating into Ireland?"

This is the first part of the empirical analysis; it will discuss the key elements of the analysis and factors that attract firms into Ireland irrespective of the firm characteristics. As discussed in Chapter 3, this period was highlighted as a boom investment period and Ireland emerged as a major investment location for multinationals. Those factors are quotations and passages from the investment projects examined in this thesis, in which firms identified as key factors that attracted them to Ireland. During the coding of the documents, the most populated tree nodes were identified and selected to assist with the analysis (see Appendix 6.1 for a full summary of the coding output from Nvivo). Thus, the structural and economic factors for the country-specific advantages most populated nodes²³ are analysed to determine attractiveness and characteristics of the Irish location.

The expectations with regard to the findings are linked to the literature and the conceptual framework discussed in Chapters 2 and 3 and with the Irish policy perspective, as discussed in Chapter 5. For the empirical analysis, the expectations comes from two areas:

- i. Policy perspective and data as discussed in Chapter 5: the Irish government undertook many projects including the establishment of the IDA and the development of the education system. The analysis of popular nodes below will reveal whether the government's initiatives, as discussed in Chapter 5, is mirrored and is reflected in the behaviour of companies. It will determine whether government policies had any influence on firms' motivations and how Irish government policies are actually reflected in the company motivations, as indicated in the documents.
- ii. The literature: by relating to the literature and examining other studies and applying the key concepts to Ireland. This chapter will relate to key studies that

²³ The populated nodes were discussed in section 4.9 of Chapter four and illustrated in table 4.3.

identify locational attraction factors and then discuss them from the firm's perspective. Specific references will be made to and quotations from the documents will be selected from each factor to strengthen the argument and the analysis. As this is a deductive approach the discussion will be led by the expectations from the literature followed by the quotations, which will in their turn mirror the literature.

It can be concluded from the data analysis in this research that the factors primarily contributing to the attractiveness of Ireland as an investment location for multinationals can be categorised as structural and economic infrastructure policy related ones.

The structural factors include Ireland's young population relative to other European countries, its language, its geographic location and its membership of the European Union combined with its openness to foreign investment.

The policy factors include good education, transport, telecommunication, technology systems and most importantly the industrial policy decisions, including the development authorities support of foreign firms operations. The IDA has played a critical role in attracting FDI into Ireland, as highlighted in foregoing chapters. Furthermore, the policy initiatives such as low corporate profit tax rates, education and training policy and the infrastructure investment program, for example, the restructuring of the telecommunications sector, are all factors that contributed to the attractiveness of Ireland as an investment location.

6.2 Analysis of Location Factors - Country Specific Advantages

As discussed in Chapter 5, Ireland has been one of the fastest growing economies in the European Union and the OECD since the 1990s. Underpinning its economic transformation is the role of the government's outward-looking industrial policy, European integration, macroeconomic stabilisation, and the role of telecommunication and transport systems (O'Donnell, 1998). The section examines Irish FDI locational determinants and the expectations for this analysis and is associated with Chapter 5. The focus is on the popular reasons identified by the data as the main determinant for country specific advantages. These include the role of the development authority, followed by domestic and regional market growth, industrial government policy, infrastructure and skilled workforce.

The literature review chapter discussed the relationship between MNEs foreign direct investment motivations and host country resources. Building on the country-specific advantages forms a basis of the global platform from which the multinational firm derives a home-base “diamond” advantage in global competition (Porter, 1990). A firm makes decisions about the expansion and efficient global configuration and coordination between segments of its value chain (operations, marketing, R&D, and logistics) in order to gain and retain competitive advantages. The skill in making such decisions is represented and linked to the firm’s resources including its capabilities and core competences as part of the firm-specific advantage (FSA). The FSAs form bases for its internationalisation and expansion strategy, including production knowledge, managerial, marketing, the customisation of services (Rugman, 1981; 2006). This section will effectively provide analysis of the CSA as important factors for investment in Ireland. The rationale for the investment is taken from the firms that invested over the period of 2003-2009. From the 98 documents, the regional location and skilled workforce were identified as main factors that link the CSA with the firm decision to invest.

The remainder of this chapter will approach the analysis of the location determinants by listing them in order of the frequency with which they were mentioned. The analysis will start with the determinant, which was mentioned the most, following the manner in which the firms ordered them (see Table 4.3). Thus, the following section will commence by discussing the most frequently mentioned location determinant. The ordering is: skilled workforce (frequency of mention 57); domestic and regional market growth (frequency of mention 50); development authority (frequency of mention 33); industrial government policy (frequency of mention 32); infrastructure - technology, transport, telecommunication (frequency of mention 21).

6.2.1 Skilled Workforce

Education has been at the heart of the Irish government development policy since the 1960s. As discussed in the literature review chapter, knowledge development capacity and intellectual capital coupled with the strategic choice enhances firm performance (Child, 1972). Ireland’s education system is tightly integrated with the country’s FDI-orientated development strategy (Barry, 2007). One study highlighted a good education and the quality of the workforce as part of a country’s infrastructure (Bailey *et.al*, 2005). This section discusses skilled workforce (human capital) due to its high importance as a CSA.

A key incentive for firms to locate in Ireland has been the high-skilled and low cost characteristics of the Irish workforce (Bailey *et.al*, 2005). In 2002, wages in Ireland were half the European average with a younger, better-educated English speaking workforce (IDA, 2002). Ireland had realised a comparative advantage in terms of its competitive labour force. This competitiveness can be traced back to wage agreements achieved under the Programme for National Recovery in 1987. Under the agreements workers agreed to accept lower wages in return for tax cuts that provided a significant increase in take-home pay. This proved to be as beneficial to employers as it did to their workers because it generated stability in the workplace and the environment due to better working conditions and opportunities for both the workers as well as employers who are benefiting from lower wages. (Ruane and Gorg, 1997).

During the late 1990s, the Irish government dedicated the largest percentage of public spending to education relative to its EU neighbours and placed specific emphasis on tertiary education which accounted for 4% of expenditure (OECD, 2002). As a result of heavy state investment, along with wage restraint, Ireland began to realise its advantage of a competitively priced well-educated English-speaking workforce (CSO, Ireland, 2007, Collins, 2007). In addition, as noted previously, government investment in research and development facilities and in attracting investment in specific sectors that require expertise and specialist knowledge, for example technology, financial services and pharmaceuticals, has contributed to an increase of inward investment (Barry, 2002, p. 11).

The quality of available graduates is a main factor for MNE investment in Ireland. The data demonstrate that for the period of this study a skilled workforce is a significant and important factor in attracting FDI into Ireland. Out of 98 documents 57 mentioned skilled and competent workforce as a reason for their decision to invest in Ireland (highest mentioned category by MNEs).

The quotations below represent a small sample as main reasons for the investment in Ireland. These include:

1) Communication and Language Skills: communication and language capabilities were identified as important factors for MNEs investing in Ireland. The quotations below support this:

“..Fluency in European languages, IT expertise, business and communication skills.” (SAP software, 2003)

“an ideal location due to its infrastructure, multi-lingual capability, highly skilled workforce and 'ease of doing' business.” (Netgear, 2006)

“We are very pleased that management expertise and language skills were key attractions for Paragon in choosing Ireland for its international headquarters...” (Paragon Global Resources, 2007)

Reflecting on the above quotations, it can be inferred that communication and language requirement are common across all sectors. Ireland has been growing in importance not just as a base from which US companies export to the EU but also as a base from which they export back to the US (Barry, 2004). Cultural affinities and a shared language were also instrumental in Ireland's success in attracting a high volume of US investment (Andreosso-O'Callaghan and Lenihan, 2006, p. 282).

2) Workforce Productivity and Performance, Quality of Graduates:

In the literature there is consensus that the quality of the graduates influences locational decisions for MNEs. Resource seeking and efficiency seeking MNEs distinguish between the different levels of quality of the workforce (as the levels can signify different motives for different MNEs. The quality of the graduates (knowledge) and the high skilled level of workers (productivity) contribute to MNEs in different ways. From the productivity and performance of MNEs perspective the quality of knowledge (ideas) is different from the quality of skills. An MNE seeking an educated, highly skilled workforce, that allows for greater advancement in productivity, creation of knowledge, the creation of new business opportunities (generated by knowledge), is different from a MNE looking for a workforce of high quality skilled labour at all levels of the operation, where the aim is efficiency and a cost saving operation. Quotations, which support the above, include;

“...Ireland's pool of high calibre talent...” (CIT finance, 2003)

CIT finance is an example of a firm within the financial services sector requiring competent graduates with good communication, coordination and negotiation skills.

"Highly educated workforce and positive experience from existing facilities in Ireland.” (Bristol-Myers Squibb, 2004)

This second example, from the pharmaceutical sector, where MNEs seek high-level knowledge and the ability to conduct research and development.

"The skilled talent pool available to us in Ireland has helped us match the growing needs of our users and advertisers across the Europe, Middle East and Africa region" (Facebook, 2009)

This example for the IT and software sector illustrates the firm's requirement for innovation, knowledge, communication and the ability to develop and promote new business ideas from its workforce.

3) Expertise in Research and Development, Specialist Knowledge in Related Areas:

Universities in Ireland can provide academic and/or applied (R&D) knowledge (Carmel, 2003). As discussed in detail in the development authority section (6.2.3) below, MNEs operating in certain sectors seek locations that can provide both basic and applied knowledge. MNEs locating in Ireland are tapping into locations that can provide them with basic academic or applied knowledge. Examples of firms seeking applied R&D knowledge are Wyeth, IBM and Maxim Integrated Products:

"Located at the Conway Institute in University College Dublin, the facility will comprise 12 top class research scientists focusing on product discovery, pre-clinical research and drug discovery technology development. Wyeth Research Ireland will be a wholly-integrated protein drug discovery and development operation. (Wyeth, 2006)

This example illustrates a case where a firm requires both basic academic (product development) and applied (testing a drug which can be marketed).

" The decision to invest in its Santry operation was influenced by the availability of the necessary skills, the growing emphasis on scientific research by Science Foundation Ireland and the support of IDA Ireland (IBM, 2004)

This is a case of a firm looking for academic research that can later inform product development and strategic position of the firm.

"We are investing in Ireland because the country has a talented and technically qualified workforce, and it has demonstrated a strong commitment to promoting R&D..." (Maxim Integrated Products, 2009)

This example illustrates a case where a firm requires both basic academic and applied R&D knowledge.

6.2.2 Domestic and Regional Market Growth Potential (New Business)

As discussed in Chapter 5, European integration has transformed Ireland's relation with the international business world and linked it to the broader international environment. This is coupled with its unique position of having a close relationship with the United States (US) and its full membership of the European Union (EU). The Irish US relationship is discussed in Chapter 5, section one under (U.S. - Irish Relations) and Ireland's membership of the European Union is discussed in detail in Chapter 5, sections one, two and three.

The U.S. relations with Ireland have long been based on common ancestral ties and shared values. These relations have broadened and matured given the significant U.S. role in Ireland's economic success (House and McGrath, 2004; Bailey *et.al*, 2007). Since the 1980s Ireland had become firmly established as a European production base for US multinationals. For the period 2003-2009 over 41% of inward FDI projects into Ireland are from US multinationals.

From the literature viewpoint the benefits of domestic regional market growth is a key factor for multinationals investing in Ireland. Firms are attracted by the growing Irish market and in utilising Ireland as a base to access other markets.

Additionally the coded documents identify the potential of domestic regional market growth as of key importance to firms' location choice for their investment. Out of 98 documents 50 referred to the strategic importance of Ireland as a geographical location and the country regional market growth potential as a reason for MNEs investment decision in Ireland. This includes: 1) Expansion and the establishment of a European headquarters; 2) Setting up new operations; 3) Stable economic and political environment; 4) Proximity to customer base and Ireland's proximity to neighbouring EU countries; 5) Ireland's strategic location at the heart of Europe's fastest growing economies; 6) Growth opportunities in European markets. These are discussed below.

1) Expansion and setting-up of European headquarters: A firm's assets are deployed in new regions as part of the firm's expansion and growth strategy. As Caves (1996) explained, firms choose to expand and become multinational when the specific assets they possess are more economically transferred across international boundaries. For example, the Turkish engineering and construction company Gama is building a Euro13 million European headquarters in Dublin as part of their expansion strategy to spread their activities into Western Europe and America. Their spokesman said:

“Our strategic long-term goal is to expand our activities into other European countries and the US and our Irish headquarters will assist us in fulfilling these plans. We're also optimistic that our strong performance to date in Ireland can continue”. (Gama, 2004)

2) Setting up new operations: The literature identified firms setting up and expanding into a new foreign market by establishing a new local subsidiary. Internationalisation theories hypothesise that there is a tendency for firms to transfer knowledge via FDI, rather than by exporting or licensing (Buckley and Casson, 1976; Teece, 1986). This thesis models FDI as indicating patterns in the strategic expansion of MNEs' operations, as they approach globalised competition through organisational structures configured as 'resources, capabilities and dynamic capabilities'.

Furthermore, building on the CSAs, the firm makes decisions about the efficient global configuration and coordination between segments of its value chain (operations, marketing, R&D, and logistics) (Porter, 1990). A new operation allows a parent firm to hire and train a new labour force in a new location, which makes it possible to incorporate the new subsidiary into its international operations. Evident in support of the above is the following examples:

Monster is a Californian-based cable products firm and manufacturer of high performance cables used to connect audio, video and computer systems, established a Shared Services Centre in Ireland. Their new facility in Ireland is set to be responsible for a range of business support activities for the company outside their US base. Their spokesman stated:

“MCP has strategically focused on European sales in recent years. We have come to the view that the European market is a growth opportunity and must be addressed with a local presence - the result is the establishment of this Centre in Ennis. As part of our plan to further significantly increase our European business, the Ennis Centre will be the vehicle through which we will manage this growth and support our European customers”. (Monster, 2004)

Another example; Stream is a provider of global outsourcing and technical support and process outsourcing services states that their newest facility in Dublin, Ireland will provide multilingual support to Stream's European clients:

“The site currently provides multilingual support for several of the world's largest software vendors. The centre is capable of supporting several languages including: English, Dutch, French, German, Italian, Spanish, as well as Eastern European and Asian languages. “The Dublin site augments Stream's strategy to provide clients with high-end services that increase customer loyalty, matching

the right work to the right shore for the right reason,” said Toni Portmann, president and CEO of Stream. The new location will operate as an extension and satellite to Stream’s current facilities in Londonderry, UK and Mumbai, India”. (Stream Global Services, 2005)

3) Stable economic and political environment: Since the 1980’s economic and political developments have influenced inward investment into Ireland. This was discussed in detail in Chapter 5 of this thesis. For the period of this research (2003-2009), Ireland enjoyed a stable economic and political environment coupled with its favourable industrial policy and its full European Union membership. This resulted in Ireland being well positioned as an important investment location for MNEs, which contributed to an increase in FDI inflows. In support of the above Beyond Entertainment stated:

“Ireland has been chosen due to its stable economic and political environment, its proximity to neighbouring EU countries” (Beyond Entertainment, 2004)

4) Proximity to customer base and Ireland’s proximity to neighbouring EU countries:

As discussed in section four of the literature chapter, this is particularly important for market seeking firms with the objective of supplying the local market or/and a broader region as economies of scale result from regional markets (the European Union). This motivation is usually seen as dominant in downstream manufacturing industries that deliver goods with substantial local adaptation and to certain fragments of the services sector i.e. telecommunications, tourism, banking and finance where the product’s production and quality is determined primarily by the direct contact with the final consumer (Bartlett and Ghoshal, 1989). Ireland remains the ideal location for firms driven by the need for proximity to actual and potential customers in order to be aware of and be able to better meet their specific tastes and needs within the EU. An example of this is Monster Cable, the ICT and electronics firm, whose investment in Ennis served a local and European market presence:

“MCP has strategically focused on European sales in recent years. We have come to the view that the European market is a growth opportunity and must be addressed with a local presence - the result is the establishment of this Centre in Ennis. As part of our plan to further significantly increase our European business, the Ennis Centre will be the vehicle through which we will manage this growth and support our European customers” (Monster cable, 2004)

Another example of a firm locating in Ireland to be close to their customers is Inovisworks, a CIT and electronics firm which provides companies with transaction

delivery services, data management capabilities and end-to-end visibility into high volumes of transactions across complex trading partner relationships.

“With Inovia solutions as part of their overall supply chain application suite, B2BGateway’s customers will be able to increase speed-to-cash cycle for their suppliers, reduce supply chain interruptions and increase order to payment lifecycle and increase the percentage of perfect orders.” (Inovisworks - Shannon Systems LLC, 2008)

5) Ireland’s strategic location at the heart of Europe’s fastest growing economies:

One of the main factors behind the development of Ireland as a destination for foreign investment was its place in Europe, its membership of the European Community and English-speaking base. Ireland’s position within “Fortress Europe” is one of its major selling points to companies outside the EU, most notably American firms. By investing in Ireland non-EU companies were assured that unlike other European countries, Ireland would not raise tariffs in a protectionist style. Furthermore, Ireland’s adoption of the Euro along with 10 other EU members in 2002 has helped improve its position in terms of attracting European multinationals. An example, TKO software stated:

“Dublin provides an ideal location for spearheading our overseas expansion. In a matter of weeks we have been able to agree terms with several major partners in Europe”. (TKO Software, 2004)

6) Growth opportunities in European markets:

As discussed in section three of Chapter 2, Buckley and Casson (2007) recognised the contribution of Penrose (1959) to the analysis of geographical expansion patterns, sequential decision making and learning in the MNE as key factors in international strategic management. Section three in Chapter 5 (*European Integration and Internationalisation*), refers to industrialisation strategy implemented by Ireland since the 1980s, it relied on FDI to promote dynamic export products, using various fiscal and financial incentives. By 2002 Ireland doubled its share in the Western European market, with total exports from MNEs based in Ireland increasing almost eightfold between 1985 and 2000, from \$10 billion in 1985 to \$76 billion in 2000. This was largely due to the country’s upgrading in dynamic industries such as electronics, pharmaceuticals, medical devices and IT-related services, as reflected in the change in the structure of its exports to its main market (World Investment Report, 2002). An example of MNEs drivers for investment is the following quotations:

“MCP has strategically focused on European sales in recent years. We have come to the view that the European market is a growth opportunity and must be addressed with a local presence - the result is the establishment of this Centre in Ennis. As part of our plan to further significantly increase our European business,

the Ennis Centre will be the vehicle through which we will manage this growth and support our European customers” (Monster 2004)

“European markets a keystone of foreign investment in Ireland”. (Intel, 2004)

“..new operation represents the latest step in the rapid growth of the company in Europe, the UK and Ireland are key markets”. (MySQL, 2004)

Between 2003 and 2009, MNEs viewed Ireland as a platform for regional exports, as Europe remains a major destination for foreign direct investment. The rapid growth in demand from European markets is mainly attributed to the emerging eastern block. For example Celesio is one of Europe's largest drug wholesalers confirms:

“the site.. will increasingly serve as a central warehouse for the eastern European region.” (Celesio, 2007)

6.2.3 Development Authority

Research into Irish economic development has concluded that efficient development authorities have positively influenced FDI into Ireland (Barry, 2000, 2009; Barry and King, 2010).

As mentioned in section one of Chapter 5 under ‘Organisations that Promote Inward Investment’, Ireland’s national linkage programme includes agencies such as the Industrial Development Authority (IDA) and Enterprise Ireland²⁴. Those agencies are aimed at promoting, building linkages and developing Ireland as an investment location for foreign MNEs. Linkages with foreign affiliates matter for Ireland as a host country because they provide opportunities for production and employment by domestic suppliers due to the clustering and spillover effects. Braunerhjelm and Svensson (1995) confirmed a positive and significant statistical relationship between that variable and the presence of economic externalities associated with demand and supply linkages, including the diffusion of knowledge, e.g., spillover effects, resulting from a clustering of related firms. These spillover effects constitute a direct channel for knowledge diffusion that can assist in upgrading domestic suppliers, technological and other capabilities, with benefits to the rest of the economy. In addition, studies of Irish economic development suggest that the building of efficient development authorities helped with creating linkages, promote and facilitate inward investment into Ireland. (World Investment Report, 2001)

²⁴ Although Enterprise Ireland assists Irish companies to export not FDI they play a crucial role in promoting linkages between domestic firms and MNEs.

FDI Based Development Model

Ireland was one of the first countries in the world to adopt an FDI-based development model (Begley et al., 2005). They followed a targeted FDI model which is in line with the literature, this shows that the more targeted a country's FDI strategy is, the better the outcome for that country (Rugman, 1981; Dunning (1981, 1986; Rugman and Verbeke, 2003). Such FDI based development strategy marries well with an export growth development model to make a country attractive for export oriented investment. Ireland first started attracting export-oriented FDI inflows with the introduction of the Anglo-Irish Free Trade Agreement in the mid-1960s, (Barry, 2004). This is supported in the literature by Vernon's (1966) model in which the development of export strength precedes foreign production. Bradley (1991) and Tan and Vertinsky (1996), using secondary data, confirmed that the development of export markets precedes international investment.

Out of 98 documents, 32 mentioned the support of the Irish government through the enterprise agencies and the investment development authority (IDA) activities as a reason for the decision to locate in Ireland. This includes:

1) Support from Investment the Development Authority: The IDA had a large influence on the development of the Irish economy. Since its development in 1949, the IDA has amassed a huge amount of experience in the international competition amongst countries to attract FDI²⁵. The agency simultaneously has an influence on the upgrading of the human capital and physical infrastructure required to facilitate the country in its aim to ascend the ladder of comparative advantage (Navaretti *et al.*, 2004). This led to a strategy of developing clusters of industries by gradually attracting particular sectors into the economy.

The support from the IDA was listed as an important reason for investment in Ireland by a large number of firms. Linked to the IDA support the documents identified clusters of industries as another important reason for Ireland's emergence as a central hub for high tech industries in Europe. In the early 1970s, policy towards FDI became

²⁵ The introduction of Export Profits Tax Relief in the 1970s gave the IDA a distinct selling proposition upon which to market Ireland as a location for foreign companies. In the early days the IDA did not discriminate in favour of a particular sectors or type of investment as the focus was on job creation. The sectors changed over time in line with developments in the international economy and in the country's factor endowments. The type and value of incentives required to attract such companies also changes over time of course.

increasingly selective, encouraging a pattern of investment in the production of modern high-technology (high-tech) goods, leaving Irish entrepreneurs to operate in the traditional sectors. This selectivity was achieved by proactively seeking out investors in high-tech sectors, namely electronics and pharmaceuticals, and by providing higher rates of financial assistance to enterprises in the 'promoted sectors'. Despite having no tradition in these high-tech sectors, the Irish policy makers believed that with its relatively well-qualified population²⁶, Ireland could be a competitive production base for MNEs as their low per-unit-value transportation costs made them readily suited to exporting from an island economy. Furthermore, MNEs in these sectors had no domestic competitors and hence there was no opposition to their increasing employment share in these sectors (Buckley and Ruane, 2006).

The Bank of New York affirms that foreign presence is also significant in the International Financial Services Centre sector:

"It is an investment destination for many of the world's most sophisticated institutional investors." (Bank of New York, 2009)

Throughout the latter half of the 1990s Ireland was increasingly referred to by such labels as "Europe's Silicon Isle", "Ireland: New Economy", and in terms of its adaption to Information Society Technologies many writers were referring to Ireland as an Information Economy (Gillespie et al., 2001; Grimes, 2003; Breathnach, 2000). By 2002, 5% of the workforce was employed in the high-tech sector, while high-tech exports accounted for nearly two-thirds of all Irish exports, which translated well in terms of Irish labour productivity growth (Eurostat, 2002; Kennedy, 2001). For the period of 2003-2009, the key foreign sectors in Ireland are software & IT, Financial Services, Pharmaceuticals and Electronics. The top ten Pharmaceutical companies in the world including such names as Glaxo, Johnson and Johnson, Pfizer and Merck have operations in Ireland. Almost half of the country's foreign multinationals are in the information and communications technology field, including market leaders such as Apple, IBM, Intel, Hewlett Packard, Dell and Microsoft. The top ten independent software companies in the world also have significant operations in Ireland. The quotation below affirms that information intensive activities are important to MNE investment in Ireland. This will be discussed further in Chapter 7.

For reasons of building strong skills centre and building linkages, the creation of a pro-

²⁶ EU Transfers were used in Ireland, particularly in the education sector. By 1993, the share of science and technical graduates in the twenty-five to thirty-four age group of the labour force in Ireland was the highest of the twenty five OECD countries (OECD, 1999).

business environment and co-ordination of activities by the IDA, TKO Software, Kellogg's and Option NV are among of many companies who invested in Ireland following IDA support:

"The decision is being hailed by government, the IDA and the Digital Hub as a major stamp of approval for the strategy of creating a cluster of digital media companies in Dublin's Liberties. Initially TKO will focus on porting, localising, testing and marketing wireless game titles developed by its parent company in the US for major European mobile networks and handsets". (TKO software, 2004)

"...Working with the IDA, we explored our options and Ireland won against other European locations. It proved to be the best option for us being a cost effective and efficient base with good access and communications to the EU market from a Euro-based location." (Kellogg's, 2004)

"...The expansion, supported by Government through IDA Ireland, will establish the Cork facility as Option's main centre for Global Supply Chain and Fulfilment" (Option Nv, 2008)

6.2.4 Industrial Government Policy

In section two of Chapter 5, a detailed discussion of Ireland's industrial economic development, which contributed to attracting MNEs was undertaken. The policy development includes: 1) Government support; 2) Attractive corporate tax rate; 3) Research and development facilities. These are discussed in greater detail below.

1) Government support: Strong government support for MNEs at national and local level, intellectual property law, research and development, the government strategy to attract high-value international investment and enhance the country's profile as a leading centre for technology, innovation, and industry clusters is encouraged by government policy (Grant, 1996; Barney, 1991). The speed and nature of Ireland's economic success can be attributed directly to the policy designed to attract high technology sectors, which coincided with advancement in global technology. Dunning and Narula (1996) suggested the presence of significant MNEs in Ireland had a positive influence on its economic policies in terms of their being rational and pro-competitive. Out of 98 documents, 33 mentioned government industrial policy as a reason for the MNEs investment decision in Ireland.

Therefore, it is important to acknowledge the policies that the Irish government had set out in advance, which played a major role in the country's success between 2003-2009. Such policies set out the country a main destination for outsourced production, using its competitive advantages in terms of labour and business costs to attract firms such as Intel and Bank of New York, as affirmed below.

"The performance of our workforce in Ireland and our relationship with the government helped make this investment decision possible." (Intel, 2004)

"Ireland is an investment destination for many of the world's most sophisticated institutional investors." (Bank of New York 2009)

2) Attractive Corporate Tax Rate: There is widespread agreement on the empirical importance of effective corporation taxes in influencing FDI activity (Barry *et al.*, 2002). One study by Slaughter (2003) which focuses on US FDI in Europe, takes a number of other factors into account as well. He shows that European countries that are richer per capita, have larger markets, lower taxes and which are closer to the US, receive larger amounts of US FDI in all industries, while EU membership appears particularly significant for Manufacturing and Financial Services FDI. However, the effectiveness of a low corporate tax rate can be challenged as an implication of fiscal policy changes or of wage rises, where MNEs affiliates are "transient" they can be prone to shift to lower cost locations.

As mentioned in the Chapter 5, section 2 (*The Irish Policy, Incentives and Economic Context*) in 2003 the Irish government announced that all corporations would enjoy a 12.5% uniform rate. The rate on capital gains was reduced from 40 percent to 20 percent (except for real-estate transactions) at the end of 1997. Modest reductions in the top rate of personal tax to 42%, and a variety of other changes in personal tax provisions also were implemented (OECD, 1999, p. 140).

The special corporate tax regime was identified as a positive influence on the decisions of firms such as the Italian shipping company Damico, Bardford and Bingley and Lo Jack to invest in Ireland, as evidenced by the following:

"Government strategy to develop Ireland as an international centre for shipping finance and strategic management services. A special corporate tax regime for ship-owners and operators was introduced in 2002". (Damico, 2004)

"Dublin was the preferred location because of the depth of investment proficiency in Ireland. He also said that the 12.5pc corporate tax rate made Dublin attractive". (Bardford and Bingley, 2004)

“A company spokesman acknowledged that Ireland's tax treatment of profits and intellectual property revenue was a consideration”. (Lo Jack, 2006)

Studies within the literature confirm that financial incentives such as favourable corporate tax rates have a positive influence on inward FDI. (Dunning, 1991; Veugelers and Cassiman, 2004; Lundan, 2006; Dunning and Lundan, 2008).

3) Research and Development Facilities:

Ireland provided investors with an attractive business climate. In 2004 the Finance Act introduced tax incentives to encourage firms to set up headquarters in Ireland and to conduct R&D. As a result of government industrial policy and intellectual property laws, FDI inflows were concentrated in sectors and fields where Ireland's existing strength in R&D and human resources was already established, thus developing 'a cluster of growth poles' (Sapir Group, 2005).

Within the literature scholars such as Nordberg and Verbeke (1999) identified the type of value chain-driven research in the context of inter-organisational knowledge transfer within the MNE. Caves (1996) explained that asset-seeking MNEs primarily focus attention on upstream capabilities such as R&D activities. Those assets include non-business infrastructure such as local human resource pools of scientists and engineers, university laboratories and specialised public research centres.

The empirical data suggests that R&D is a key factor for firms investing in Ireland. For example, in the quotation below it is evident that the IDA acted as an intermediary between the universities and the firm in question and in doing so facilitated the development of research and development links with universities, thus enabling the firm to obtain the resources they required. For IBM and Bristol-Myers Squibb the new subsidiaries act as a home base for the creation of new knowledge based R&D, in order for firms to build on the Irish (host country) knowledge development systems. By building linkages with local universities the firm has a lower probability of becoming 'footloose' and will remain in Ireland.

“The decision to invest in its Santry operation was influenced by the availability of the necessary skills, the growing emphasis on scientific research by Science Foundation of Ireland and the support of IDA Ireland”. (IBM, 2004)

“With the support of IDA Ireland, Bristol-Myers Squibb will enter into a collaborative research programme with DCU (Dublin City University) and NUI Galway (National University of Ireland, Galway) locating a research team in both universities”. (Bristol-Myers Squibb, 2004)

6.2.5 Infrastructure (Technology, Transport, Telecommunication)

In a study of the location patterns of U.S. MNEs related to country characteristics, between 1982 and 1988, Wheeler and Moody (1992) found that infrastructure quality, degree of industrialisation and existing level of FDI exhibited a high degree of statistical significance and had large positive impacts on investment decisions. A key factor behind the development of Ireland as a destination for foreign investment, particularly from US firms, was its infrastructure and its position in Europe. In this context Ireland's infrastructure consisted of three different elements: 1) structural infrastructure including electricity, gas, telecommunications, transport; 2) economic infrastructure, including Ireland's full membership of the EU through joining the single European currency in 2000, as well as research and development facilities; and 3) social infrastructure such as the health service and education.

Ireland was one of the main benefactors of EU structural funds in the early 1990s, much of which was spent on improving the transport and communications infrastructure. Ireland "went digital" early and by the mid-1990s over 75% of users were connected to digital exchanges and a direct fibre-optic link to the US was established, evidence of Ireland's pursuit of the information technology (IT) sector with the aid of EU funds (Coe, 1999). Roads, ports and airports were also upgraded reflecting the needs of export-oriented manufacturers.

Out of 98 coded documents, 21 mentioned infrastructure of an international standard as reason for their investment; for example, financial firms highlighted infrastructure as a primary reason for their decision to invest in Ireland. This includes: 1) a good education system that produces high quality skilled and competent graduates/workforce, quality of Ireland's universities and research and development, a point which was discussed under the 'skilled workforce' section earlier in this chapter, 2) infrastructure such as transport, technology, telecommunication systems were all important factors in attracting inward FDI. The availability of a well educated and highly trained labour force combined with a large-scale improvement of physical infrastructure further enhanced the attractiveness of Ireland as a base for inward investment (Barry et al., 1997)

The quotations below affirm those factors identified by firms as important infrastructure related considerations in respect of their location choice:

"The attractions of Cork for McAfee included a sizeable population, the university and the international airport" (McAfee, 2004)

"Ireland has been chosen due to its stable economic and political environment, its proximity to neighbouring EU countries and its sophisticated telecommunications infrastructure". (Beyond Entertainment, 2004)

" Well-educated workforce and easy access to the rest of Europe. Cost effective and efficient base with good access and communications to the EU market from a Euro-based location." (Kellogg's, 2004)

Transport, technology, telecommunication systems can influence MNEs in different ways. Chapter 5 provides further insights on Ireland's well-developed telecommunication, transport and technology infrastructure and asset base. A good transport system means lower cost of transportation in terms of both importing and exporting. Efficient telecommunications and technology systems allow the MNE to integrate a local subsidiary into their global network, including their information systems.

"Ireland provides a perfect base for our European expansion due to the availability of qualified staff and access to a first-class technology infrastructure" (Market Boomer 2005)

6.3 Conclusion – Country-Specific Advantages (CSAs)

This section discussed a summary of the most populated nodes with specific reference to the key elements of the analysis into the country determinants for firms' investment into Ireland. The most populated nodes identified by firms are skilled workforce and the programmes provided by the government related development authorities. Firms also identified expanding and branding themselves in Ireland for regional and domestic growth purposes, which constitute a market seeking motivation. This connects the country-specific advantages with the firm-specific advantages. The focus of this section is on the country level analysis and the CSAs that are reflected in the way companies view Ireland and the manner in which they behave when undertaking an investment. Therefore, the main contributions include Ireland's improvement of its physical infrastructure; the improvement of its education system, leading to higher rates of skill formation between the 1960s and the 1980s combined with the deregulation and privatisation of the telecommunications industry.

An element of Ireland's development policy which the literature refers to as a key consideration for MNE investment decisions is Ireland's liberal market economy and the deregulation of the financial markets (O'Donnell, 1998; Acs et al., 2007). This was not highlighted by the documents. Ireland has fewer formal and informal barriers to large-scale foreign investment than most European countries.

This chapter has discussed the CSAs that potentially attract MNEs into Ireland. The following chapter will focus on matching these country advantages with the industries through sectoral analysis.

7 Chapter 7 Sector Analysis - In-depth Industry Studies

7.1 Introduction

The objective of this chapter is to empirically validate through sector, (industry level/ Meso level) analysis RQ2 and RQ3 namely “*What are the main motivations for firms locating into Ireland?*” and “*What is the core capability of firms locating into Ireland?*” For this chapter the industry is defined as a group of firms that share similar characteristics and the analysis relates to an aggregation of firms’ behaviour. The RBV is a firm level concept; it has its limitation as it does not allow researchers to empirically test the industry. The aggregation of the firm here views the industry (sector) as a group of firms and uses the RBV as the basis of the analysis. In this chapter the aggregation of firms behaviour is used to analyse the industry.

From the perspective of the literature, Porter’s work (frameworks) (Porter, 1990) looks at the competitive positioning of industries but does not look at the resource configuration, capabilities configuration or core competence configuration for a typical firm within that industry. Porter’s viewpoint is based on the competitive positioning of an industry; his assumption is that firms within the industry will be relatively homogeneous and therefore a firm could position itself and formulate its strategy on the basis of the behaviour of other firms in that industry and decide on their strategic positioning. However, the RBV views firms as individuals and therefore the firm’s strategy is not based on the evaluation of the external environment but it is based on evaluation of the internal environment of the firm. As this provides a Meso level analysis it is important to look at the sectors as a whole. The assumption for this chapter is that firms within industries exhibit similar attributes and based on those attributes, will have similar resource configuration, similar capabilities and core competences configuration.

The analysis in this chapter uses the RBV theory to explain the behaviour of a typical firm in an industry and compare it to another peer within the industry. Thus the analysis is not based on a comparison of industries but on a comparison of the aggregation of different firms within an industry. The unit of analysis is the sector and the tool for analysis is RBV theory. RBV is applicable for use in this instance because the analysis does not differentiate between individual firms; instead the firms are used as a group in order to develop generalisations from the findings as part of the sector analysis. Appendix 7.1 contains definitions of the sectors.

Therefore the industry (sector) from the perspective of this thesis is an aggregation of the corporate motivations because firms within a specific industry are expected to

demonstrate similar characteristics. Thus the industry is the instrument that allows the researcher to cluster firms together rather than undertaking an analysis of 98 different projects, which may result in a level of analysis too large in scope to allow generalisation of the findings. The above explanation justifies the link between industry level analysis and RBV in addressing a gap within the RBV literature.

The study empirically links the findings from the data analysis to the theory, which is the resource based view and multinationals motivations (the conceptual framework). For each element of the framework there are specific variables (factors) that link and explain the behaviour of the firm and the motivation for firms' investment in Ireland.

The chapter will focus on the analysis of industry resources and the way different sectors are influenced by locational characteristics. This will help to drill deeper into the different motivations of firms; the key elements will explain the data findings in relation to validating the firm motivations. The justification for the requirement to move away from the location and adopt the firm perspective is a result of different industries demonstrating differences in FDI motivations (Anand and Delios, 2002). It is important to understand the sector perspective because it helps to understand the firm perspective and thus highlights the motivation linkage. The sector level analysis allows a better balance between both because applying this analysis at the firm level places too much emphasis on the detail and this may detract from understanding the motivations. The focus of this chapter is to engage in a discussion of firm motivations in terms of motivations and location characteristics from a sector perspective. As mentioned above, this chapter enables the balancing of the argument by addressing the differences between firms as highlighted through the sector analysis, an approach which permits the generalisation of results.

The sector study is used to address the locational patterns and firm motivation. From an empirical perspective, two studies taken from two sectors are selected to bridge the literature and provide a justification as to how the RBV helps to explain firm choices. The choice of sector will lead to comparative analyses between two sectors. From an empirical perspective the rationale in undertaking the studies is to gradually bridge the external environment with the firm in order to explain differences in industry behaviour. The industry selection will be explained in the following section of this chapter.

From a methodological viewpoint the earlier analysis chapters identified the main nodes for the empirical data including the resources and capabilities that act as drivers for the internationalisation strategy of MNEs (see Table 4.3). The strategic objectives of

the MNEs have been associated with themes such as firm specific advantages (branding, expansion), resources (capabilities, competences, core competence, effectiveness) and firm core competences (customer focus, coordination, path available, strategic focus). These nodes will be included in the analysis contained in this chapter.

Chapter 6 discussed country specific location factors and FDI in a general context, without a discussion of industry specific motivations. This chapter will advance the discussion beyond the key factors that motivate companies to invest in Ireland so as to drill down to the firm level and evaluate how specific firms are utilising their resources. The various stages of discussion will demonstrate that not all sectors exhibit the same motivations; this will be undertaken at the sectoral level because, as mentioned earlier, the sector is an instrument that aggregates the firm and the analyses associated with 98 firm level projects represents a task too large in scope.

As discussed in detail in section two of Chapter 2, the resource-based view of the firm examines how the resources and capabilities enable firms to generate above-normal rates of return and contribute to achieving a sustainable competitive advantage (Amit and Schoemaker, 1993; Barney, 1986; 1991; Dierickx and Cool, 1989; Mahoney and Pandian, 1992; Oliver, 1997; Wernerfelt, 1984). The RBV takes into consideration the interaction between the stock of knowledge, skills and expertise (resources) and the organisational routines, policies and practices (capabilities) which generate unique, inimitable and non-substitutable competences (Kamoche, 1996, 1997). These studies offer important insights into the configurations of MNEs and the role of subsidiaries. For example, studies by Kamoche (1997) highlighted the potential strategic value of internally held human resources and related sources of organisational diversity in the African context.

As highlighted in the introductory chapter, key gaps identified in the RBV and internationalisation literature centre on the identification of those resources associated with locational decisions (motives) and the failure to link RBV with the environmental and industry context. This study addresses these shortcomings by examining how firm core competences determine their motivations. The objective is to bridge the gap between the RBV of the firm and international business literature through a qualitative analysis approach to the theory of multinational behaviour.

As discussed in Chapter 5, for decades the Irish government geared its education and industrial policy towards attracting knowledge based industries. The data demonstrates that the Software & IT and Financial Services sectors behave in a relatively different

manner in terms of their investment decision-making process. The Financial Services sector mainly entered Ireland because of the deregulation of markets and the ease of doing business; there were also a number of tax breaks which made the IFSC an attractive location as a base to serve non-Irish markets. The Software & IT sector entered Ireland because of the availability of a high quality knowledge and R&D based workforce, in addition to the influence of the clustering effect. As a consequence the two industry studies offer interesting and insightful discussion and findings.

7.2 Rationale for the Chosen Sector Selections

The key criteria in the selection of the sectors were discussed in section 4.4.4 of the methodology chapter.

From the empirical data covering the period 2003-2009, two sectors emerged as dominant in terms of the number of firms investing in Ireland as evidenced by the level of investment and employment in the Software & IT and Financial Services sectors. Table 7.1 highlights that Software & IT has the highest number of investment projects (22 projects), followed by Financial Services (16 projects).

Table 7.1 Total Number of FDI Projects in Ireland By Sector 2003-2009

Sector	Total No. of Projects	Total Investment \$mn	Total No. of Jobs Created
Software & IT services	22	2708.8	2374
Financial Services	16	286.3	1115
Business Services	9	101.8	512
Pharmaceuticals	8	950.57	1869
Semiconductors	7	45.87	198
Industrial Machinery, Equipment and Tools	5	467.4	653
Biotechnology	4	103.98	157
Consumer Products	3	178.2	278
Textiles	3	40.3	207
Automotive OEM	2	32.2	142
Beverages	2	1100	2121
Communications	2	17.8	164
Electronic Components	2	7.9	56
Food and Tobacco	2	24.9	255
Healthcare	2	21.27	28
Medical Devices	1	63	125
Real Estate	2	79.7	407
Transportation	2	30.9	94
Consumer Electronics	1	30.9	125
Leisure and Entertainment	1	10.1	62
Plastics	1	8.5	150
Warehousing and Storage	1	36.5	87

Source: FDI Markets.Com; aggregated by the researcher

Table 7.2, below, outlines total capital investment by MNEs in the leading sectors, with approximately \$2,708 million invested in Software & IT projects and \$286 million in the Financial Services projects during the period 2003-2009. Although investment and the number of jobs created in Beverages (\$1,100 million, 2121 jobs) and Pharmaceuticals (\$950 million, 1869 jobs) sectors are higher, the number of projects which represent greenfield investment in Software & IT and Financial Services are significantly higher, thereby justifying the selection of those two sectors for further study.

Furthermore, as part of the selection of these sectors, the ratio between capital and labour ratios amongst the top sectors was compared. The capital to labour ratio for Software & IT services is almost 1% while the capital to labour ratio in the Pharmaceutical Sector is approximately 50%; the capital to labour ratio for Financial Services is 25%. Although Pharmaceuticals has a greater impact in terms of capital investment to number of jobs created, the lower level of investment in Financial Services created high levels of employment. This sector gives a different perspective to the discussion; with a small amount of investment it has a big impact in terms of

employment in the economy. Therefore it was chosen alongside the larger sector, Software & IT as the basis for study. The Business Services sector is similar to Financial Services; however, it was not considered as it is almost half the size of Financial Services. In addition, the average size of the project in terms of investment and employment within Software & IT and Pharmaceuticals are similar, therefore comparing two sectors with very similar characteristics was deemed not to add much additional insight to the discussion.

Table 7.2 Total Investment and Jobs Created – Case Study Sectors (2003-2009)

Sector	Total Investment Millions \$	Total Number of Job Created	% of Total Investments	% of Jobs Created
Software & IT Services	2708	2374	42.7	21.2
Financial Services	286.3	1115	4.5	10.0
Across all sectors excluding Software & IT and Financial Services (20 sectors)	2994.3	7690	52.8	68.8
Across all 22 Sectors	6346.89	11179	100	100

Source: FDI Markets.Com and aggregated by the researcher

The above data demonstrates that Software & IT is the biggest and most important industry to Ireland in terms of number of projects and job creation during the period under review. However, a more important justification for choosing it alongside Financial Services is the impact which both these sectors have on the Irish economy. It is worth noting the externalities that these sectors generate and their potential impact on economic growth Ireland.

7.2.1 Implications of Externalities for Ireland

There is evidence that the presence of desirable resources in small-developed countries can be very attractive for FDI which is motivated by corporates pursuing resource seeking objectives. A study by Barry and Kearney (2006) in Ireland demonstrates how a small country can attract FDI because of its stock of desirable resources and its ability to develop this resource base. The study found that FDI also contributed to diversifying the industrial structure of Ireland, especially in high technology sectors and has helped establish stable industry growth patterns. In Ireland

FDI has helped to create a virtuous cycle comprised of further improving the pool of desirable resources, thereby attracting increased FDI. A resource enhancing feature of FDI in small countries was also found in a study by Hooley *et al.*, (1996) of Hungarian FDI. The study found that the marketing competences of domestic firms were significantly enhanced by the impact of foreign investment in their business. (Hooley *et al.*, 1996). The creation and effective evolution of government policies designed to develop skilled labour and enhance the quantity and quality of physical and social infrastructure, combined with the ability of subsidiary managers to effectively access these resources, has also been found to be important for developing FDI in small countries (Barclay and Gray, 2001; Hood and Taggart, 1997).

The implications of the spill over effect of the two sectors on the Irish economy are important to this discussion. The clustering and linkages of foreign affiliates had an impact on the Irish economy because they provided opportunities for production and employment to domestic suppliers. As a result of the economic conditions that were created after 1987, Ireland attracted a high proportion of US investment in Europe, particularly in Software & IT and Financial Services (Buckley and Frances, 2006). The Irish banking and insurance firms, many of which consolidated prior to the impact of international competition as a consequence of the '1992' programme, have exhibited strong growth.

Additionally, Ireland witnessed an indigenous entrepreneurial activity in the Software & IT sector. A study by Murphy and Ruane (2004) argues that factors which partly explain the sector's success in Ireland is the emergence of self-sustaining clusters in areas such as software, electronics, pharmaceuticals and financial services as a result of the IDA efforts to build vertical linkages. The spill-over effect of such linkages had a positive impact on Irish economic growth (World Investment Report, 2001; Acs *et al.*, 2007).

7.3 Sector Analysis

The empirical data provided information on characteristics of the firm such as size, origins, sector, cluster and the basic nature of firms' activities. These sources also offered aggregate data for the level of investment and employment (Table 7.2). The empirical data also provides information on MNEs motivations.

Since the mid-1980s, the Software & IT industry has been one of the fastest growing sectors of the Irish economy. A significant inflow of FDI in the sector began in 1980

with firms such as Apple, Lotus and Microsoft among over one hundred foreign firms who located in Ireland (Barry, 2004). In the early 1990s Ireland was the largest exporter of software products in the world as a result of foreign-owned MNEs who exported 98% of output, mostly to European markets (Barry, 2004). The Irish software industry reached \$13.9 billion in total sales in 2002, of which \$12.3 billion is attributed to multinational companies and \$1.6 billion to the indigenous sector (Arora and Gambardella, 2004). In the early 1990s when Ireland was the largest exporter of software products globally, firms such as Microsoft were engaged in software production, outsourcing activities such as the printing of manuals, translation activities and disc duplication to indigenous and foreign firms (Barry 2004).

The Financial Services sector landscape is different to that of the Software & IT sector. The challenges posed by the Internet and globalisation resulted in the financial services sector witnessing consolidation and the adoption of a different growth model (Grant and Venzin, 2009). The credit crunch of 2007 imploded into the financial crisis of 2008 resulting in structural changes and the evolution of a different financial services sector. Expansion strategies that had appeared successful in the run-up to the credit crunch in the summer of 2007 proved unsustainable in an environment of credit shortage and risk aversion (Grant and Venzin, 2009). Advances have since been made in the measurement and pricing of risk, with the underlying theory provided by capital asset and option pricing models, contingent claims analysis and value-at-risk modelling in financial risk management systems (Grant and Venzin, 2009).

Thus, the manner in which these two sectors evolved and developed is very different from the other sectors; software related FDI is associated with companies seeking an advanced labour force, keeping up with competitors for learning and clustering proposes through relating its activities in supporting industries and R&D activities. This is a reflection of this sector's constant re-evaluation of its competitive advantage, of its resources and the way it uses these resources (Porter, 2001; Fahy and Hooley, 2002; Carmel, 2003; Buckley and Ruane, 2006).

In contrast the financial services sector is more global and is by default primarily one which is influenced by markets, the external environment, by regulations and deregulation (Flier *et al.*, 2001)

Therefore, the two sectors studied in this chapter are not the same in terms of their motivations, despite both investing heavily in Ireland. The remainder of the chapter will explore in detail each of these sectors and will present a cross study comparison

between the two, their motivations and the conceptual framework developed in Chapter 3. The thrust of the conceptual framework states that different firms have different motivations and these are exhibited in the way firms invest in different locations and in the type of locational characteristics the firms seek. The generalisation of findings from those two industries is appropriate because, as mentioned in the introduction to this chapter, undertaking an analysis at the firm level for each of the different industries is too large in scope given the sample size for this research.

As will be discussed subsequently in the chapter, the Software & IT industry exhibits strategic asset seeking and market seeking motivations and is driven by internal resource seeking considerations, whilst the Financial Services sector exhibits a market seeking motivation and is driven by changes to its external environment. Furthermore, due to the nature of the Software & IT sector, the researcher expected the sector to primarily exhibit strategic asset seeking motivation. However, findings from the analysis highlights that the sector also demonstrates a strong market seeking motivation when investing in Ireland.

7.4 Study One: Analysis of Software & IT FDI in Ireland

7.4.1 Background of Software & IT Sector

The Software & IT sector is characterised by high technological opportunities, low entry and exit barriers, limited economies of scale and frequent product innovations (Schmalensee, 2000; Fosfuri and Giarratana, 2007). In such dynamic environments, knowledge-based resources provide a fundamental competitive factor (Miller and Shamsie, 1996).

Software & IT is a knowledge-intensive sector and analysing firms within the sample of this research will identify the determinants of foreign investment. In this context, the study will explore the importance of international linkages (Gorg and Ruane, 2001; Buckley and Ruane, 2006), technological capabilities (Porter, 2001; Fahy and Hooley, 2002; Carmel, 2003), and firms' experience as potential determinants of entry (Acs *et al.*, 2007).

Table 7.3, an output from the Nvivo data analysis, provides a summary of the investment motivations for all firms in the Software & IT sector.

Table 7.3 FDI Investment Motivations of Software & IT Services Firms (2003-2009)

Motivational Considerations	Efficiency Seeking	Market Seeking	Resource Seeking	Strategic Asset seeking	Total
Software & IT Firm (Total 22)					
Trend Micro	x	x			2
SAP					0
Accenture (2003)		x			1
Comprehensive Sports Information (CSI)		x			1
Storage Technology			x		1
TKO Software	x		x		2
IBM				x	1
MySQL		x		x	2
McAfee (project one 2004)	x		x		2
McAfee (project two 2004)	x				1
MarketBoomer		x	x		2
DC Studios					0
Accenture (2005)		x			1
Redi-Direct Marketing		x			1
Netgear				x	1
Digital River					0
Novell	x				1
Shannon Systems LLC		x			1
Siemens	x		x	x	3
Intel		x		x	2
Kenexa		x			1
Facebook				x	1
TOTAL:	6	10	5	6	

The table was created by the researcher using cluster analysis of the data and reflects the IB literature review on motivations.

An examination of Table 7.3 highlights that market seeking is the most frequently mentioned motivation being cited in 10 out of 22 instances. The data provides a summary result of the content analysis and is a product of NVivo where an (X) within the table denotes the presence of the relevant FDI motivation, whereas a blank cell denotes the absence of FDI motivation.

As noted in 6.1 in Chapter 6, access to Irish and regional markets is one of the main factors contributing to the large presence of American multinationals in Ireland. The IDA Ireland specifically identified software as an internationally traded service possessing significant employment potential and as a result began targeting American companies that required large workforces and that did not have an existing European manufacturing or R&D operations (Coe, 1997). Initial successes included IBM in 1983, Lotus in 1984 and in spite of stiff competition from the Swiss canton of Neuchatel, Microsoft in 1985 (MacSharry and White, 2000). These initial investments served as important catalysts for the emerging Irish software industry.

7.4.2 The Literature and Characteristics of the Software Industry

The information technology sector in Europe comprises the production of computer hardware and software. Traditionally, economists have explained an industry's success in macro-economic terms, which embraces interest rates, exchanges rates, cheap labour, abundant natural resources, government policy and intervention in the marketplace or by national advantages in management practices and labour-management relations (Carmel, 2003).

The literature is in agreement that a government channels its policies and national resources into sectors that it believes as being important to its future economic growth. Intel and McAfee are two examples of firms that have invested in Ireland where their investment is driven by government policy:

"The performance of our workforce in Ireland and our relationship with the government helped make this investment decision possible". (Intel, 2004).

"It is understood that McAfee, which until recently was called Network Associates, is being lured to the Republic by the country's 12.5 percent corporation tax, compared with about 34 percent in the Netherlands. (McAfee, 2004).

A World Bank report (Garry, 1999) categorised important new software nations according to four criteria (with the respective nations in parentheses): cost (China),

English-speaking ability (Singapore, Ireland), ease of doing business (Ireland, Israel, India, Singapore) and segment expertise (India). Many of these new software-exporting nations succeeded because their governments took active steps to encourage high-tech firms, particularly within the software industry, to invest. Such policies have been given many labels: industrial policy, science and technology policy and innovation policy (Salmenkaita and Salo, 2002; Carmel, 2003). This approach was also adopted by the Irish government.

Porter (1990) developed his competitive advantage of nations model, which presents four critical factors for the success of a national industry. In a series of studies that begun in the late 1980s, Porter developed the High Tech Indicators model which includes four factors that influence technological standing and the technology mix in a nation: technological infrastructure, production capacity, socio-economic factors and national orientation (Porter, 2001). The rise of the software industry in the 1990s was a global phenomenon. New technologies together with the shift towards global production contributed to the development of many peripheral economies such as Ireland. Although government policy is important, the Software & IT sector is driven by internal resource seeking considerations. This is presented by the dynamic interaction between R&D, product innovation and customers; and the marketplace focuses more on the importance of strategic decisions of firms within the sector (Palmer and Millier, 2004). The following discussion links these dynamic interactions with the internal resource seeking aspects of the firms within the sector.

In the case of Ireland, Collins (2007) categorises the activities of foreign-owned software companies into two categories: 1) lower end activities including localisation, distribution and manufacturing; 2) higher value-chain activities in terms of value added software development, including services and integration, product development and marketing. However, localisation and distribution dominate the activities of foreign-owned software operations in Ireland (Coe, 1997; O'Malley and O'Gorman, 2001). These low-end activities can be seen as part of a wider international packaged software production chain in which higher value added functions such as development and marketing are usually carried out closer to the corporate headquarters (Coe, 1997; O'Riain, 1997). Localisation activities evolved from being largely Irish owned to being dominated by world leaders in software in less than 10 years, with Irish companies focusing more on sub-supply networks such as software manual printing and turnkey services (Coe, 1997; O'Riain, 1997). Software development operations undertake work of varying degrees of sophistication but typically employ a much higher percentage of third level graduates. Work varies from the customisation of software for clients of

MNEs involved in software services or IT consulting (e.g. IBM), to the development of embedded software and software applications for hardware (e.g. Ericsson). Some of the larger organisations carry out both lower and higher value activities, in some cases the presence of software development can be seen as an explicit move up the value chain away from low-end activities, such as manufacturing, which for many was their initial activity when establishing in Ireland (O’Riain, 2004).

Finally, to present the reader with a picture of the empirical data, Table 7.4 provides a summary of the external policy level issues for all firms and the dominant issues in the Software & IT sector from analysis of the coded data.

Table 7.4 Locational Investment Motivations in the Software & IT Services Sector (2003 – 2009)

Motivations Issues for Investment	Development authority	Domestic regional market growth potential	Industrial Government Policy	Infrastructure (Technology, Transport Telecommunication)	Skilled workforce	Total
Software & IT Firm (Total 22)						
Trend Micro						0
SAP			x	x	x	3
Accenture (2003)		x				1
Comprehensive Sports Information (CSI)	x	x	x			3
Storage Technology		x			x	2
TKO Software	x	x	x		x	4
IBM	x				x	2
MySQL		x				1
McAfee (project one 2004)	x x x		x	x	x	6
McAfee (project two 2004)	x			x	x	3
MarketBoomer		x	x	x	x	4
DC Studios					x	1
Accenture (2005)						0
Redi-Direct Marketing				x	x	2
Netgear	x		x	x	x	4
Digital River				x	x	2
Novell					x	1
Shannon Systems LLC		x				1
Siemens						0
Intel		x	x		x	3
Kenexa	x	x	x			3
Facebook		x		x	x	3
TOTAL:	9	10	8	8	14	

The table was created by the researcher using cluster analysis of the data and reflects IB literature review on location.

7.4.3 Determinants of Software & IT Sector FDI

As evident from the discussion in the remainder of this section, the Software & IT sector has invested in Ireland because of internal factors associated with the firm's resources and capabilities rather than the external factors related to inducements. In order for the sector to develop and succeed it had to develop certain characteristics including the clustering effect, the number of firms engaged in the sector, their size, the associations which organise/represent industry participants, the industry's degree of common vision, branding and the standards that the firms aspire to achieve.

The literature discussion highlighted some key determinants of FDI in the sector. From the analysis, quotations will be used to highlight the key factors that apply to the investment motivations of industry participants with regard to Ireland, in addition to other factors identified by the literature but which do not directly apply to Ireland. Since the literature identifies the generic determinants of FDI in the Software & IT sector, the empirical findings will highlight the specific determinants that relate to Ireland.

Government: The government can influence and facilitate the progress of a sector through developing the telecommunications infrastructure, enhance the availability of capital, including risk capital, development of the human capital pool (through investment in education), quality of life and wage levels (Porter, 1990; Heeks and Nicholson, 2002; O'Higgin's and Rugman, 2002; Carmel, 2003). An example from the software sector are the investments made by Monster and SAP in Ireland:

"Advanced integrated telecommunications infrastructure and proximity to airports" (Monster 2003)

"Highly skilled and educated people and infrastructure ... infrastructure necessary to support knowledge-intensive activities" (SAP, 2003)

Human Capital: A critical mass of educated human capital is vital to the software industry (Barry and Tessler, 1998). Workers in the sector generally have professional characteristics and abilities including language and managerial skills. The strength of a nation's human capital stems from a multi-generational tradition of science and engineering that has its roots in strong universities, polytechnics, and vocational schools. Ireland benefited from a strong national emphasis on advanced technical education that dates back a generation (technology education was a focus of the 1960's). English language ability has been critical to this point in national software success. English skills appear on consultants' checklists as a key criterion used to decide on the capabilities of software firms and software nations. (Barry et al., 1997;

Carmel, 2003; Collins, 2007; Barry 2007). An example from the software sector is Netgear investment in Ireland:

The company Chairman Patrick Lo described Cork as "an ideal location" due to its infrastructure, multi-lingual capability, highly skilled workforce and 'ease of doing' business. (Netgear, 2006)

Cluster: A cluster represents a critical mass of firms in geographic proximity (Krugman, 1991). The best-known high-tech cluster is Silicon Valley. Technology clusters are often deliberate government policy initiatives such as the Science Park in Singapore and its proximity to the major universities (Carmel, 2003). Studies by Heeks and Nicholson (2002) found that national industry success is driven by the coherence of the industry's (and to some extent the government's) vision and strategy in defining its focus. In order to succeed as an industry, firms need to specialise in the same domain/niche in specific services or products. This specialisation enhances the cluster effects of information diffusion and facilitates national branding efforts.

Ireland has specialised in services projects and in niche product markets. Following government policy initiatives since the 1990s, the number of firms investing in Ireland significantly increased. A growing proportion of FDI was directed towards the Software & IT sector. In explaining the decision to invest in Ireland, executives of US MNEs in knowledge-based sectors such as computers cite that their location decision is strongly influenced by the fact that other key market players were located in Ireland (Naveretti et al., 2004). The quotation below from TKO Software (2004) in relation to its investment in Ireland supports this:

"The decision is being hailed by government, the IDA and the Digital Hub as a major stamp of approval for the strategy of creating a cluster of digital media companies in Dublin's Liberties. Initially TKO will focus on porting, localising, testing and marketing wireless game titles developed by its parent company in the US for major European mobile networks and handsets." (TKO Software, 2004 investment)

Capital: The software industry requires capital to grow. Capital sources for software firms can comprise a combination of domestic and foreign. Domestic sources include government funds, venture capital, investment capital, and equity offerings. Foreign sources include foreign loans, venture capital, investment capital (FDI), foreign equity offerings and foreign aid. In Ireland the IDA has been instrumental in helping foreign firms acquire capital to develop their Irish base (Carmel, 2003).

As discussed in the introduction to this section, some of the observations made by the researcher from the data analysis indicate that, although some investment factors are identified by the literature, they may not appear as quotations. The empirical findings are specific to the study rather than generic. CIT is a finance firm, and they have located in Ireland because they aim to provide funds to the Software & IT industry. In the case of acquiring capital for investment, firms within the sector did not cite it as reason for investment in Ireland. However, some firms from the financial services sector such as CIT Finance have identified the presence of the high technology firms such as those in the Software & IT sector, as the reason behind the establishment of a presence in Ireland:

"Ireland's emerging role as a central hub for high tech industries in Europe." (CIT Finance, 2003)

Technological Infrastructure: Technological infrastructure refers to the sophistication and reliability of communication technology. Software firms require abundant, reliable and cheap telephone and broadband data communications (Carmel, 2003). The quotation below from Market Boomer (2005) relating to their investment in Ireland, supports this:

"Ireland provides a perfect base for our European expansion due to the availability of qualified staff and access to a first-class technology infrastructure" (Market Boomer, 2005)

Linkages: Linkages are essential to any business; managers usually choose business links that they view as minimising their perceived costs of doing business (Kogut and Singh, 1988). It is the interest of every company to develop links in different dimensions as can be seen from the quote by Carmel below.

"Linkages emerge between individuals, between work groups, between firms, and between nations due to geographic, cultural, linguistic, or ethnic connections; or as a result of one or more liaisons that have created the linkages" (Carmel, 2003).

A view proposed by Kogut and Singh (1988) confirmed that the choice of entry mode into a foreign country through acquisitions, greenfield or joint ventures was affected by cultural closeness. This is another case where investment factors identified by the literature do not appear as quotations in the data which comprised the sample. The empirical findings are specific to the study rather than generic. In the case of building linkages, firms within the Software & IT sector did not refer to it as a key reason for investment in Ireland.

Research and Development: Research and Development is significant for the Software & IT sector participants as firms in this asset-seeking stream of FDI primarily focus their attention on upstream capabilities such as R&D (Caves, 1996). A considerable part of the existing FDI literature argues that decisions to pursue FDI are made when firms seek to exploit firm-specific capabilities in foreign markets. Several researchers have described the importance of FDI in R&D in exploiting firm-specific capabilities in foreign environments (Bartlett and Ghoshal, 1990; Hakanson, 1990; Vernon, 1966). They argue that as local demand grows increasingly sophisticated, local R&D facilities enable a firm to adapt existing products to local markets. As firms establish manufacturing facilities abroad and assign increasingly complex products to them, R&D facilities in close proximity to manufacturing facilities are necessary (Kuemmerle, 1999).

Once a firm realises it has a capability that could be used to satisfy demand in a foreign country, it will evaluate different options to exploit this capability (Dunning, 1958; Dunning, 1995; Hymer, 1976). An example from the empirical data is the US company StorageTek, a Colorado-based provider of storage solutions to the IT sector which established its European R&D centre in Ireland. The unit based in Dublin develops data management products in the application storage management area for its worldwide customer base. StorageTek, headquartered in Louisville, Colorado, has a turnover of \$2 billion and delivers a wide range of storage solutions that allow universal access to data across servers, media and networks. The company's R&D expenditure in 2002 was \$215 million. The following quotation outlines their rationale for choosing Ireland;

"..Qualified staff, successful track record in R&D investments from global companies". (Storage Technology, 2004)

To date, the study of the Software & IT sector has discussed the empirical data related to firm investment determinants from the IB literature perspective; the following section will discuss the investment considerations from an RBV perspective.

7.4.4 An Application of the RBV Concepts

This research looks into the theory of the firm to inform the understanding of the Software & IT industry within the Irish context. The resource-based theory of the firm (Wernerfelt, 1984) argues that in order to gain a sustained competitive advantage firms must develop firm-specific resources or capabilities that are valuable, rare or costly to

copy and substitute. Information technology research has frequently been applied to RBV theory. Information technology assets and capabilities are viewed as sources of sustained competitive advantage (e.g., Mata *et al.*, 1995; Bharadwaj, 2000; Caldeira and Ward, 2003). Wade and Hulland (2004) conclude that 'the theory provides a coherent framework to evaluate the strategic value of information systems resources' (p. 109).

As discussed in the conceptual framework chapter (section two, Chapter 3), the RBV argues that two streams of resources classed as core competences within an industry allow firms to attain and sustain a favourable market position. Within the Software & IT sector these streams fall under the industry-specific resources and industry development of resources (i.e. software development resources).

Industry-specific resources include knowledge and thorough understanding of the production processes which are unique to the industry (Wernerfelt, 1984; Barney, 1986, 1991; Grant, 1991, 1996). This knowledge is strategically valuable for Software & IT industry providers because it enables the development of systems that can better address the unique needs of customers. It is also reasonable to assume that such knowledge is distributed across the sector. Industry-specific knowledge is often based on a firm's position as an active player in an industry for a significant period of time. Consequently such knowledge is neither easily acquired nor is it susceptible to imitation or substitution by competitors. Unique historical conditions are frequently responsible for firm's possessing industry-specific knowledge (e.g. former business relationships with major players in an industry). Mature Software & IT firms located in Ireland have considerable experience and knowledge in production process, product development and addressing customer needs. An example in unique experience in production process is Intel:

"Intel, the world's biggest maker of computer chips, began production at Leixlip, County Kildare, in the early 1990s" (Intel, 2004)

An example of product development can be seen from IBM and Netgear's investment in Ireland:

"IBM is to invest Euro 22 million to develop its Irish software research facility. The company said that the investment, supported by IDA Ireland, is part of its global strategic development of its software business aimed at maintaining market leadership in the middleware (software that enables one software application to communicate with another) market." (IBM 2004)

"Netgear, which designs, develops and markets networking products for small business and home users worldwide, was set up ten years ago in California." (Netgear, 2006)

Software development resources encompass both assets and capabilities that significantly contribute to the efficiency and effectiveness in developing software products. Generally, assets are defined as anything tangible or intangible the firm can use in its processes for creating, producing and offering its products to a market, whereas capabilities are repeatable patterns of actions in the use of assets (Wade and Hulland, 2004). Knowledge related to the methodology guiding successful software development and the ability to apply this to efficiently and effectively managing complex software development projects represent valuable strategic assets and capabilities for IT and software firms. Such assets and capabilities are strategically valuable as they are directly related to the firm's core business activities. Although some firms are diversifying into other areas that may bring future growth there is still a significant commitment to the main growth drivers of the business. An example of this is IBM as the company is still focused on internet business which is their core activity:

"... develops software and peripherals, and derives about 35 per cent of sales from an ever-expanding service arm that is the largest in the world. About 60 per cent of sales are to customers outside the US. IBM, which has targeted biotechnology as an area of future growth, remains focused on Internet business." (IBM, 2004)

Knowledge-Based View

The knowledge-based view of the firm (Nonaka and Takeuchi, 1995; Grant, 1996; Kogut and Zander, 1996) defines organisational knowledge as a valuable subset of firms' resources. It argues that the capability to create and use knowledge is the most valuable source of sustained competitive advantage (Spender, 1996; Nahapiet and Ghoshal, 1998; Nonaka *et al.*, 2000) because firm-specific knowledge resources are valuable, scarce and difficult to imitate, transfer, or substitute. This view underpins the perception of the strategic value of industry-specific knowledge to the Software & IT industry. This view links strategic asset seeking motivation and the clustering of knowledge based industries and country infrastructure that support such industries. An example of this is SAP whose main reason for investing in Ireland is:

"...infrastructure necessary to support knowledge-intensive activities" (SAP, 2003).

Furthermore, in support of the above, SAP, one of Europe's largest software companies and the world's leading provider of business software solutions, established

a location in Galway, Ireland. The drivers for the new operation were highlighted by the Minister of Employment and Trade at the opening ceremony:

“Galway has a proven track record in providing the best of highly skilled and educated people and the infrastructure necessary to support knowledge-intensive activities from global international services companies. The new Galway Centre provides employment opportunities for people with fluency in European languages, IT expertise, and business and communication skills”.

The new operation provides technical support to SAP’s customers across Europe and the US for its business management product “Business One” which is part of SAP’s new growth strategy for the future.

“This will ensure that our customers receive the very best of experienced support care on the most up to-date technologies as SAP grows and expands globally.” (SAP 2003).

SAP’s decision to locate in Ireland supports some of the considerations outlined in the foregoing discussion and is in line with the strategic asset seeking motivation presented in this study.

Resources Capabilities and Competences

Resources encompass both assets and capabilities that significantly contribute to the efficiency and effectiveness of developing the firm. Generally, assets are defined as anything tangible or intangible that a firm can use in its processes for creating, producing and offering its products to a market, whereas capabilities are repeatable patterns of actions in the use of assets (Wade and Hulland, 2004). Knowledge about the methodology guiding successful software development and the ability to apply this knowledge to making and managing complex decisions represent valuable strategic assets and capabilities for the firm. The complex nature of such assets and capabilities presents an extremely difficult challenge for competitors who wish to imitate or substitute these resources. Mata *et al.*, (1995) concluded that out of all the IT resources identified in the literature as potential sources of competitive advantage, only managerial IT skills can provide sustainable market superiority.

An example is Shannon Systems B2BGateway, a US based software Service Electronic Data Interchange solutions provider that has expanded its EU operations in Ireland, where it has maintained a presence since February 2007. Expansion of the operations in Dublin will help to better service the company's EU client base.

"The capabilities and reliability of the Inovisworks network ensure our global customer base will be able to exchange documents securely regardless of size or technical complexity," said Kevin Hoyle, CEO, B2BGateway. "The Inovisworks platform allows B2BGateway to offer the most advanced VAN to our customers to support their critical supply chain activity." (Shannon Systems LLC 2008)

Core Competences and Dynamic Capabilities

The RBV identifies a subset of firms' resources as a basis for competitive advantage. However, this is a static view of the strategic value of firms' resources because the RBV does not account for the development and evolution of these resources as the external environment changes. The dynamic capabilities perspective (Teece *et al.*, 1997; Eisenhardt and Martin, 2000) addresses this deficiency by defining dynamic capabilities as 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' (Teece *et al.*, 1997, p. 516). Dynamic capabilities are change-oriented competences that enable firms to reconfigure and redeploy their resource base to meet competitive demands (Zahra and George, 2002; Zhu and Kraemer, 2002). Shannon is an example of a case where the firm uses their dynamic capabilities to drive and shape the market to their advantage:

"As a leading VAN, Inovisworks is built on a state-of-the-art J2EE platform to strategically drive towards the service oriented architecture framework." (Shannon Systems LLC 2008)

The business environment in the Software & IT industry is dynamic and is characterised by market entry barriers which are relatively low, new technologies are developed along a evolutionary path and business opportunities are proliferating. Thus it could be argued that a dynamic capability of absorptive capacity²⁷ is critical for the continuous strategic success of the Software & IT industry. Cohen and Levinthal (1990) define absorptive capacity as 'the ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends' (p. 128). They then argue that this capacity is largely a function of the firm's level of prior related knowledge. In the present framework, industry-specific resources represent the knowledge base that Software & IT firms can build upon in recognising, assimilating and applying new information so as to enter into new markets and in developing new subsidiaries. The dynamic characteristics of the industry makes it difficult for a firm to maintain its market superiority without the dynamic capability of reconfiguring and redeploying its resource base to meet their expansion into new market demands. The absorptive capacity relates to understanding the necessities for clients and creating

²⁷ Innovation capability and market share are the output absorptive capacity (Dosi *et al.* 1990; Cohen and Levinthal, 1990). By acquiring knowledge, organisations absorb knowledge and transfer it to innovation product capability so that firms can obtain competitive advantage.

solutions to meet these. An example of this is Stream Global Services investment that provides global outsourcing and technical support from their new Irish operation:

“The Dublin site augments Stream’s strategy to provide clients with high-end services that increase customer loyalty, matching the right work to the right shore for the right reason,” said Toni Portmann, president and CEO of Stream.”
(Stream Global Services 2005)

Furthermore, it is worth noting that dynamic capabilities are those capabilities that evolve over a long period of time. The researcher’s basic definition of dynamic capabilities is the way the firm interacts, learns, adapts and evolves in a rapidly changing environment. The evolving, adaptive nature of dynamic capabilities makes it difficult to engage in a discussion of them by observing them in the short run. The data collected for this research covers a six-year period, 2003-2009, which is marginally on the threshold of long term (five years). Observing a firm over a period of five years will only enable the researcher to draw small inferences as to how those dynamic capabilities have been developed. Because dynamic capabilities relate to individual firms and take a long time to develop and evolve, one needs to observe a company for a period of ten to fifteen years before inferences about dynamic capabilities can be made (Teece *et al.*, 1990). Thus, this research does not incorporate quotations that discuss dynamic capabilities because, by default, dynamic capacities have an evolving nature.

7.4.5 Study One Conclusion

From the foregoing analysis, it can be concluded that the Software & IT sector is internally driven by industry resources. Software & IT companies covered by the survey highlighted skilled workforce, capabilities, knowledge building and R&D as reasons for locating in Ireland. Further analysis of investment motivations in the sector will be discussed later in [Section 7.6] which provides a cross comparison, later in this chapter. The following section contains a study of the Financial Services sector in Ireland. It will provide a comparison with the Software & IT sector which is driven by its internal environment²⁸. The Financial Services sector is, in contrast, primarily driven by changes in the external environment and these changes are not necessarily linked with the existence of specific resources in the Irish economy.

²⁸ Software industry is in a continuous look-out for upgrading its competitive advantage through knowledge expertise and internal resource

7.5 Study Two: Financial Services Sector

The Irish Financial Services sector is characterised by its interdependence on regional and global financial services. The 2008 banking crises uncovered interdependencies between global financial systems. Ireland is a member of the European Monetary Union (EMU) and has benefited from the harmonisation of regulations across Europe and has adopted the Euro from its introduction in 2000. The Euro system, consisting of the European Central Bank (ECB) and national central banks, sets the monetary policy for the EMU. The ECB's main task is to maintain price stability within the Euro zone. The main implication of the Euro is the promotion of the single market. EU banks can lend and borrow without any exchange or interest risks, which encourages cross-border activities. The EMU further increases price transparency across European markets. Companies are now urged to think and act on a European wide, rather than, a national scale, which promotes not only cross-border mergers and acquisitions, but also domestic ones in order to gain sufficient scale (UNCTAD, 2002).

From a historical perspective, the Irish financial services industry saw a turning point in 1987 when the Irish government established the International Financial Services Centre (IFSC) in an attempt to broaden the financial services industry in Ireland. Institutions qualifying for IFSC status (a key criterion being that activities are carried out with non-residents and in non-Irish currencies) were offered a preferential 10% corporate tax rate, though the government, under pressure from the European Commission (which saw the special rate as a state aid to industry), agreed to phase out IFSC corporate tax incentives. By the end of 1999 new institutions at the IFSC were not been eligible for the 10% rate; they paid the standard corporate tax rate, though this was reduced in stages so that by 2003 the trading profits of all companies in Ireland were taxed at 12.5%. However, institutions that were already paying the special 10% rate continued to do so until 2005. At the end of 1999 there were 388 active projects based in the IFSC creating direct employment for 8,500 people. The main activities of IFSC institutions include international banking, corporate treasury, insurance and reinsurance, fund management, asset financing, custody and administration services and back-office operations (The Economist Intelligence Unit Limited, 2001).

From a global perspective, the Financial Services sector, although it is primarily internally driven by profits, relationships with other industry players and customers, one could also infer that the industry is also externally driven, by other countries' laws and regulation/deregulation policies, as well as business associates and customers that

have located in Ireland. This will become more evident throughout the following discussions and analysis of the sector.

In February 2001, the Irish government announced the detailed reform of Ireland's financial services regulatory framework, which resulted in supervisory functions being shared between the Central Bank, government departments, and the Consumer Affairs Authority (The Economist Intelligence Unit Limited, 2001). The Irish Stock Exchange has operated independently since 1995 having previously been integrated into the International Stock Exchange of the United Kingdom and the Republic of Ireland.

7.5.1 Literature and Characteristics of the Financial Services Sector

The Financial Services sector has always been in continuous development. Beginning in the 1980s, financial deepening and financial innovations led to a more market-oriented structure with firms increasingly relying on financial markets to fund their investments, an evolution observed both in Canada and the United States (Boyd and Gertler, 1994; Calmès, 2004; Roldos, 2006).

A survey of the UK financial sector for the period 1994-1996, found the sector has been very dynamic in terms of growth, innovation, organisational changes and internationalisation (Frenz *et al.*, 2005). Computer technology in particular had a crucial role in the development of the financial sector given the suitability of computerisation for all types of financial transactions (Barras, 1986, 1990). Moreover, the financial sector is relevant to all or most of the other sectors in the economic system, since the sector plays an essential role in the overall economic performance (Herring and Santomero, 1991; Bhattacharya and Thakor, 1993).

A significant change of the financial services sector landscape has reshaped and altered the basis for competition within the industry. This change is a result of a worldwide trend towards deregulation of a large number of industries including financial services, telecoms, power and health. It is also a result of globalisation, although the latter is traditionally associated with large multinational firms, small firms have been increasing their global presence due to the emergence of 'micro multinationals', which are defined as;

“very small firms with \$2-3 million in revenues but are as global as the traditional multinationals such as the IT sector in India” (Prahalad, 2005).

To present the reader with an insight into the empirical data, Table 7.5 provides a summary of the investment motivations for all firms in the financial services sector from the coded data.

Table 7.5 FDI Investment Motivations - Financial Services Sector
(2003-2009) (Internal - Reflects Literature Review on Core Competences)

Motivations Issues for Investment	Custom er Focus	Coordination	Path available	Strategic focus	Brand ing	Capabiliti es	Compet ences	Core competence	Effectiveness (operational capabilities)	Total
Financial Services Firm (Total 16)										
CIT Group	x					x			x	3
MGM Assurance										0
Bardford and Bingley			x		x					2
New York Mercantile Exchange (NYMEX)					x	x			x	3
Bibby Line Group			x	x						2
Northern Trust							x		x	2
Equifax						x				1
My Travel Group plc						x	x			2
Continental Traffic Service (CTSI)	x	x					x		x	4
Royal Bank of Scotland (RBS)	x			x	x		x			4
Aviva	x			x	x					3
Beazley Group										0
HSBC	x				x	x	x	x	x	6
Nationwide Building Society	x			x	x	x	x			5
Dual Corporate Risks Ltd										0

Bank of New York Mellon				x		x	x			3
TOTAL:	6	1	2	5	6	7	7	1	5	

The table was compiled by the researcher through cluster analysis of the data.

7.5.2 Determinants of FDI in the Financial Services Sector

The process of internationalisation has affected the Financial Services sector to a considerable degree (Miozzo and Miles, 2002). A study of the world's largest 664 companies found that the sector exhibits indices of internationalisation higher than the same indices for the whole of the service sector (Letto-Gillies, 2001). These global institutions know how to use the most advanced technology to reduce significantly the costs of information management (i.e. collection, storage, processing and transmission) and increase the range of products and services they offer to a diverse range of customers (Frenz et al., 2005). The literature highlights some key determinants of FDI in the Financial Services sector:

Regulations and Government Policy

Until the mid-1980s, the Irish Financial Services sector was characterised by significant government involvement and by numerous institutional and regulatory limitations on the domestic, cross-border and cross-sector activities of financial service firms. The process of deregulation and harmonisation in the financial services sector has been a gradual one for Ireland. Numerous regulatory changes that have taken place have sought to:

1. Eliminate restrictions on domestic competition: enhancing domestic competition includes the elimination of restrictions on the entry of new domestic firms and restrictions on mergers and acquisitions. It also includes the removal of limitations on the use of competitive tools such as interest rate controls and the loosening of controls on capital flows that limit foreign competition (Flier *et al.*, 2001; Gual, 1999).
2. Changing the scale and scope of financial activities: regulatory changes comprise indicators on the relaxation of regulations that limit the scale and scope of financial services. These include restrictions on cross-border establishments and limits on combining banking, insurance and securities activities within a single firm (Flier *et al.*, 2001; Gual, 1999). An example in support of this comes from the empirical data behind Aviva's decision to invest in Ireland:

"Ireland's position in the EU and our regulatory environment makes us an ideal choice for the reinsurance operation," (Aviva, 2009)

3. Improving the external competitive position of financial firms: this applies to variations in regulations impacting the external competitive position of financial firms.

These include solvency regulations, capital adequacy requirements and reserve and investment coefficients. These measures impact the cost of doing business and place limits on the free use of deposits and a firm's own funds (Flier *et al.*, 2001; Gual, 1999). As discussed in the introduction, an observation of the researcher from the data is that although some of the investment factors are identified by the literature, they may not appear as quotations in the sample. The empirical findings are specific to the study rather than generic. In the case of market deregulation of investment, not all firms within the financial sector refer to it as reason for investment in Ireland.

Innovation

Innovation for Financial Services firms has often been identified more in terms of process and organisational changes than in new product development in a traditional sense (Frei *et al.*, 1997). Innovations in financial services firms raised fundamental questions concerning competition among, for example, banks and non-banks, interaction with the consumer and the delivery of innovative products, organisational issues within the firms and the industry, including vertical integration (Harker and Zenios, 1998).

Among the most important conditions that encourage innovation within financial services firms is the nature of technology and its diffusion within the industry (White, 1997). Increasingly information technology (IT) is used as a strategic tool to achieve cost efficiency, improve profitability and retain or increase competitive advantages. Furthermore, Tether *et al.*, (2001) in a comprehensive EU-wide report found that in the EU as a whole, financial services are less likely to conduct R&D than all other services sector.

Technology and innovation can be considered basic strategic tools for the financial services sector to safeguard their long-term competitiveness, cost efficiency and improve profitability. HSBC is one example from the empirical data that highlighted knowledge and expertise as reason for investment in Ireland;

“We have an excellent skills and knowledge base here...” (HSBC, 2009)

However, this does not imply that smaller and less global institutions necessarily have a lower potential to innovate. In the financial services industry, factors such as reputation and long-term relationships with customers are so relevant that they often generate “local monopolies” for small and medium-sized institutions (Frenz *et al.*, 2005). In the presence of increasingly lower switching costs, this factor is an obvious

incentive for the less global financial firm to offer new products that minimise the potential loss of customers (Frenz *et al.*, 2005).

Consolidation and Restructuring

Mergers and Acquisitions activities have taken place across the financial sector for the past two decades. These activities involve domestic banks and non-banking financial institutions, in particular, insurance companies. Considerable levels of MandA has taken place across borders (European Central Bank, 2000).

Financial institution mergers offer opportunities to realise size-related diversification gains through risk pooling (Emmons *et al.*, 2004; Craig and dos Santos 1997). European bank consolidation enhances profitability through increased market power in the post-merger period (Coccoresse, 2009), in addition to changes in the management of the assets of the combined institution; MandA may lower the default risk of bidding banks even further.

Although mergers and acquisitions constitute a part of the determinant for investment decisions by financial sector participants, this research focuses on motivations for investment and the empirical data has not highlighted mergers and acquisitions as a consideration when firms decide to invest in Ireland.

Risks and Diversification

There are many risks that financial institutions are exposed to, the main ones being the traditional risk associated with trading activities, counterparty risk (banks securitisation of loans as a measure to diversify risk) and off balance sheet risks (Vallascas and Hagendorff, 2011). An example, which refers to the firm market seeking motivation but uses risk profiling, as part of the reason to locate in Ireland is Dual Corporate Risk limited:

“The market in Ireland has potential and will complement our existing risk profile of providing local solutions in local markets.” (Dual Corporate Risk Limited, 2009)

Following deregulation of financial markets, financial institutions exposure to trading risks and counterparty risk has been the subject of wide debate since the 2007 financial crisis (financial crisis – it started to emerge in 2007 but manifested itself in 2008). Ideally, banks should at all times be aware of their total overall exposure to a counterparty and understand how it might vary with changes in markets or economic conditions. This counterparty credit risk led to a global financial crisis in 2007 (Geyfman, 2010). The operation of bank bailout policies and deposit insurance schemes as a

result gave rise to well-defined problem of moral hazard (Vallascas and Hagendorff, 2011).

The emergence of a risk premium is also associated with off-balance sheet activities; the emergence of this premium over the period 1997–2007 resulted in the pricing of increased risk associated with surging off-balance sheet activities. Baele et al., (2007) is one of the rare studies which considers explicitly the relation between off-balance sheet activities and the risk premium required to price the risk associated to them.

Another argument is that mergers of financial institutions focus on risk diversification. Mishra *et al.*, (2005) finds merger-related synergies reduce both total and idiosyncratic risk for US bank acquirers. Chionsini *et al.*, (2003) show that bank MandA reduces the credit risk exposure of Italian banks.

Knowledge

In the context of major environmental and structural changes for the financial services industry, multinationality and internal knowledge flows can interact in the production of innovation activities. There may be potential advantages from multinationality due to the transfer of intangible assets; this could be achieved even in the face of observable institutional diversities that might pose difficulties to the transfer of resources. Examples include new services (e.g. on-line security trading) and new processes (e.g. credit scoring) associated with major global banks (Frenz et al., 2005).

The global Financial Services sector is expected to have significant innovation if its wants to operate in different national contexts because participants have to deal with different regulations, different institutions and cultures. For example, Citigroup, based in the USA and the world's largest bank, has offices in over 100 countries and regions; UK-based Barclays, one of the largest financial services groups, has a presence in over 60 countries and serves over 20 million customers worldwide; HSBC, another UK-based firm has an international reach of more than 9,500 offices worldwide (Frenz et al., 2005). An example from the empirical data for Ireland is ICT Finance's decision to locate in Ireland:

"The combination of increased capability, experience and facilities will enable us to dramatically improve our service to vendors and customers". (CIT Finance, 2003)

Finally, to present the reader with a clear picture of the empirical data, Table 7.6 provides a summary of the external regulatory and policy level issues for all firms in the Financial Services sector from the coded data.

Table 7.6 Locational Investment Motivations of the Financial Services Sector (External - Reflects Literature Review on Location) For the period of (2003-2009)

Motivational Factors for Investment	Development Authority	Domestic Regional Growth Potential	Industrial Government Policy	Infrastructure (Technology, Transport Telecommunication)	Skilled workforce	Total
Financial Services Firm (Total 16)						
CIT Group				x	x	2
MGM Assurance			x			1
Bradford and Bingley	x		x			2
New York Mercantile Exchange (NYMEX)	x				x	2
Bibby Line Group						0
Northern Trust					x	1
Equifax	x				x	2
My Travel Group plc	x		x			2
Continental Traffic Service (CTSI)						0
Royal Bank of Scotland (RBS)		x			x	2
Aviva		x				1
Beazley Group			x			1
HSBC		x	x		x	3
Nationwide Building Society						0

Dual Corporate Risks Ltd						0
Bank of New York Mellon		x	x	x	x	4
TOTAL:	4	4	6	2	7	

The table was compiled by the researcher through cluster analysis of the data.

7.5.3 Resource Based View

As discussed in the literature chapter, the resource-based theory assumes a firm should build on core competences in order to maintain its competitive advantage. Firms should create innovation capability where knowledge is its input (Hamel and Prahalad, 1994); absorptive capacity is a form of processing of information and knowledge, where innovation capability and market share is the output achieved (Dosi et al., 1990; Cohen and Levinthal, 1990). Thus, by acquiring knowledge, organisations absorb knowledge and transfer it to innovative product capability to enable the firm to develop a competitive advantage.

Absorptive capacity is the ability to evaluate and utilise knowledge outside the organisation in order to identify the organisational environment so as to gain and sustain its competitive position (Cohen and Levinthal, 1990). This means that high absorptive capacity will lead to high performance. The Financial Services sector is one where participants utilise knowledge of their customers' needs and which has resulted in some establishing operations in Ireland to service those customers.

Knowledge resources and absorptive capacity strengthen the market base of financial institutions and sustain their competitive position. An example is Dual Corporate Risks Limited:

"The market in Ireland has potential and will complement our existing risk profile of providing local solutions in local markets." (Dual Corporate Risks Ltd, 2009).

Furthermore financial institutions know and have prior dealings with firms that invest in Ireland. The locational factors that financial institutions seek out are ones that can give them high returns on their investment and locations that will give them minimum risk. An example from the empirical data is HSBC, which has chosen Ireland as the hub for its reinsurance business. The decision puts Ireland at the heart of HSBC's reinsurance operation, which is worth \$16.5 billion. HSBC's Ireland chief executive Simon Wainwright said:

"This decision is a major boost for HSBC Ireland and recognition of the hard work and success of our Insurance business.... we have an excellent skills and knowledge base here and I am pleased to be announcing a positive news story to the market"

Therefore, the RBV discussion here links with the knowledge of the firm which is different from the knowledge base within the Software & IT sector. This internal knowledge that financial services institutions possess of their customers is a unique resource for them. The optimum way for financial institutions to use this resource is to utilise the knowledge by following those companies and by offering them financial capital wherever they operate. HSBC is expanding its regional operations, which displays a market seeking motivation. This finding ties in and verifies the literature on the internationalisation strategies of the financial services sector, which discusses customers' need (Dosi et al., 1990; Miozzo and Miles, 2002).

7.5.4 Conclusion of Case Two

The findings demonstrate that the Financial Services sector is: 1) heavily reliant on deregulation which is a market seeking motivation because if the market is regulated and closed then there is either a limited or zero opportunity to explore; once the market opens up investment can take place and creation of a market opportunity will come into existence. 2) Financial institutions follow their customers; a boom of FDI into Ireland by MNEs who require financial services encourages financial institutions to establish a presence in Ireland to service their existing customers. All of the above are market-seeking motivations.

The Financial Services sector is primarily driven by market seeking motivations and this is implicitly reflected in the way firms discuss their motivations. For the Financial Services sector the RBV relates to the financial capital that firms hold and their knowledge regarding particular customers. Financial institutions mobilise their capital and utilise it in the most efficient way across their network. From a RBV perspective when making a decision regarding investing, Financial Services participants consider the following factors in the decision making process: What is the most efficient way? Which are the markets to target? Where are markets that are exhibiting strong growth? and, Where are markets where existing customers are present?

Further discussions and analysis of the Financial Services sector is presented in the following cross studies section.

The findings highlight that the Financial Services as a sector is: 1) heavily reliant on deregulation which is a market seeking motivation because if the market is regulated and closed then there is no market to explore; once the market opens up, investment can occur and a market opportunity will exist. 2) Financial institutions follow their

customers; a boom of FDI into Ireland by MNEs, who also require financial services, encourages finance institutions to establish a base in Ireland so as to service their existing customers. All of the above are market-seeking motivations.

Therefore, the Financial Services sector is primarily driven by market seeking motivations and this is implicitly reflected in the way firms express their motivations. This relates to the financial capital that the firms holds and their knowledge about particular customers. Financial institutions mobilise their capital and utilise it in the most efficient way across their global network. From an RBV perspective when deciding on investing the sector considers: What is the most efficient way? Where are markets? Where are markets that are booming? And, Where are markets that are growing at fast rates?

Further discussions and analysis of the Financial Services sector are presented in the following cross studies section.

7.6 Cross study Comparison and Conclusions

The Software & IT and Financial Services sectors provide case studies, which enable the researcher to generalise findings of the analysis, this is the rationale for the choice of sectors. The two case studies are comparable in terms of the different sectors, which provide different dimensions of analysis. Software & IT represents an industry which is driven by its internal resource seeking motivations, while Financial Services is an industry which is driven by the changes to its external environment and market seeking motivations.

The locational characteristics that exist in Ireland which determine MNEs investment choice are supported by the data as reasons why MNE are commenting positively on setting up in Ireland. From the findings of the empirical data, Software & IT companies mainly highlighted skilled workforce, capabilities, dynamic capabilities and building knowledge as reasons for their investment. Financial Services related investments were primarily driven by the motivation to develop growth in the market, liberalisation, servicing existing and new customers by providing access to capital.

7.6.1 A Strategic Asset Seeking Sector versus a Market-Seeking Sector

Dunning (2000) argues that strategic asset seeking investment is very much a feature of contemporary globalisation with firms augmenting their own assets by acquiring those in the host country. Such investments result in the development of interdependencies between multinational and indigenous companies particularly in

high technology sectors (Grimes, 2003). Although globalisation has widened the options open to MNEs to locate in different locations, there is a tendency for knowledge-intensive FDI to become more concentrated in sites which have clusters of firms engaged in related businesses, thereby providing potential synergies.

The Software & IT sector invested in Ireland for primarily internal business environment reasons. The manner in which the firms create competitive advantage and the way they use their resources to access the best location alternatives primarily for strategic asset seeking. The Financial Services sector is one where FDI is primarily driven by changes in the external environment. This pattern of behaviour across the sector is evident in other EU countries where potential for market growth exists, for example expansion of the sector in the UK as a result of globalisation and market potential. Ireland represents a country where changes in the Financial services sector are not resultant from Ireland's locational attractiveness per se.

FDI experienced a boom in Ireland between 2003-2009. Financial Services institutions followed their customers to establish in those locations where the latter were present. There has been a substantial number of US MNEs who have invested in Ireland; the literature suggests, and it is evident in most empirical exercises, that financial institutions will heavily invest in a location as they are following their customer base (Sokol, 2007), as is the case of Ireland. Financial institutions know that once an MNE invests in Ireland, their subsidiary will seek finance, preferably from the existing lenders to the parent company. From the empirical data an example of this is The Nationwide, as demonstrated by the quotations below:

"Making ourselves more accessible to the local market and the family savers is part of our strategy". (Nationwide Building Society, 2009)

There is disagreement in the literature as to the extent to which the internationalisation process in financial services and banking, in particular, is led by strategies of "follow the leader" or by wider market-seeking strategies (Arora, 1995). Molyneux et al., (1996) noted the important element in the recent process of financial deregulation in Ireland has been the opening-up of the EU banking systems to domestic as well as foreign competition. For example, Aviva verifies this:

"Ireland's position in the EU and our regulatory environment makes it an ideal choice for the reinsurance operation" (Aviva, 2009)

The opening of the EU banking industry has provided domestic banks and other financial services participants with an opportunity to expand their activities abroad, but

also forced them to face increased foreign competition in their domestic marketplace. For example the Bank of Scotland verifies this:

“The main aim of the new business banking hubs is to expand the national footprint of Bank of Scotland (Ireland), get closer to its existing customers and attract new local business”. (Royal Bank of Scotland, 2007)

Financial integration has been generating incentives for financial services companies to increase their activities in international markets and to develop a broader network of connections among financial institutions both at the domestic and cross-border level. From the empirical data an example of this can be seen from HSBC, whose insurance business demonstrates horizontal integration and connectivity, as the quotation below highlights; equally Accenture’s quotation demonstrates connectivity through building links with local demand:

“This decision is a major boost for HSBC Ireland and recognition of the hard work and success of our Insurance business” (HSBC, 2009)

“Mark Ryan, MD of Accenture in Ireland, said the expansion is in response to increasing demand from the company's growing Irish base”. (Accenture, 2005)

This chapter brings an interesting contrast in terms of an industry that is driven into Ireland for ‘strategic asset seeking’ motives [i.e. Software & IT sector] and where the ‘locational characteristics’ of Ireland played an important role in the firm’s choice to further develop their competitive advantage. In contrast to the Financial Services sector, which is far, more globalised an industry in terms of its environment; it relies strongly on investing in deregulated countries. However, for the financial services industry Ireland primarily happens to be another location that the industry could exploit a ‘market seeking motivation’.

7.7 Conclusion

The contribution from the empirical analysis to validate the conceptual framework had been discussed in this chapter through the literature and the cross comparison between the two sectors. The different factors which influence these two industries were the primary reasons for their selection, namely:

1) They are the leading ones in terms of the data (see section 7.2 of this chapter) with both emerging as dominant in terms of the number of firms investing in Ireland, the level of investment and employment.

2) They are highly differentiated in terms of the key influencing factors for each of them; the Software & IT industry is most influenced by the internal ability of the organisation to generate knowledge, acquire a skilled workforce, research and development and so forth. In Financial Services, it is primarily the deregulation of the environment and the existence of a large market which are the main influences on it.

Effectively, Irish FDI policy was focused on attracting knowledge intensive sectors such as those represented by the Software & IT sector. According to the literature, the sector is seeking to secure location characteristics (as set-out above) in-line with its capabilities and motivations. The Financial Services sector is global in nature and participants are seeking to have a local presence in a wide number of countries. The barrier to entry for the sector is reduced in many locations across the world. However, the sector's motivations for investing in Ireland is not to develop capabilities, which are available elsewhere, but primarily to gain access to their customers and additionally for market seeking purposes.

Therefore, the Financial Services sector is not establishing in Ireland for the R&D or knowledge that Ireland can provide; participants are seeking to establish a local presence. Therefore they are driven by changes in the external environment; the industry is a more market-seeking sector in terms of its investment in Ireland relative to the IT sector, which is strategic asset seeking.

This chapter demonstrated that within the same location, industries' investment motivations differ where firms are matching their resources with opportunities. A country that has a number of locational factors can equally attract specific targeted types of companies but it can also attract other companies through the linkages it offers. The cross case analysis demonstrated that the Software & IT sector is different from the Financial Services sector, both of which exhibit different motivations for investing in the same location.

This chapter is an advance from the locational factors discussed in Chapter 6. The chapter addresses, through the RBV approach, the question 'do MNEs within the same location exhibit the same FDI motivation'. The answer to this is yes; some sectors can have big markets and intermediate markets; R&D, government policy, skilled workforce

and growing markets all in the same basket of motivations driving their investment decision. However, the findings indicate that not all sectors will exhibit the same motivation and not all sectors will be attracted to exactly the same process. For example, in this study skilled workforce and developing domestic markets are not in the same basket. The generalisation of the results from this chapter leads to the conclusion that all sectors may exhibit a similar profile of investment decisions but their decision may include different variations of grey. For example, within the same location, some companies will invest in a country where domestic growth in demand is priority for them, but skilled workforce is not a priority. Other companies will invest in a country where domestic demand is weak but skilled workforce is their priority. All this depends on whether the firms are efficiency seekers, strategic asset seekers, market seekers or resource seekers.

8 Chapter 8 Firm Level Analysis Linking Strategy with International Business (Linking Resources and Competences with Firm Motivations)

8.1 Introduction

The purpose of this chapter is to empirically validate through firm-level or specific (micro level) analysis RQ2 and RQ3 “*What are the main motivations for firms locating into Ireland?*” and “*What is the core capability of firms locating into Ireland?*”. This Chapter is at the centre of the empirical evaluation of the conceptual framework developed in Chapter 3. This empirical evaluation will be undertaken through a combination of qualitative and quantitative approaches. The qualitative approach includes a content analysis of the document data and the quantitative approach comprises a cluster analysis of the data from the content analysis

The bridging of the international business literature (linking firms’ motivations) and SM literature (with firms’ resources) demonstrates how the possession of certain resources, competences and capabilities lead firms to exhibit certain motivations in different locations. Since resources, competences, capabilities and location are an integral part of firms’ decision making process, the relationship between firms’ resources and motivations will be explored. For example, it is expected that firms with the same resource configuration exhibit similar behaviour, whereas firms with different resource configuration exhibit different behaviour in terms of their motivations.

The chapter will investigate the propositions outlined in Chapter 4, section 4.2.6., through firm level data analysis. Verifying these propositions through the empirical data makes an interesting case as this research addresses the following gaps in the RBV. The first gap identifies the types of resources and capabilities which are associated with the MNEs investment decisions related to Ireland (Foss et al., 1995; Miller and Shamsie, 1996). The second gap links the analysis to the MNE business environment and industry context (Dess et al., 1990; Miller and Shamsie, 1996; Johns, 2001). The literature gaps are discussed in sections 2.2 and 2.3 of Chapter 2.

The analysis of the dataset highlights how the resources, capabilities and core competences influence firms’ behaviour. The quotations from the data and the cluster analysis shed light on the validity of the propositions developed through the conceptual frameworks.

This Chapter is structured into the following components: Section 8.2. examines the sample to highlight the key motivations of firms' for investing in Ireland. It also demonstrates that sometimes firms are not following one single primary motivation, but rather a combination of motivations. Section 8.3 goes a step further and discusses the resources and capabilities as a mirroring element of motivations. Section 8.4 addresses the propositions and finally Section 8.5 concludes the chapter.

8.2 Motivations and Potential Combination of Motivations in Relation to the Sample

The focus here is on the motivations which firms exhibited through their investment decisions related to Ireland. The coding process of the data identified the key motivations as follows: 1) market seeking motivation (this is the most frequently highlighted motivation with 44 mentions); 2) strategic asset seeking motivation (the second most referenced with 29 mentions); 3) efficiency seeking motivation (the third most referenced motivation with 19 mentions), and 4) resource seeking motivation (the least referenced motivation with only 13 mentions).

The numbers of referenced motivations, above, are for clarification purposes only. For example, out of those 44 cases where market seeking motivation was mentioned, some presented a strong case where firms stated they invested in Ireland only for the market and others within the group present a less strong case. This same argument applies to strategic asset seeking. The methodology chapter discussed the manner used to interpret the data and refer to it in terms of context and textual analysis. Thus where the contextual analysis approach was used, the researcher took into account not only the statements by MNEs, but also the manner in which they were expressed.

According to the analysis, strategic asset and market seeking are motivations in attracting investors to Ireland. This behaviour differs from the expectations with respect to Ireland's country characteristics. As discussed in Chapter 5, although initially Ireland was a strong manufacturing base for MNEs, in recent years it focused its education and industrial policy on developing a high knowledge intensive industry base for multinationals. Consequently, strategic asset seeking behaviour was expected to be the dominating reason for the firm's investment in Ireland and not a market seeking one. To illustrate this point, the analysis of the data and the nature of investors engaging in FDI in Ireland show that the US is the home country for most of firms, being the source country for 44 projects. The US is a developed economy and the majority of those MNEs are well established in their home country. Based the above, it

is expected that these firms have already developed a substantial amount of strategic assets and that their decision to enter Ireland is partly to develop their strategic assets further, but mainly for market reasons.

This behaviour is consistent with Dunning's (1981, 1986) stages of development of the Investment Development Path (IDP) where early investments are mainly resource seeking. These motivations change to market, efficiency and strategic asset seeking behaviour along with the firms' maturity and countries development process. For example, the majority of US investors which are more advanced in terms of their IDP, will invest in Ireland for market and strategic asset seeking reasons (the position of those firms in the home country determines their IDP).

Appendix 8.1 (see Volume 2) demonstrates the type of motivation (or the combination of motivations) each of the ninety-eight projects exhibited during the time of investment. Two important elements, which warrant further discussion, were observed from the sample data (see Appendix 8.1):

1) Firms with single motivations: a substantial number of firms exhibit a single motivation for investment. Of the 98 project, 63 exhibit a single motivation. Those firms are either Market Seekers (MS), Strategic Asset Seekers (SAS) Resources Seekers (RS) or Efficiency Seekers (ES). However, it is worth noting that despite some motivations not being highlighted by the data set, this does not indicate that other motivations are not part of respondents FDI decision-making process. The limiting nature of the data and the firm discussion and disclosure of information may have resulted in the omissions of some of their motivations.

2) In a number of instances some MNES expressed more than one motivation for their investment. Therefore, firms can exhibit one and/or a combination of motivations simultaneously. See Appendix 8.2 for details of the methodology employed in summarising the data on firms' motivations from the Nivivo output. The summary classifies the cases based on whether firms exhibit single or multiple motivations and identifying the type of motivation.

Filippaios *et al.*, (2004) undertook a study of the strategic behaviour of US firms through the conceptualisation of MNEs by building on the dynamic differentiated network framework where firms exhibited more than one motivation. They observe US firms exhibiting efficiency seeking behaviour as a co-option for market seeking behaviour. From the empirical perspective of this research, this is true for some firms in the study. However, the findings show that market-seeking behaviour appears to

complement all other motivations. It is usually combined with strategic asset seeking, resource seeking and efficiency seeking behaviour. In many cases the combination of motivations manifests itself where a firm is exhibiting resource-seeking characteristics, while the firm also seeks to service the market as a further motivation (i.e. to capture additional market share). Some firms' location decisions were primarily in response to their search for strategic assets (tapping into knowledge assets), while simultaneously deciding to service the market. A similar phenomenon was observed in the case of firms seeking efficiency also deciding to service the market.

Firms such as MySQL, Pepsi, Stream Global Services, Siemens, TR Electronics, Intel and many others have invested in Ireland motivated by a combination of factors. This will be discussed further in the following section.

8.2.1 Findings for Firms Investment Motivation

Twenty-one of the ninety-eight firms did not disclose any evidence of any specific investment motivation. This lack of evidence represents a limitation in this study; this is not due to the fact that the firms did not have any motivations, however within the data some firms did not directly indicate a specific motivation.

Of the sixty-three firms exhibiting only one motivation, the majority are market seekers or strategic asset seeking. This is in line with the findings of this study of Ireland, as outlined in the introduction to this section. Eleven firms exhibit a combination of motivations. Market seeking is a key motive for firms investing in Ireland, followed by strategic asset seeking, efficiency seeking and resource seeking, in order of priority. Furthermore, these findings are in line with the findings set out in Chapter seven which studied two sectors, Software & IT and Financial Services, with a total of 33 projects examined. These two sectors also showed significant strategic asset and market seeking motivation. Table 8.1 (see Appendix 8.2 for details on the construction of the table) provides a summary of the stand-alone findings and combination of firms' motivations²⁹.

²⁹ Market Seekers (MS), or Strategic Asset Seekers (SAS), or Resources Seekers (RS) or Efficiency Seekers (ES).

Table 8.1 Summary of investment Motivations – Software & IT and Financial Services Sector

Number of Firms	Type of Motivation
21	No evidence of motivation (21 firms)
28	MS
18	SAS
10	ES
7	RS
5	MSandSAS
3	MSandRS
2	ESandMS
1	ESandSAS
1	ESandRS
1	SASandRS
1	ESandSASandMS

8.3 Findings for the Single Motivation

The discussion in this section will commence with the traditional motivation of resource seeking where firms seek to attain natural resources, followed by market seeking behaviour, a motivation which a large number of firms demonstrated. The discussion will examine the efficiency seeking motivation; this motivation explains what is happening now with Ireland's position in relation to the eastern European countries and the transient MNEs. Finally firms' strategic asset seeking motivation is addressed; this is characterised by a constant search by the firm to achieve strategic development and maintenance of their competitive advantage; as a consequence a substantial number of firms have chosen Ireland. This helps explain the successful experience the Irish economy has witnessed by its FDI experience during the period of this research.

- ***Resource Seeking Motivation***

As discussed in section two of Chapter 5, Ireland is not rich in natural resources. A resource seeking investment is usually associated with low cost FDI such as cheap labour or a natural resource. Only seven firms directly referred to resource seeking as a motivation for investment, suggesting that this motivation is not obvious in Ireland. Having thoroughly studied the data, no strong cases are evident which demonstrate resource-seeking investment. Firms such as Cameron, a firm that support the oil and

gas companies, invested in Ireland for workforce reasons as the quotation below demonstrates:

“Cameron to significantly expand and further develop its manufacturing facility in Longford 10/04/2008 Cameron Ireland Ltd. Our products have high value added content and require a high degree of skill and experience to manufacture to the very exacting standards demanded by the industry and the certification required”. (Cameron, 2008)

The high value added content indicates a resource seeking motivation for Cameron, however, even in this case the firm’s discussion leaned towards a strategic asset seeking motivation.

Within the sample there was no obvious specific reference to resource seeking as a main reason for investment. Even firms such as Diageo (drinks company that uses barley for the production of Guinness stout) and Kellogg’s (cereal manufacturing company), would be expect to demonstrate some form of resource seeking motivation (taking advantage of Ireland’s agriculture produce), however neither made any reference to it. The lack of evidence within the data of a resource seeking motivation could be due to the fact that Ireland has very few natural resources and it is no longer a cheap manufacturing base for MNEs, as was the case in the 1960’s and 1970’s.

- **Market Seeking Investment**

Market-seeking investment is undertaken with the objective of serving particular markets with local production and distribution rather than by exporting from the home country or from a third country. By adopting this type of behaviour, the firm benefits in many ways, including from economies of scale³⁰, product adaptation, removal of trade barriers, reducing transportation costs and customer proximity. The empirical data validates these advantages as market seeking was the single reason for firms investing in Ireland. With 28 firms highlighting it as a motivation for investment, a total of 44 references were made to it within the empirical data, across different companies/sectors; examples include BMW, Accenture, MYSQL, Carpetright,, Shannon Systems and Pacer International. The manner in which they phrase the quotations below reflects the different types of market seeking motivations of firms. Some firms’ market seeking motivations have a regional dimension; others have a business-to-business dimension, specific business segment, short-term orientation or opportunistic behaviour (Berhman, 1984; Dunning, 1993, 2008; Filippaios et al., 2004).

³⁰ A market becomes viable as a market if it gives the firm the opportunity to generate efficiency seeking.

“...customer proximity” (BMW 2003)

BMW invested in Ireland to service the local Irish market.

“Increase demand for the company's services” (Accenture, 2003)

This is a “follow the customer approach” for Accenture as some of their customers have invested in Ireland and Accenture followed them in order to provide their services.

“The UK and Ireland are key markets for MySQL and with the establishment of our new in-country sales team, we aim to deliver even more value to these expanding markets.” (MYSQL, 2004)

MYSQL invested in Ireland in order to service the regional European market.

“The decision is due to how well sales are going in Ireland. It was our best performing region last year” (Carpetright, 2005)

Carpetright invested in Ireland to service the local market based on a short-term orientation. The decision was made based on good performance in the previous year.

“The growing demand for easy and cost effective EDI solutions in the European marketplace has necessitated the expansion of this office.” (Shannon Systems, 2008)

Shannon invested in Ireland to service European and regional markets.

“Strong market sectors in the region, such as medical, will benefit substantially from Pacer’s optical and photonics expertise and we are looking forward to increasing Pacer’s support of these markets.” (Pacer International, 2009)

Pacer International’s investment is based on a strong market opportunity in the region. Thus they invested so as to service the business-to-business segment of the market.

Although technological possibilities are making it easier for firms to reach their customers and understand their needs and to provide good service, firms continue to look for investment locations in proximity to their customers. Thus, it is evident that market seeking is a strong motivation for firms locating in Ireland. The view outlined at the outset of this chapter is that market seeking is important for a firm investing in Ireland. However the original expectation was that market seeking motivations of firms are centred on Ireland’s local market. The highlight of the findings and contribution of

this section is that market-seeking behaviour has many facets and approaches.

It is also worth noting that there is a differentiation and clustering of market seeking behaviour of firms as it is also determined and influenced by the region where firms originate. There appears to be a difference in motivation for companies that originate from the Western (US), European and Asian region. Companies originating from within the European Union (Carpetright, Accenture, BMW Siemens) are seeking to service the local Irish market only, while companies from outside Europe (MYSQL, Pacer International) are seeking to service both the local and regional markets.

The contribution from the above discussion confirms that not all the quotations fall under the same type of market seeking approach. Therefore, some firms' market seeking motivations have a regional dimension; others have business-to-business dimension, specific business segment, and short-term orientation or represent opportunistic behaviour. This is an interesting finding from the qualitative data sample where the data has captured different types of market seeking behaviour which cannot be captured by quantitative data alone. Furthermore, this contributes to the literature as the latter does not explicitly refer to the different types of market seeking behaviour exhibited by firms.

The existing literature discussed a dynamic differentiated network (Behrman, 1974; Filippaios et al., 2004) and the manner in which firms exhibit different motivations. However, up to this point most of the empirical work within the literature has followed a quantitative element which does not facilitate the compilation of comprehensive results as motivations cannot be quantifiable. Therefore, this study's use of qualitative data highlights and captures firm motivations in the clearest possible way, thereby capturing different combinations of motivations. This is one of the study's key contributions as it furthers the understanding of MNEs behaviour.

- ***Efficiency Seeking Motivation***

Efficiency-seeking investment is driven by the intention of the firm to spread value-adding activities geographically in order to take advantage of differences in the availability and cost of factor endowments in different countries as these evolve throughout their development process (Zaheer and Manrakhan, 2001). Efficiency seeking is the dynamic element where the firm examines its network and the countries where it has established a presence. It is dynamic in a sense that the firm re-evaluates the current structure of its network to ensure that it is still fit for purpose or to identify alternative specifications and/or the need to invest in other countries in order to

maximise business efficiency.

Essentially this is a decision for the MNE to decide how to configure its activities internally in the most effective manner in line with the comparative advantage of different locations, in order to maximise efficiency and reduce costs (Zaheer and Manrakhan, 2001). Within the sample, 10 firms listed efficiency seeking as the only reason for their investment. However, within the data a total of 19 references made to efficiency seeking as reason for their investment in Ireland including firms such as CIT Finance, McAfee and Novell:

“2-year restructuring project which began in 2001 when CIT decided to streamline its European operations into one central location” (CIT Finance, 2003)

The above highlights that CIT Finance is seeking efficiency by streamlining and capturing economies of scale.

“the company will have to move its European headquarters to Ireland, resulting in some 80 job losses in the Netherlands, where its European headquarters are currently based ...Though the relocation process will need to be given the go-ahead under Dutch law, it is expected that the move will be allowed to go through since the firm will be able to demonstrate to the authorities that significant savings can be made by relocating to Ireland”. (McAfee, 2004)

McAfee are efficiency seeking and cost saving by locating in Ireland as there is a gap in terms of wages and living cost between Netherlands and Ireland.

“The company said it had chosen Ireland over other locations for the new jobs due to the availability of suitably experienced staff and synergies with the existing operations.” (Novell, 2007)

For Novell the motivation is efficiency seeking primarily through synergies within existing operations.

The key finding for efficiency seeking investment motivation are the variety of ways used by firms locating in Ireland to engage in their efficiency seeking activities. The firms talk about relocating, restructuring, changing their network, all of which are associated with efficiency seeking activities. The interesting conclusion³¹ from the

³¹ Ireland as a location is small and the fact that companies see a location that small in a global perspective is in itself interesting.

quotations above is that in all three examples the companies see Ireland in a comparative way to the global and European market.

Efficiency seeking is a motive for FDI but it is also a motive that can result in transient MNEs. Since the cost of living increased in Ireland following the success of the 'Celtic Tiger' period of the economy (Powell, 2003), efficiency motivation remains the reason for some of the high technology US firms investing in Ireland (Nachum and Zaheer, 2005). The sample studied reveals that half of the MNEs that invested in Ireland on the basis of efficiency seeking motivations, had additional motivations. Most of the quotations in this regard were linked to restructuring because Ireland was relatively cheaper in comparison to other European countries. The main issue that Ireland is facing right now is that the cost of doing business has become expensive relative to other countries, especially the East European countries (Barry, 2009). In the current competitive global market, multinationals are continuously looking to restructure their network resulting in transient activities through moving into a more cost effective location (Filippaios et al., 2004).

- ***Strategic Asset Seeking Motivation***

Strategic asset seeking is based on the goal of firms to exploit its firm-specific advantages overseas (Hymer, 1960). In the current global knowledge economy, firms are more interested in countries such as Ireland in which they can engage in asset augmenting and asset exploiting behaviour especially with regards to intangibles such as information and human capital. In addition, strategic asset seeking behaviour includes knowledge investment motivations, which are driven by firms' need to access complementary resources and knowledge in order to upgrade their own capabilities (Chung and Alcacer, 2002; Wesson, 2004). Within the sample data, 18 firms listed strategic asset seeking as the motivation for their investment to contribute to their sustainable competitive advantage (a total of 29 references were made to strategic asset seeking investments). Among the examples of asset augmentation and exploitation of knowledge seekers are Wyeth, Cameron and Maxim Integrated Product, as the following quotations highlights:

"located at the Conway Institute in University College Dublin, the facility will comprise 12 top class research scientists focusing on product discovery, pre-clinical research and drug discovery technology development. Wyeth Research Ireland will be a wholly-integrated protein drug discovery and development operation." (Wyeth, 2006)

This is a traditional way of knowledge creation with university research, which includes elements of basic research (product discovery), applied research (pre-clinical research)

and some development research (drug discovery technology development). Wyeth understands and is effectively internalising knowledge potential in its host country. By undertaking knowledge creation activity and capitalising on the scientific heterogeneity, the company took advantage the Irish national system of innovation³².

“Cameron to significantly expand and further develop its manufacturing facility in Longford 10/04/2008 Cameron Ireland Ltd., Our products have high value added content and require a high degree of skill and experience to manufacture to the very exacting standards demanded by the industry and the certification required”. (Cameron, 2008)

“...We are investing in Ireland because the country has a talented and technically qualified workforce and it has demonstrated a strong commitment to promoting R&D...” (Maxim Integrated Products, 2009)

In the case of Cameron and Maxim their motivation is different as it relates to talented and technically qualified workforce. They are tapping into the national system of innovation. The sourcing of creative inputs and standards does not only come from a ‘central’ R&D laboratory, but also from other external industry demands.

In the case of strategic asset seeking behaviour the key finding identified is that firms were seeking knowledge creation and augmentation (Meyer et. al, 2009). The above quotations demonstrate Ireland’s importance as a strategic asset seeking FDI location for firms. Those firms identified Ireland as a main [only] reason for their investment in order to develop new advantages and to upgrade existing assets. In this case firms were primarily referencing research and development and knowledge creation. However, as different motivations may be favoured by different organisations, firms were also seeking skilled workforce and efficient service for their customers.

³² **National innovation systems: Definitions Listed by the OECD 1997**

A national system of innovation has been defined as follows:

- “... the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies.” (Freeman, 1987)
- “... the elements and relationships which interact in the production, diffusion and use of new, and economically useful, knowledge ... and are either located within or rooted inside the borders of a nation state.” (Lundvall, 1992)
- “... a set of institutions whose interactions determine the innovative performance ... of national firms.” (Nelson, 1993)
- “... the national institutions, their incentive structures and their competences, that determine the rate and direction of technological learning (or the volume and composition of change generating activities) in a country.” (Patel and Pavitt, 1994)
- “... that set of distinct institutions which jointly and individually contribute to the development and diffusion of new technologies and which provides the framework within which governments form and implement policies to influence the innovation process. As such it is a system of interconnected institutions to create, store and transfer the knowledge, skills and artefacts which define new technologies.” (Metcalf, 1995)

8.3.1 Findings for Combination of Motivations

The information presented in this section is not substantially embedded in the literature because although the IB literature discusses firms' individual motivations, there is a gap within the literature related to how those motivations complement each other. As the literature shows, most of the IB studies have identified motivations, which discuss them individually rather than in combination (Dunning and Lundan, 2008). Conceptually, the study by Filippaios et al., 2004 on dynamic differentiated networks examined the strategic behaviour of firms and isolated motivations and co-motivations. However from an empirical perspective evidence of firms' investment motivations has not been found yet and this study provides evidence through its qualitative empirical data information on MNEs that exhibit more than one motivation.

This empirical work is a starting point to address the absence of studies within the literature relating to firms exhibiting a combination of investment motivations through qualitative data as it identifies factors which influence MNE investments. Among the different types of motivations that have been observed in this empirical research, market seeking is the one motivation that is constantly observed as being a partner for the other investment motivations.

The discussion of motivations and their combination³³ will lead to the propositions being addressed as outlined in section 3.7 of Chapter 3. Market seeking is the main reason for firms' investment decisions. The data shows: 1) firms exhibiting a combination of the three motivations is relatively unique for companies; 2) for firms exhibiting a combination of two motivations, the data shows that market seeking and strategic asset seeking goals are main motivations in this category; 3) efficiency seeking motivation is still of importance however firms consider it as a complementary reason; and 4) resource seeking is considered as a secondary reason for firms' investment decisions.

The empirical data shows eleven firms exhibiting a combination of two or more motivations as follows:

- ***Market Seeking and Additional Motivations***

MS and SAS: Five firms exhibit market seeking and strategic asset seeking behaviour; both motivations are dominant and complement each other. For example companies such as Intel listed access to European markets (MS), quality of the workforce (SAS)

³³ See table in appendix 8.2 for firm motivations and combination of motivations

and government support (SAS) as reasons for their investment decision.

“European market and a keystone of foreign investment in Ireland...The performance of our workforce in Ireland and our relationship with the government helped make this investment decision possible” (Intel, 2004)

MS and RS: Three companies reported market and resource seeking as the reason for investment. For example Kellogg's relies on resource seeking and market seeking motives in terms of the access to the European market. In addition, although it cannot be verified by the empirical data, it is the researcher's view that Kellogg's looked at the agricultural strength of Ireland in order to access production material for their cereal business, although this motivation was not explicitly mentioned. This is a case where resources could complement the production as well as servicing the local market and other markets. The European market is important to Kellogg's and also the Irish market is significant because Ireland has the highest per capita consumption of wheat and ready-to-eat cereals in the world (Woob, 2011; FFT, 2010). This represents strategic market seeking behaviour for Kellogg's. It uses Ireland to test early trends and try their products on the marketplace, as referenced in the quotation below. This example effectively demonstrates the market seeking behaviour of the firm, whereas the attraction of the agricultural sector of Ireland demonstrates the resource seeking behaviour.

“Where better to service our European market than Ireland, where we have a significant established business and per capita consumption of ready-to-eat cereals is the highest in the world. Working with the IDA, we explored our options and Ireland won against other European locations. It proved to be the best option for us being a cost effective and efficient base with good access and communications to the EU market from a Euro-based location.” (Kellogg's, 2004)

Another example of market and resource seeking investment is Market Boomer. Although the quotation below may present a weaker reading of market seeking investment, its interpretation is based on Market Boomer seeking to expand activities in the Irish market to include sales and marketing as part of their motivation for investment.

“A staff of 35 people will be recruited over a three-year timeframe and the activities in Market Boomer's Irish operation will include sales, marketing, account management, technical support and back-office processing functions” (Market Boomer, 2005)

MS and ES: Two firms exhibited a combination of efficiency and market seeking motivations. For example the German company Celesio, known as Movianto, which

supplies the pharmaceutical and healthcare industry with innovative logistics and distribution solutions for the eastern European region primarily. It is worth noting that although within the Eastern European block, countries such as Poland and Hungary have been competing with Ireland for inward FDI since their accession to the European Union in 2005, Movianto chose Ireland for its investment. The reason *for the* selection of Ireland is due to a combination of market and efficiency seeking motivations. If efficiency seeking was the only reason for firms' investment then Central and Eastern European countries might have become the final choice, which is a case of business to business supply chain for Movianto. However, the combination of motivations made Ireland the ideal location for Movianto.

"The expanded storage capacity and the strategically important geographical location in Brno mean that the Czech company Movianto Česká Republika will in future be able to respond even more effectively to customers' requests.... It is intended that in the future, the site in Brno will increasingly serve as a central warehouse for the eastern European region. Movianto is in a position to offer manufacturers from the pharmaceutical, biotechnology and healthcare industry a total of more than 160,000 pallet storage positions, spread across locations in nine European countries." (Movianto, 2007)

- **Efficiency Seeking and Other Motivations**

ES and SAS: Only one company, Stream Global Services, exhibits efficiency seeking and strategic asset seeking motives. The Stream Global Services' new centre in Ireland will provide high volume support to customers (ES) with human skills and expertise (SAS). However, efficiency seeking is a complimentary motive as the main motive for Stream Global is strategic asset seeking, which is more important to the firm because of Ireland's location and quality of workforce.

"The new location will operate as an extension and satellite to Stream's current facilities in Londonderry, UK and Mumbai, India... technical support and customer service for software and games markets at an international level ... This centre offers expertise in technical support services for hardware manufacturers Mumbai. This site provides high-volume, high quality technical support; Stream's Smart Shore SM concept offers technical support adapted to clients needs... By combining the skills of our Londonderry and Dublin centers with the capabilities of the Stream Mumbai-based site into a single virtual site using VoIP technology, we can meet all these criteria". (Stream Global Services, 2005)

ES and RS: Only one company, TKO Software, acknowledges efficiency seeking through tax reasons for their location choice, as well as a workforce that requires training but not a high skills base. This is a resource seeking behaviour employed by the firm for the purposes of 'porting' and testing wireless games.

“Tax reasons, location and workforce ... TKO will focus on porting, localising, testing and marketing wireless game titles developed by its parent company in the US for major European mobile networks and handsets.” (TKO software, 2004)

ES, SAS and MS: Only Siemens exhibits three motivations in the form of efficiency seeking, strategic asset seeking and market seeking. This combination of firm motivations is dominated by market seeking reasons for servicing the booming local Irish market. This is followed by strategic asset seeking behaviour influenced by the highly skilled workforce and network specialists in Ireland. The efficiency seeking behaviour is evident from Siemens streamlining their operation and reducing staff worldwide.

“Despite the fact that Siemens is currently culling around 12,600 jobs worldwide, the firm has said business is booming in Ireland and it needs to expand to cater for demand. The 60 new jobs are for highly skilled technical and network specialists.” (Siemens, 2008)

The propositions for this thesis were developed around a single motivation. Although the researcher acknowledges that this is a limitation of the study, the propositions are set in a manner to avoid complexity and assist in their verification.

This section demonstrated that some firms have more than one motivation as they may be in possession of more than one competence and resource. This could be interpreted as the firm exhibiting two different types of behaviour. The following section will analyse the upstream and downstream core competences that lead to identifying the primary and complimentary motivations for each investment. Firms that have two motivations will have a main motivation and a complimentary one, or will follow one or the other. However, one limitation worth noting here is that unless the firm makes it explicit, it is not always possible to pinpoint which one is the primary and which is the complimentary motive.

8.4 Tax Incentives Association with Motivations

It is important to note that a tax incentive is a locational characteristic not an investment motivation. Locational characteristics are different from firm motivations. The latter refers to companies and the manner in which they behave towards location. Locational characteristics refer to what a country can offer and the matching of its advantages between the investments. Firms do not exhibit tax motivation because taxation is a financial incentive, though this does not necessarily mean that it influences any other motivations. Tax could be embedded in almost all firms' motivations. Within the research sample firms made 57 mentions of tax as a type of

incentive for investment. Market seeking firms can use tax incentives because it makes the market more profitable as costs of doing business are reduced. Strategic asset seeking firms use tax incentives because the incentives may help them generate resources (through profit maximisation) to transplant to other economies. Thus, motivations are internal to the firm and tax incentives are locational characteristics, which are not necessarily associated with one particular motivation. Other factors such as education policies, research and development facilities and universities could possibly be associated with one specific motivation.

Firms' motivations exist in order to sustain its competitive positioning, to generate new ideas or create knowledge; everything else that a location can offer are incentives that act as an instrument which may or may not influence the firm's decision to invest. Tax incentives, to successfully attract FDI, rely substantially on the host government's credibility to actually convince the company that the infrastructure and political stability exists, factors also critical in securing FDI. Tax incentives made Ireland successful but they influence all organisations in the same way. There are other combinations of factors that influence MNEs' decisions to invest in Ireland such as education, infrastructure, proximity to Europe, cultural ties with America and the credibility of the government.

The following section will map the key resources and capabilities that are associated with the firms' investment decisions.

8.5 Resources and Competences

This section describes the different resources and capabilities that firms possess and seeks to relate them to their investment decisions. Through the coding process the data identified the main resources and capabilities that firms possess. The many ways in which firms define resources and capabilities was discussed in detail in the literature review, Chapter 2; section two. The identification of the coding process adopted for resources and capabilities was discussed in section four of the methodology chapter (section 4.5). Excel based data, in tabular format, was developed from the Nvivo output listing all firms and the type of competences associated with each firm. The tables were developed through upstream and downstream core competences possessed by each company, in combination with the nature of the motivation disclosed by the company. This output will be discussed in more detail in the following section of this chapter.

Resources are defined as inputs to the value process (Grant, 1991; Eisenhardt and Martin, 2000). They are identified as sources of sustainable competitive advantage if they are valuable, rare, inimitable and non-substitutable (Barney, 1991). Capabilities refer to the firm's ability to organise, manage, coordinate or undertake specific sets of activities (Teece et al., (1992). Teece *et al.*, (1992) used the term 'dynamic capability' to refer to the capacity of a firm to renew, augment and adapt its core competence over time. The resources and capabilities that are relevant to achieving the strategic objectives of the firm are considered 'the core competences firm' (Hamel and Prahalad (1994); Javidan, 1998; McDermott and Coates, 2007). Prahalad and Hamel (1990) describe core competence as those firm competences that 1) make a disproportionate contribution to ultimate customer value; 2) the efficiency where the value is derived from; and 3) provide a basis for entering new markets (Prahalad and Hamel, 1990; Hamel and Prahalad, 1994; Hooley *et al.*, 1998).

The basic premise of this thesis is that the resources and core competences of the firm determine its strategy and motivations. While constructing the conceptual framework, the researcher assumed the key elements to be the categorisation and prioritisation of MNEs motivations and core competences.

8.5.1 Firm Core Competences

Identifying the core competences of a firm prior to it making an investment decision is important so as to ascertain why they behave in a specific manner with regard to investments. A firm's behaviour is a representation of the different competences that it acquires throughout its development (Prahalad and Hamel, 1990; Conner, 1991). This section of the analysis examines the firm's position from the standpoint of its upstream and downstream competences. As discussed in Chapter 3, Prahalad and Hamel (1990, 1994) developed three criteria that distinguish a core competence from a competence, as follows: (i) product benefits for customers; (ii) competitive uniqueness and difficulty for competitors to imitate; (iii) access to a wide variety of markets.

This thesis developed a classification for core competences by dividing them into upstream core and downstream competences, as previously discussed in Chapter 3, section two. However, the discussion of the findings in this analysis will commence with upstream core competences, followed by a discussion of the downstream ones.

8.5.2 Upstream Core Competences

The majority of firms reporting upstream core competences are motivated by market seeking intentions (18 projects with a single motivation and six with a combination of motivations) and strategic asset seeking motivations (10 projects with a single motivation and three with a combination of motivations). The upstream core competences are those related to the production capacity of the firm; this finding contradicts the expectation that market-seeking behaviour is linked with downstream core competences. The majority of firms who fall into this category (primarily US firms) have established upstream core competences in their home jurisdiction. Firms that reported the possession of upstream core competences demonstrate strategic asset seeking motivation in 13 projects.

This research has found that firms with upstream core competences who have located in Ireland are engaged in exploiting, augmenting or developing their home base strategic assets rather than seeking new strategic assets (Zander, 1999; Criscuolo et. al, 2005; Dunning, 2009). Firms' decision to launch or enlarge business in Ireland is in part motivated by their desire to employ their core competence in seeking new customers for their products. These are factors to be considered which have implications for policy and decision making related to investment decisions designed to exploit, augment and develop their strategic assets; this will be discussed further in Chapter 9.

There are 58 projects exhibiting upstream core competences, highlighting the significance of coordination, innovation, knowledge, path available, research and development and strategic focus for firms' deciding to locate in Ireland. Seven of those firms demonstrate a combination of motivations.

Table 8.2 provides a summary of findings on the number of firms exhibiting upstream core competences and the combination of investment motivations associated with them. Fourteen firms have not reported any upstream core competences. This lack of evidence represents a limitation to this study; it is not a result of the firms not possessing upstream core competences, rather it stems from firms failing to indicate or mention the existence of such competences.

Table 8.2 Motivations and Associated Up-stream Core Competences

Number of Firms Exhibiting Upstream Core Competence (Total of Firms)	Motivation Associated with Competences
14	No evidence of motivation (14 firms)
18	MS
10	SAS
3	ES
5	RS
1	MSandSAS
3	MSandRS
2	ESandMS
1	ESandSAS
0	ESandRS
1	SASandRS
0	ESandSASandMS

Source: Adapted from the matrix-coding tables 4.1 and Appendix 4.4

Table 8.3 provides a summary of associations between motivations³⁴ and upstream core competences (extracted from the matrix-coding Table 4.1 and Appendix 4.4). It provides an insight into the number of references made by firms to each of the upstream core competences. Firms that are market seekers primarily talked about coordination, innovation, procurement and R&D. Firms that focused on strategic asset seeking primarily referred to coordination, innovation and R&D, where firms that are resource seekers were primarily referring to R&D resources.

³⁴ Market Seekers (MS), Strategic Asset Seekers (SAS) Resources Seekers (RS) or Efficiency Seekers (ES).

Table 8.3 Association Between Motivations Up-stream Core Competences

	Coordination	Cost of Resources	Economies of Scale	Human Skills (internal to firm)	Innovation	Knowledge Adoption, Creation, Exploitation	Procurement	R & D	Strategic Focus
No Motivation	4			2	2	1		6	5
ES	2								2
MS	7				1		1	1	10
SAS	1				2	1		6	6
RS								3	1
ES MS	2								0
ES SAS	1				1	1			
MS SAS	1			1	1				2
ES MS SAS									
ES RS									
MS RS	1		1		1	1	2	1	2
SAS RS	1							1	
ES SAS RS									
MS SAS RS					274				

Coordination, innovation and strategic focus are all defined and discussed in the conceptual framework (Chapter 3, section two) as having focus on and understanding of the up-stream aspect of core competences. In this section those core competences are linked with upstream core competences rather than the generic lower level coordination activities of the organisation.

Coordination: Coordination is the firm's capability to deal with the interactions of the physical items and functional areas. Coordination is linked to the firm being customer focused and its ability to interlink specialty areas, equipment, and processes. Out of 98 projects, 20 referred to firms' strength in coordinating its activities as a reason for their investment decision in Ireland. This includes:

1) Firms seeking to meet their customers' daily needs delivering high volume and high quality service. In order to have both they need to achieve economies of scale, in a robust total quality management context. When deciding on an investment, the chosen location must have good quality inputs required for the production process (skilled labour force, raw material). For example, in the case of Stream Global Services, the market seeking and strategic asset seeking motivations link well with the infrastructure and skilled workforce. Stream Global provides a service, which requires a skilled labour force and good infrastructure. Its market-seeking motivation could also help the company build other markets, because having a skilled labour force (strategic asset) could contribute to success in new markets and potentially lead them to services in other markets.

"Clients receive the following benefits: qualified management, specialisation in management of a virtual environment, highly effective infrastructure, equipped with global IT resources, voice servers and advanced data management, lower potential costs, ability to meet cost demands without sacrificing quality and overall flexibility and the ability to respond to clients' daily needs while remaining prepared for growth." (Stream Global Services, 2005)

2) Firms invested in Ireland because the location allowed them to coordinate their activities with other operations. Each MNE has its own network structure. The majority of MNEs covered by this research treat their network as a whole. This indicates that they do not view Ireland as an isolated location but they see it as part of a wider network. Therefore, the manner in which locational characteristics change determines the way the network is shaped. In this case Ireland provides them with an opportunity to have a presence to service other markets as well as coordinating with other operations of the company. An example of this is Shannon Systems' partnership with Inovis; both companies have located in Ireland because the location allowed them to

easily coordinate their supply chain activities and service their customers in a more effective and efficient way. This could potentially link back to strategic asset seeking behaviour because better coordination with the firm's partners leads to enhancing the mutual learning through engaging with this particular partner; this represents strategic asset seeking behaviour because it links with the knowledge base of the firm:

"Inovis, a leading provider of supply chain communication solutions, and Shannon Systems/B2BGateway, a global leader of integrated EDI solutions, today announced a new partnership through which B2BGateway will use Inovisworks (TM), the company's Value-Added Network (VAN), to service its growing base of global retailers and suppliers.... focuses on delivering supply chain communication solutions that expedite the order-to-payment lifecycle. With the option of Inovisworks integration, B2BGateway customers can potentially gain greater value from other investments they have made in automating processes before the order, throughout the supply chain and after the fulfilment of the order." (Shannon Systems, 2008)

3) Certain firms with a requirement to strengthen some of their competences, for example the need to improve their supply chain activities (such as Option NV), have chosen Ireland as a location. This links well with the skilled workforce, infrastructure and the IDA support (32 references) identified in this research; it also integrates well with strategic asset seeking and efficiency seeking motivations.

"The expansion, supported by Government through IDA Ireland, will establish the Cork facility as Option's main centre for Global Supply Chain and Fulfilment." (Option NV, 2008)

Strategic Focus: a firm can achieve competitive advantage, by focusing on and exploiting the firm's internal characteristics, specifically its resource profile. Out of 98 projects 28 firms referred to strategic focus as reason for their investment decision in Ireland, including:

1) Firms starting up a new venture through establishing in a new market and firms such as Redi-Direct Marketing seeking to retain their competitive advantage by managing growth and positioning themselves in Europe; other examples are firms that have saturated their local market and in seeking growth potential have located in Ireland. This links in well with the European growth potential and the market seeking investment.

"Opening an office in Ireland is a strategic extension of our continued growth throughout the region. We have a growing client base in Ireland, and our new offices will help us better serve their needs, as well as address the increased sales opportunities for Stay in Front CRM." (Redi-Direct Marketing, 2006)

2) Requirement to manage its customer base: firms such as MySQL located in Ireland to be in close proximity with and meet the demand of its customers; this links in well to firms' competences being customer focused; Ireland's skilled workforce and infrastructure, as well as displaying market seeking investment behaviour.

MySQL's newest office will support the growing demand for MySQL database software in the UK and Ireland where the company already has hundreds of commercial software and support customers (MySQL, 2004)

3) Relates to firms such as Market Boomer that have invested in Ireland to improve the way businesses handle the procurement process and to provide easy access between purchasers and suppliers from a technology, service and cost perspective; this links in well to strategic asset seeking.

"Market Boomer was established in Sydney, Australia with the aim of using the Internet to improve the way businesses handled the procurement process and to provide easy access between purchasers and suppliers from a technology, service and cost perspective. It claimed that its transaction volume, a key measurement metric in any electronic marketplace, has grown at an average rate of 12% month on month for the past two years. It numbers several blue-chip hotel groups among its customers, including Hyatt, Intercontinental and Starwood. It also has clients in the local government, education, health and construction sectors." (Market Boomer, 2005)

Knowledge, Innovation and R&D: Out of 98 projects, 33 firms referred to knowledge, innovation and R&D as reasons for their investment decision in Ireland. A competence in knowledge creation and exploitation leads to strategic capabilities of the firms that have the potential to be significant long-term revenue generators (Grant, 1996). Although other firms may be able to duplicate the design or formulation of knowledge, their ability to exploit it will not be as great. This is because they do not have the knowledge base and learning comprising the competences associated with the development of the knowledge. Furthermore, development in R&D leads to new ideas and new product development. Firms such as Actel use their R&D competence to innovate, to develop products, which can provide the firm with competitive advantage that yields high returns for the firm.

"The Centre is an important extension to the company's global research and development efforts and has been established to define and develop new processor and processor-related technologies in support of the company's Programmable System Chip (PSC) strategy. Minister Martin said, "This Centre is a welcome addition to the integrated circuit industry in Ireland as the quality of the R&D and the level of technical innovation is cutting edge. It is an ideal fit with the initiatives of the Government and IDA Ireland to attract strategic R&D investments from international companies like Actel that are leaders in their business." (Actel, 2006)

The empirical data demonstrates that the most important upstream core competences as far as this research is concerned are coordination and strategic focus. However, although it is evident from the empirical data that most firms with substantial upstream capabilities have invested in Ireland for knowledge and R&D reasons, the choice of Ireland as their investment location is partly to augment and exploit their strategic assets. The findings from the data show that a higher proportion of firms have invested for market seeking purposes. Most of the observed market seeking behaviour was demonstrated by the US firms.

Those firms which have already an established strong strategic asset-seeking base in their home country and some have a strong network around the world. Effectively although the conceptual model establishes the expectations for strategic asset seeking behaviour in Ireland, the observation from the empirical point of view suggests primarily market seeking behaviour. Although Ireland provides MNEs with strategic assets, firms with established strategic assets augment those assets in Ireland and this contributes to enhancing the level of development of the MNE. Therefore, firms that do not exhibit a strong strategic asset base in their home country are expected to seek strategic assets in Ireland. MNE's that are advanced in their development and have a strong home base, might engage less in strategic asset seeking (because they already possess the upstream core competences) and engage more in exploiting their strategic assets through other types of motivations such as market or efficiency seeking.

8.5.3 Downstream Core Competences

A total of 39 projects exhibited downstream core competences including communication, customer focus, marketing and team orientation. Of those, 11 demonstrated market seeking, eight strategic asset seeking, four efficiency seeking, one resource seeking motivations, while eight firms demonstrated a combination of motivations. Communication, customer focus, marketing and team orientation are all defined and discussed in the conceptual framework (Chapter 3, section two) as having a focus and understanding of the downstream aspect of core competences. Table 8.4 provides a summary of the number of firms exhibiting downstream core competences and combination of investment motivations. Fourteen firms have not reported any downstream core competences. This lack of evidence represents a limitation to the study, this is not due to the fact that the firms did not have any downstream core competences but within the data some firms did not directly indicate or mention their competences. In line with the discussion above, the majority of firms that reported the

possession of downstream core competences are motivated by market seeking (11 firms) and strategic asset seeking motivations (8 firms).

Table 8.4 Motivations and Downstream Core Competences

Number of Firms Exhibiting Downstream Core Competence (Total =39 Firms)	Type of Motivation
7	No evidence of motivation (14 firms)
11	MS
8	SAS
4	ES
1	RS
2	MSandSAS
2	MSandRS
2	ESandMS
1	ESandSAS
0	ESandRS
1	SASandRS
0	ESandSASandMS

Source: Adapted from the matrix-coding tables 4.1 and Appendix 4.4

Table 8.5 describes the number of times each of the downstream core competences was mentioned. The table was extracted out of the matrix-coding included in Table 4.1 and Appendix 4.4. It provides a summary of the association between motivations and downstream core competences. The table highlights the significance of customer focus and marketing as part of a firm's decision to locate in Ireland. Firms usually exhibiting efficiency seeking motivation primarily referred to customer focus. Firms that are market seekers primarily focused on customer (gaining market share) and the path available to them. Firms that are focusing on strategic asset seeking primarily talked about customer focus, marketing and path available. And firms that are resource seekers were primarily focusing on customer focus and marketing.

Table 8.5 Association Between Motivations and Downstream Core Competences

	Communication	Customer Focus	Marketing	Team Orientation	Path Available
No Motivation		5	2		2
ES		3			1
MS		12			6
RS		1	1		1
SAS		7	2		2
ES MS		2			
ES SAS		1		1	
MS SAS		1	1		2
ES MS SAS					
ES RS					
MS RS		2	1		2
SAS RS			1		
ES SAS RS					
MS SAS RS					

Customer Focus and Marketing

Of 98 documents, 34 firms (40 references) and eight firms mentioned customer focus and marketing respectively as a reason for their investment decision in Ireland. These include:

1) Providing a high level of service to their customers has been one of the primary reasons for their investment decision. An efficient and dynamic skilled workforce allowing the firm to deliver high quality customer service has led them to invest. An efficient, effective workforce links well with improvement in customer service and high volume transactions resulting in economies of scale, which attracts market seeking firms, as the quotations from CIT Finance and Stream Global Services below indicate

"The combination of increased capability, experience and facilities will enable us to dramatically improve our service to vendors and customers." (CIT Finance, 2003)

"Clients receive the following benefits: Qualified management: specialisation in management of a virtual environment highly effective infrastructure, equipped with global IT resources, voice servers and advanced data management, lower potential costs: ability to meet cost demands without sacrificing quality, overall flexibility: ability to respond to clients' daily needs while remaining prepared for growth." (Ref. Stream Global Services, 2005)

2) Broaden product offerings to European market. This also includes the proximity to customers. The domestic and regional market growth potential is of importance for multinationals seeking to expand into local and European markets. Firms with core competence in servicing their customers seek to expand their product offering into other markets. For example MYSQL (delivering value to UK and Irish markets), Plastics (proximity to Irish and European markets) and Pacer International (increasing support for the regional market), as indicated by the quotations below:

"The UK and Ireland are key markets for MySQL and with the establishment of our new in-country sales team, we aim to deliver even more value to these expanding markets." (MYSQL, 2004)

"the need for closer proximity to medical device customers in Ireland and in the European market in general." (Plastics, 2005)

"strong market sectors in the region, such as medical, will benefit substantially from Pacer's optical and photonics expertise, and we are looking forward to increasing Pacer's support of these markets." (Pacer International, 2009)

3) Increased demand for some firms' services within Europe and firms ensuring their customers receive the most up to-date technologies. This links to market growth, Ireland's skilled workforce, its infrastructure and firms' motivation to service and

increase their market share. An example can be seen from the Shannon Systems quotation below:

"The growing demand for easy and cost effective EDI solutions in the European marketplace has necessitated the expansion of this office." (Shannon Systems, 2008)

Path Available

This is defined as the strategic alternatives available to the firm and path dependencies associated with these alternatives (Teece, Pisano and Shuen, 1997, p. 516). Out of 98 projects, 16 references were made to the path available to the firm as being a reason for their investment decision in Ireland. It is worth noting that relatively few references were made by the respondents to this reason as the basis for their location in Ireland; nevertheless this remains an important reason and both firms and policy makers should take this into consideration when making FDI decisions and in determining FDI related policy matters. The reasons cited by firms include:

1) High growth firms, such as TR Electronics, were influenced by Ireland's reputation as a knowledge economy; this links in well with skilled work, infrastructure and government support and policy initiatives (referenced 33 times). It is also connected with strategic asset seeking investment.

"Influenced by Ireland's reputation as a world leading location for software expertise. The presence of other highly successful software operations and the quality of available graduates was a key factor." (TR Electronics, 2003)

2) Firms' expansion potential was influenced by the strength of the Irish and European economy, a further reason for their decision to expand into Ireland. This links in well with the domestic regional market potential which scored high (50 references). A number of respondents such as Monster referred to it as a reason for choosing Ireland. It also links in well with market seeking motivation.

"MCP has strategically focused on European sales in recent years. We have come to the view that the European market is a growth opportunity and must be addressed with a local presence - the result is the establishment of this Centre in Ennis. As part of our plan to further significantly increase our European business, the Ennis Centre will be the vehicle through which we will manage this growth and support our European customers." (Monster, 2004)

Furthermore, some firms take advantage of their core competences in a way that opens the door for their firm to enter new markets. Groupe de Recherche Servier is an example of a firm using their product development and knowledge in order to expand and enter new markets:

“Servier is also investing €45 million in a plant at the Belview industrial estate on the Kilkenny/Waterford border that will produce active pharmaceutical ingredients for three new Servier products: Ivabradine (whose market name is Procoralan), which regulates heart rhythm; the anti-depressant Agomelatine (Valdoxan) and Terutroban, which protects the walls of the arteries. Servier says it is 'almost certain, depending on the evolution of the market,' that his company will decide early next year to invest a further E55 million-E70 million at Belview to manufacture Strontium Ranelate (Protelos), a drug invented by Servier laboratories to stop osteoporosis in post-menopausal women” (Groupe de Recherche Servier, 2006)

8.6 Re-Stating, Re-defining and Validating the Propositions

One of the key questions this thesis sought to address was how to understand and bridge the SM and IB literatures in order to understand the FDI decision making process. It is worth noting that where a proposition cannot be validated through the existing empirical sample, MNEs may still exhibit the motivation in some other countries but not in the context of Ireland.

The propositions were developed and discussed in detail in section three of Chapter 3. In order to refresh the reader's memory the propositions for each investment motivation are listed below. They were developed in order to link firms' motivations with resources capabilities and competences. Some of the propositions will be validated in a stronger way with a plentiful supply of data and some of the propositions will be more difficult to validate in a clear and straightforward way, this is due to the limiting nature of the empirical sample. As mentioned earlier the empirical data is context specific (Ireland) and the propositions were developed from a generic conceptual framework which can be applicable to other cases also.

8.6.1 Resource-Seeking Investment

In relation to resource seeking investment, the following two propositions were put forward:

P1 (Resource Seeking): The existence or possession of upstream core competences such as cost of primary materials and procurement leads the firm to exhibit resource seeking investment motivation.

The argument underlying Proposition 1 is that firms which are strong in procurement and sourcing primary materials exhibit usually strong resource seeking behaviour. In the case of this research, although some firms have acknowledged the existence of

upstream core competences such as cost of primary materials and procurement in their motivations, the location of Ireland does not provide the exposure sought by this type of resource seeking behaviour.

Ireland is poor in natural resources; the agricultural segment of Ireland has been in long term relative decline (The Economist Intelligence Unit Limited, 2003). Government policy over the last two decades has focused on educating the workforce to attract knowledge intensive based FDI. The agricultural sector of Ireland has become a resource for local and regional production because of the links with the European Union. As a consequence of the rise of the 'Celtic Tiger' in the 1990's and the subsequent rise in the wage rates and living standards, Ireland became more expensive for manufacturing based and export focused MNEs.

From the conceptual point of view, when firms possess core competences, these contribute to their decision to invest in Ireland as it offers locational advantages complimentary with these competences (as discussed in the analysis Chapter six). Multinationals can have both upstream and downstream core competences and based on these they can exhibit different types of motivation. The conceptual model suggests that core competence leads to resource seeking motivation, whether that motivation will be realised in country A or country B will depend on the country level characteristics. So the fact that resource-seeking motivation is not strong in Ireland, this does not mean it is not a consideration for the wider MNEs network. On the other hand, it indicates that the locational characteristics are not the main incentive that results in an MNE exhibiting a particular type of behaviour in Ireland.

Therefore, in the context of Ireland this proposition cannot be fully validated. Those firms within the sample may show resource seeking motivation but at the same time would not invest in Ireland. Thus, the empirical data does not provide sufficient information to verify this proposition.

P2 (Resource seeking): the existence or possession of downstream core competences such as customer focus, team orientation and technology leads the firm to exhibit resource seeking investment motivation.

The manner in which this proposition was discussed in the conceptual framework listed three types of resource seeking investment. The first is physical resources, followed the second, cost minimisation with plentiful supplies of cheap and well-motivated unskilled and semi-skilled labour. The third type of resource seeking FDI is prompted

by the need to acquire technological capabilities, management and marketing expertise and organisational skills.

From the perspective of the RBV, a resource seeking investment can be observed if resources are defined and include not only natural resources. It can also include cheap and well-motivated skilled and unskilled labour, technological capabilities, management and marketing expertise and organisational skills.

Based on the data, only three firms were exhibiting early stages of resources seeking activity including customer focus and a well educated workforce. The possible reason for this may be that most MNEs locating in Ireland are mature firms and may have already been engaged in this type of resource seeking behaviour in the early stages of their development and have now have moved on to become market seekers.

This proposition relates to the firms that have good customer service and have well-organised team orientated staff. Such downstream core competence leads the firm to resources seeking investment motivation. Those firms could integrate these resources faster and more efficiently into their network. The data in Table 8.5 confirms a total of three projects which exhibited resource seeking motivations and downstream competences. This proposition cannot be fully verified, as the empirical data does not provide sufficient information.

8.6.2 Market-Seeking Investment

For market-seeking investment the following propositions, three and four, were put forward:

P3 (Market Seeking): The existence or possession of upstream core competences such as coordination, strategic focus and innovation leads the firm to exhibit market seeking investment motivations.

This proposition can be verified as strong references were made from those firms exhibiting market seeking and strategic asset seeking motivations for their investment. Thus, when it came to competences, firms' decisions were linked to market seeking and strategic asset seeking motivations. For example, firms combining competences, which links in market seeking and strategic asset seeking investment, are Monster and Shannon Systems as quoted below:

"MCP has strategically focused on European sales in recent years. We have come to the view that the European market is a growth opportunity and must be addressed with a local presence - the result is the establishment of this Centre in Ennis. As part of our plan to further significantly increase our European business, the Ennis Centre will be the vehicle through which we will manage this growth and support our European customers." (Monster, 2004)

Another example of this is Shannon System's partnership with Inovis:

"Inovis, a leading provider of supply chain communication solutions, and Shannon Systems/B2BGateway, a global leader in integrated EDI solutions, today announced a new partnership through which B2BGateway will use Inovisworks(TM), the company's Value-Added Network (VAN), to service its growing base of global retailers and suppliers.... focuses on delivering supply chain communication solutions that expedite the order-to-payment lifecycle. With the option of Inovisworks integration, B2BGateway customers can potentially gain greater value from other investments they have made in automating processes before the order, throughout the supply chain and after the fulfilment of the order." (Shannon Systems, 2008)

P4 (Market seeking): The existence of downstream core competences such as competitive marketing and communication leads the firm to exhibit market seeking investment motivation.

This is a strong reason for firms' investment decisions. For example, Kelloggs quoted their marketing and communication competences as reasons which resulted in their investment in Ireland:

"Creek, Michigan, was established in 1906 and is now the world's leading producer of cereal and a leading producer of convenience foods. The company is quoted on the New York Stock Exchange and has a market capitalisation of \$16 billion. Kellogg products are manufactured in 17 countries and marketed in 180 countries around the world. The company currently employs over 25,000 people worldwide. Sales for 2003 were \$9 billion. In Ireland the Kellogg brand has been promoted through a dedicated sales and marketing team of some 50 people since 1980." (Kelloggs, 2004)

8.6.3 Efficiency-Seeking Investment

For efficiency-seeking investment, the following propositions, five and six, were put forward:

P5 (Efficiency seeking): The existence of upstream core competences such as economies of scale leads the firm to exhibit efficiency seeking investment motivation.

As discussed in section one, there are a variety of ways in which firms locating

investments in Ireland can approach the efficiency seeking activities ranging from tax reasons to high volume support to their customers. The empirical sample shows that firms are talking about relocating, restructuring, changing their network. All this is associated with efficiency seeking activity. However out of 98 documents only one referred to economies of scale as a complementary reason for their investment in Ireland. Therefore, the empirical data does not provide sufficient information to verify this proposition.

The quote from Diageo's chief executive below demonstrates efficiency seeking because the firm is aiming to coordinate their production process by segmenting the line of production. Their key competence is that they can bring all the resources into a single focus and is a sign of an efficiency seeking behaviour. Another point is that this might also be market-seeking behaviour because of the growing export demand. This export demand indicates their intention to supply to regional and other markets.

Upstream capabilities for Diageo link more with the coordination of activities rather than economies of scale. This coordination capability gives them the efficiency seeking as well as market seeking capabilities.

"Diageo's Chief Executive Paul Walsh said the move had been prompted by efficiency gains to be made by focusing most of its Irish beer production on one site, and also to meet the growing export demand for Guinness especially from Africa and Asia". (Diageo, 2008)

P6 (Efficiency seeking): the existence or possession of downstream core competences such as synergies, technological, organisational and human contribution leads the firm to exhibit efficiency seeking investment motivations.

Although this is true from the literature viewpoint, it is not observed in this sample and the reason for this is simply that firms do not actually utilise synergies, technological, organisational and human resources contribution from a downstream perspective. For example, in order to capitalise on synergies, a firm needs to have a large market. The Irish market might not be big enough for them to utilise such efficiency seeking behaviour, however the regional market would be sufficient to absorb that extra cost in their structure in order to achieve those efficiencies.

Very little reference was made in the empirical data to synergies, technological, organisational and human contribution as reasons for investment. Only one reference was made to synergies by Novell. However, firms did not discuss technological,

organisational and human contribution from an efficiency seeking perspective. Therefore, the empirical data does not provide enough information to verify this proposition.

"The company said it had chosen Ireland over other locations for the new jobs due to the '.... synergies with the existing operations'" (Novell, 2007)

8.6.4 Strategic Asset-Seeking Investment

For the strategic asset seeking investment the following propositions were put forward:

P7: The existence or possession of upstream core competences such as research and development, knowledge creation, knowledge exploitation, knowledge adoption and human skills leads the firm to exhibit strategic asset seeking investment motivation.

P8: The existence or possession of downstream core competences such as the ability of the firm to create, transfer to and exploit new markets leads the firm to exhibit strategic asset seeking investment motivation.

Resources such as research and development, knowledge creation, knowledge exploitation, knowledge adoption and human skills lead the firm to exhibit strategic asset seeking investment motivation as this has been exhibited through the empirical data. Examples are firms such as Maxim Integrated Products, Netgear, GlaxoSmithKline, Gilead Sciences, Boston Scientific and Wyeth, all of whom exhibit strategic asset seeking behaviour.

"The expansion will allow the company to develop its new generation of stent medical devices, used in the treatment of cardio-vascular disease..." (Boston Scientific, 2004)

"Located at the Conway Institute in University College Dublin, the facility will comprise 12 top class research scientists focusing on product discovery, pre-clinical research and drug discovery technology development. Wyeth Research Ireland will be a wholly-integrated protein drug discovery and development operation" (Wyeth, 2006)

"We are investing in Ireland because the country has a talented and technically qualified workforce, and it has demonstrated a strong commitment to promoting R&D," said Tunc Doluca, Maxim's chief executive officer" (Maxim Integrated Products, 2009)

P8: The existence or possession of downstream core competences such as the ability of the firm to create, transfer to and exploit new markets leads the firm to exhibit strategic asset seeking investment motivation.

From the empirical point of view this is captured by the path available that companies have in the Irish market. This proposition is verified through empirical data as exploiting new markets through the available path, links with the strategic asset seeking position of the firm as well as market seeking reasons. This has been demonstrated clearly from the data analysis. Firms in this category are exhibiting two equal motivations, examples being MYSQL and Plastics.

“MySQL’s new operation represents the latest step in the rapid growth of the company in Europe” (MySQL, 2004)

“It will be focused on meeting growing demand for the Company’s precision extrusions in the European Union’s medical, electronics, semi-conductor, aviation and aerospace industries” (Plastics, 2009)

8.7 The Conceptual Framework in the Irish Context

After the foregoing discussion, there is a requirement to bring location into perspective. The generic framework in Figure 8.1 has, as a starting point, firm resources, capabilities and core competences and interprets them in the way the company utilises them, thereby shaping their motivation.

Within each element of the framework there are specific variables [factors] that link and explain the behaviour of the firm and the motivation for its investment in Ireland. Location is not included in the conceptual framework at this stage so as to keep the framework generic (to make it applicable to different cases) and not context specific. If the conceptual framework is too context specific, the researcher would not be able to derive generic management and policy recommendations from it.

Figure 8.1 Conceptual Framework

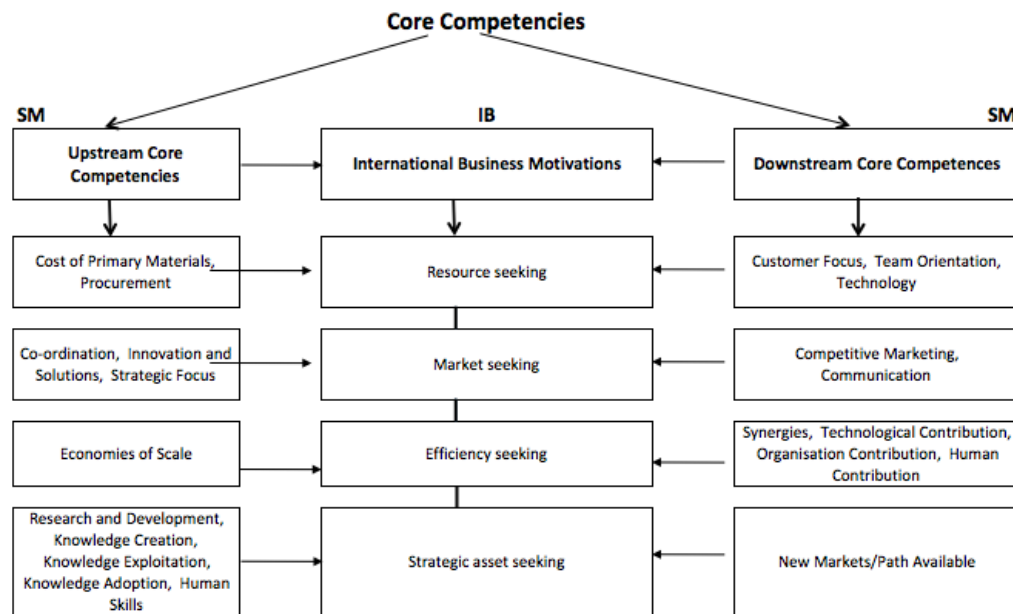


Figure 8.2 outlines the conceptual framework in the Irish context. It demonstrates how the locational characteristics are integrated into the conceptual framework and their linkage with firms' motivations. It makes the propositions context specific as the inclusion of the location will add further clarity to the reason underlying the verification or otherwise specific propositions. The propositions highlighted in green are those which the researcher was able to validate from the empirical data. Those in red indicate where validation has not been possible from the empirical data.

Figure 8.2 Conceptual Framework in the Context of Ireland

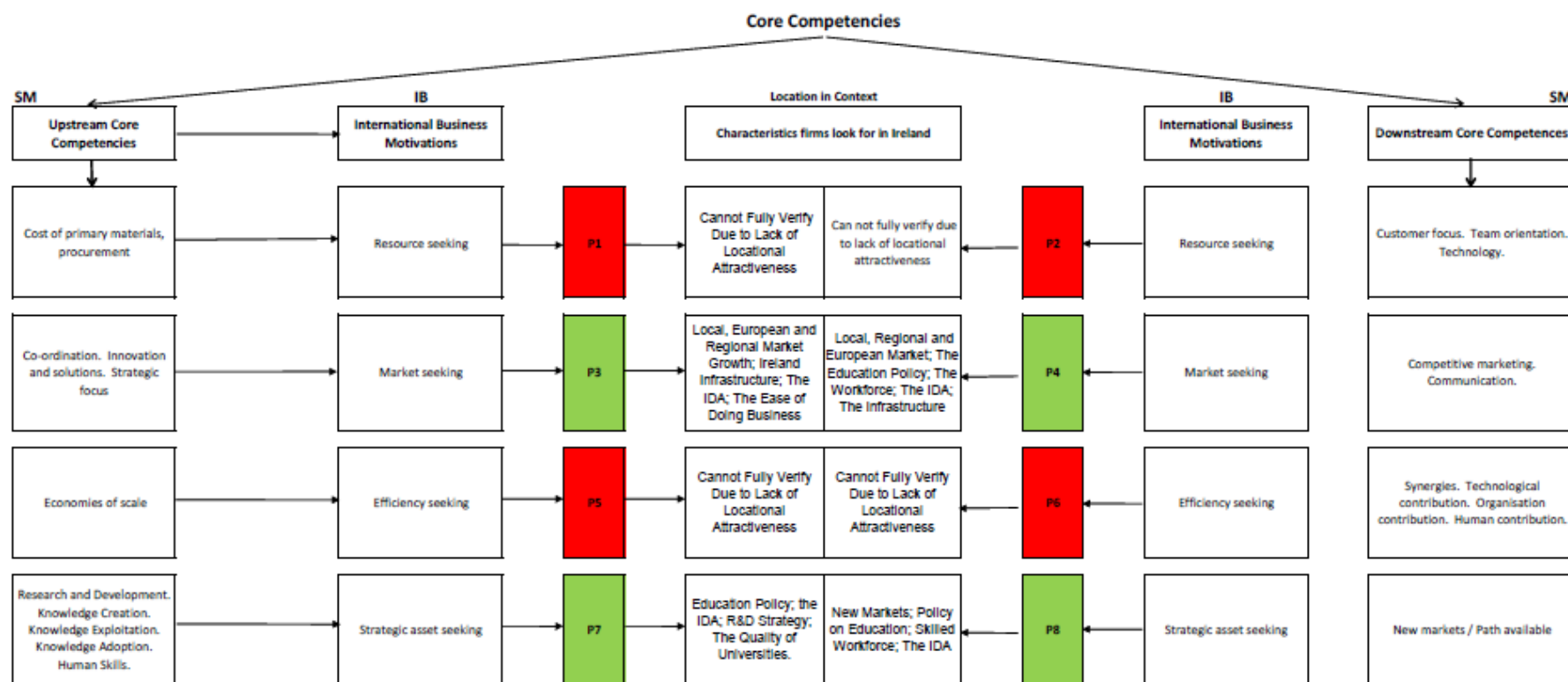


Figure 8.2 provides an integrated visualisation of the PhD thesis and the verification of the propositions. In order to include the location in the discussion, below is a summary of the locational characteristics attached to the verification of each proposition:

P1: There are no locational characteristics that would verify the resource seeking behaviour of firms who possess downstream core competences in Ireland. This is due to the lack of locational attractiveness and matching advantages with the firm. Although Ireland is rich in agricultural resources, it is not rich in natural resources such as gas, oil and commodities, which typical resources seeking firms look for.

P2: There are no locational characteristics that would verify the resource seeking behaviour of firms who possess upstream core competences in Ireland. This is also due to lack of locational attractiveness and matching advantages with the firm.

P3: The locational characteristics that verified the behaviour of upstream market seeking firms in Ireland are: local and European market growth; Ireland's infrastructure, policy related to the IDA and the ease of doing business.

P4: The firm focus is on the availability and exploitation of new markets. The locational characteristics that verified this behaviour for downstream market seeking behaviour in Ireland are the size and potential growth of the local, European and regional markets, cultural elements, education policy (quality of the workforce), industrial policy (incl. IDA) and infrastructure.

P5: There are no locational characteristics that would verify the efficiency seeking behaviour of firms who possess upstream core competences in Ireland due to lack of locational attractiveness and matching for the firm.

It is important to note the distinction between firms' motivations and locational characteristics. Tax incentives are not considered an efficiency seeking motivation; rather the argument is that tax is an efficiency seeking behaviour which forms part of the decision making process. Market seekers may also have tax as part of their decision making process; a firm that enjoys a large surplus in terms of selling their goods will consider tax rates as part of their decision. Therefore, taxation is not necessarily associated with one motivation, in the same manner as education policy and the development authorities, all of which are locational characteristics not motivations. The starting point is how the firm behaves and what the firm exhibits as a

motivation, subsequently matching it to locational characteristics. Thus, adding tax policy or the government policy would be completely external to the framework as it is developed because they are only used as explanatory factors for the way that firms behave.

P6: There are no locational characteristics that would verify the resource seeking behaviour of firms who possess upstream core competences in Ireland due to lack of locational attractiveness which are aligned with the firm.

P7: The locational characteristics that verified this behaviour for upstream strategic asset seeking investment in Ireland are the policies related to education (skilled workforce etc.), the IDA, the government research and development strategy, the creation of knowledge and the universities.

P8: The locational characteristics that verified this behaviour for downstream strategic asset seeking behaviour in Ireland are the policies related to education policy, the IDA and ease of doing business. The firm's focus is on the availability and exploitation of new markets.

8.8 Conclusion and Findings

To conclude this chapter, investment into Ireland is driven by market seeking and strategic asset seeking activity of the firm. However, Ireland continues to attract efficiency and cost-cutting focused multinationals. Resource seeking remains weak unless it is combined with one of the other main motivations.

The empirical data demonstrate that inward FDI flow into Ireland occurs mainly in high rather than low paying industries and are of a market and knowledge-seeking variety. This has two major policy implications: (1) Ireland needs to continually invest in its knowledge creation and infrastructure so as to maintain its edge in attracting FDI and jobs; and (2) in the interim period since this study was undertaken, there has been a change to the financial system in Ireland as a result of the global financial crisis, which commenced in 2008 and is still on-going; the dynamics of the Irish economy have changed as it is now going through a period of severe economic adjustment. Ireland needs to focus on inward FDI flows in innovation and knowledge-intensive industries that are driven primarily by strategic asset seeking, efficiency and market motivations. This will be good for Irish firms and for the Irish job market as well.

The chapter demonstrated some of the factors that firms refer to when matching their core competences with the location choice. The chapter has considered the policy aspects of MNEs decisions. The policy recommendations will be discussed in-depth in the concluding chapter.

The main findings of this chapter highlight the combination of motivations that drive a firm's decision making. In some cases firms exhibit two motivations, where one motivation is considered as a main motivation and the second is considered as equal or complementary. Such firms exhibit the possession of more than one core competence, a downstream and an upstream core competence ultimately drives the firm's investment decisions.

9 Chapter 9 Conclusion

9.1 Introduction

This chapter provides a concluding overview of this thesis. It summarises the research findings and discusses them in terms of the theoretical context of RBV and IB motivations, as well as the empirical context, namely Ireland. The chapter consists of two main parts - section 9.2 sets out the research summary of the arguments discussed in a general context and in relation to each of the three research questions. Section 9.3 contains the research findings and their contribution to the literature in terms of the role of RBV in determining MNEs investment motivations and the role of governments in attracting MNEs investment. The chapter concludes with a discussion of the implications for policy and managerial practice in section 9.4, and directions for future research in section 9.5.

9.2 Summary of the argument of the Thesis

The primary argument in this thesis is that to date, and to the best of the researcher's knowledge, there is no study in the IB literature which explains the behaviour of MNEs in relation to FDI in Ireland, or which builds on the manner in which firms create and utilise their capabilities using the underlying SM concepts. The gaps in the literature are addressed through analysing the influence of the firm's resources, capabilities and core competences³⁵ on the firm's specific motivations when engaging in FDI. Those motivations, which build on existing firms' resources, capabilities and core competences, are then matched with location characteristics.

The starting point of this thesis is the conceptual level which addresses the gaps in the literature. This is followed by a move to the empirical level to validate the researcher's theoretical conceptualisation. Through this process the research offered an explanation for MNE behaviour by bridging the SM and IB literature. This is the key argument of the thesis, drawing on RBV (firms' core competences) and IB theory.

9.2.1 International Business and Strategic Management

In the introduction to this thesis the researcher suggests that further work is required in identifying the link between multinationals' individual FDI behaviour and country

³⁵ How firms develop and sustain those resources, capabilities and core competences.

specific variables. This could be achieved through the analysis of inward investment behaviour. This is possible as the two literatures [SM and IB], have in their own way, contributed to the understanding of the MNEs cross-border activities.

Traditionally the IB and management literatures provide the insight into the location selection behaviour of MNEs. Scholars (Buckley and Casson, 1976; Dunning and Rugman, 1985; Dunning, 1988, 1993; 1998; Rugman and Verbeke, 1992; Dunning, 1993; Shan and Song, 1997; Rugman and D'Cruz, 2000; Filippaios et al., 2004) have made important contributions to the activities of multinational enterprises as, according to IB theory, a firm engages in cross-border activities to exploit its specific ownership advantages.

SM scholars have two approaches to firms' strategic development. Firstly, the internal approach where the RBV scholars (Penrose, 1959; Rubin, 1973; Wernerfelt, 1984; Barney, 1991; Grant, 1991; Amit and Shoemaker, 1993; Teece et al., 1997) recognise that resources contribute to the firm's competitive position and have consequently focused on firms' strategies designed to secure competitive advantage. This is done through responding to internal environmental changes and co-aligning firms' strengths with external opportunities. Thus, the RBV is an inward looking approach to strategic development. From the practical point of view this means that the firm develops its strategy based on resources and capabilities. The firm firstly develops its advantages and then seeks to identify the optimum way to utilise those advantages.

Secondly, is the external approach - Porter, (1980, 1985, 1990, 1996) focuses on the industry analysis approach based on the idea of 'strategic positioning'. His approach emphasises the importance of having a thorough understanding of the competitive position of the firm in the industry as part of the strategy formulation process. The main focus of this approach is the market and the competitors, as well as the competitive advantages which stem from the clear exploitation of trends and opportunities that emerge from market dynamics. According to Porter, the firm first analyses the external environment in order to identify attractive profitable industries and thereafter seeks to find an entry point to those industries.

To summarise, both the Penrose and Porter school of thought have developed and co-exist independently today. The RBV and Porter approaches have different starting assumptions and different mechanisms – Porter's approach is essentially homogenous focused on the firm overcoming weak barriers to entry or alternatively the firm putting

up strong barriers. The RBV approach is essentially heterogeneous as the firm's success depends upon leapfrogging the competition. These two approaches are clearly difficult to bridge. The contingency based explanation of performance heterogeneity focused on external environment strategy development, popularised by Porter (1980), has also fallen out of favour as other research has cast doubt about the strength of the industry explanation (Hansen and Wernerfelt 1989; Rumelt 1991). However, this thesis focuses on reconciling the RBV and IB perspectives, through the developed conceptual framework. This work provides a deeper insight into the debate within the literature so as to deepen the understanding of MNEs behaviour.

The dissatisfaction with the industry explanation resulted in the rapid rise in popularity of the resource-based view of the firm (Fahy and Hooley, 2002). Furthermore, from the IB perspective, traditional concepts of FDI centre on firms carrying out investment mainly motivated by capital considerations. This is due to somewhat outdated perception that producing and selling physical products and ownership of tangible assets are the major source of value creation (Behrman, 1974; Dunning, 1993). However, the concept of capital considerations by the firm has developed further in response to changes in the internal organisation of MNEs (Nohria and Ghoshal, 1997) and with the growing occurrence of global integration and vertical investments (Caves, 1996), firms' motivational emphasis shifted to the more effective utilisation of their internal specific sources of competitiveness. This thesis develops a theory-bridging conceptual framework that focuses on the core competences developed over time from resources, which can be divided into two main parts: 1) upstream (related to production) core competences; and 2) downstream (customer) core competences. Those core competences are used to formulate a firm's strategy and are drivers for firm's foreign direct investment motivations.

9.2.2 Research Objectives

Focusing only on MNEs motivations independently of RBV is likely to result in the imposition of limitations on the findings of the research. The existing IB theories fail to conceptually explain the strategic internal factors that influence a firm's FDI strategy and development. For example, Hymer (1976) discusses the monopolistic advantages of MNEs, while Dunning (2000) focuses on ownership advantages and Rugman (1986, 2003) opines on firm's specific advantages. The IB literature takes those advantages for granted as the analysis and discussion within the IB literature fails to explain how

those advantages are developed. Consequently there is a need to adopt a more strategic internal environment approach.

The IB literature seeks to offer an explanation of FDI development and the factors that influence the development of a firm, however it fails to offer an understanding as to how those factors (advantages) are created, maintained, sustained in order to create the competitive advantage of a firm, particularly at the global level. Given that the key question is how a firm develops these resources, one needs to refer to the strategy literature in answering this question. A firm needs to consider its strategic development, its resources, and capabilities before it takes the decision to move to the next level, i.e. the IB level.

Based on the notion that a firm's resources lead to the development of its capabilities and core competences and that these are positively associated with the choice of multinational strategies and decisions (Barney, 1991, 2001; Preim and Butler, 2001), the discussion in this thesis considers the RBV primarily as a theory that offers insights into the strategic decision-making behaviour of the multinational firm. The linkage between location advantages and MNE behaviour is feasible and current. It is very important for MNEs to address their strategic development in the current competitive environment. The latest financial crisis and globalisation matters emphasise the importance of this research. MNEs need to undertake a deep internal review of their resources to understand how to utilise them to compete in the best possible way in global markets.

To answer Research Objective 1 *“To link the International Business and Strategic Management literatures through the Resource-Based View (RBV) theory in the context of MNEs locational decisions”*, this thesis provides insights into multinational foreign direct investment motivations through developing an understanding of the linkage between multinationals FDI behaviour and host country specific characteristics through the use of RBV. Building the conceptual framework relies on two strands of the literature. The links between the elements of each strand are of particular importance. Considering the complexities (technological revolutions, political factors, economic factors and globalisation) that multinational corporations encountered in the last decade, drawing only on the IB strand of literature is not sufficient to develop an understanding and explanation of firms' FDI behaviour. As discussed earlier, in order to understand a firm's development, there is a requirement for a multidisciplinary research

approach. Analysing a firm's behaviour through bridging the IB and SM literature will offer insights into the development of the firm's investment strategies.

To answer Research Objective 2 "*to investigate the patterns of foreign direct investment in Ireland for the period 2003-2009*", a set of propositions was developed from a thorough literature review which resulted in the development of the conceptual framework and those propositions were then validated empirically through the Irish case study using a combination of qualitative content analysis and quantitative cluster analysis research methods.

9.3 Contribution of the Thesis

This study makes a dual contribution, both theoretically and empirically. The following section identifies the areas of academic study to which this contributes and the empirical implications resultant from the study which will enrich the knowledge base of business practitioners as well as policy makers.

The principal questions of this research as initially stated in the introductory chapter are set out in a defined manner:

- 1. How does the resource-base view theory help explain the process of location choice of MNEs and how does it assist in understanding the formulation of MNEs motivations?*
- 2. What are the main motivations for firms locating in Ireland?*
- 3. What are the core capabilities of firms locating in Ireland?*

9.3.1 Academic Contribution to Research

The academic contribution refers to the theoretical and conceptual contribution to the academic literature. As highlighted in the literature review, little research exists on the manner in which resources and capabilities are aligned with MNEs decisions (Foss et al., 1995; Miller and Shamsie, 1996). Given the lack of research on the specific factors behind firms' investment decisions, the present thesis made a theoretical/conceptual contribution to the literature on RBV and FDI in the following ways:

- i) Firstly, the IB and the SM literatures have a natural interest in measuring MNE motivations and activities but use different approaches and conceptual frameworks which resulted in gaps in the analysis and findings. This thesis bridges the divide

through identifying common ground thereby connecting two streams of literature that do not often communicate effectively.

ii) Secondly, it explores the nature of the host country characteristics and MNEs resources and capabilities, which lead to the firm's decisions to invest. Finally, it develops a conceptual framework, the variables of which enhance our understanding of the choice of MNEs investment strategy. These above elements form a holistic framework in linking together firms' resources, capabilities and core competences, their investment motivations and country advantages.

With regard to the empirical contribution of the academic literature, the present research drew on and contributed to three main areas of research in investigating firms' investment behaviour:

i) Resource Based View: This research addresses and answers two of the gaps in the RBV. Firstly, it identified which resources, capabilities and core competences are associated with locational decisions of firms and which characteristics made them valuable (Chapter 8). Secondly, it linked the analysis with the business environment and industry context addressing one of the gaps of the RBV, that is the failure to link research on RBV with the environmental and industry context (Chapter 7).

ii) Firm Core Competences: (Hamel and Prahalad, 1994; Javidan, 1998; McDermott and Coates, 2007). The most important role played by a firm's core competences is in contributing to achieving the firm's strategic objectives and in sustaining the firm's competitive advantage. Due to the inexplicit nature of core competences it is difficult to determine which ones are the core competences that contribute to the firm's success. Hamel and Prahalad offered a starting point for a new classification of core competences. This thesis complements their view by referring to specific core competences and by offering an alternative division of core competences of the firm into two (1) upstream core competences and (2) downstream core competences. It is important that the literature driven framework distinguishes between the different types of core competences as each may affect the design and implementation of the firm's strategy; this was achieved through the classification of core competences as outlined above and this new classification represented a major academic contribution of this thesis.

iii) Internationalisation Theory [Multinational Motivations and Foreign Direct Investment]: This research contributed to the IB literature by identifying those firms' motivations which are linked to specific resources and the manner in which the motivations of MNEs relate to the external environment of the host country. This is achieved through using theoretical, conceptual and empirical approaches.

9.3.2 Empirical Contribution to Practice

Previous research has focussed on examining the development and impact of foreign direct investment on the Irish economy (Barry, 2000; Burnham, 2003; O'Higgins, 2002; Collins, 2007). One of the highlights of the Irish example lies in the empirical demonstration that some companies exhibited more than one motivation when investing. This is one of the first studies that discussed and identified empirically the combination of motivations related to FDI.

Evidence from economic related publications (World Investment Report, 2010; UNCTAD Global Investment Trends Monitor report, 2010; IMF Publishes Worldwide Survey of Foreign Direct Investment Positions, 2010; OECD Foreign Direct Investment (FDI) Statistics Data, Analysis and Forecasts, 2011) highlights that the future of multinational investment (specifically the subject of location choice) is currently and will remain an important issue for economic growth and development, national prosperity and wealth creation. The question as to where to invest and which core competences align with certain locations, is crucial for the firm. Understanding this process could lead to efficient and effective managerial recommendations and suitable policy implications.

Another major empirical contribution of this research related to the identification of firm resources, capabilities and core competences that are associated with MNEs decisions to invest in Ireland, which was addressed in Chapter 8.

A further contribution is the identification as to how the motivations of MNEs investing in Ireland are linked to the external environment of Ireland and Irish industrial policy through a qualitative perspective.

9.4 Summary of Research Findings

The main findings of the research are as follows:

To provide an answer to the first research objective and partially to the second objective by bridging the two literature streams (IB and SM) and consequently identifying the upstream and downstream core competences, which have an impact on the investment decisions of firms. The upstream and downstream competences allow us to link a relatively generic approach (RBV) to practical recommendations for a firm and industry. The categorisation of core competences is important when firms are seeking to undertake foreign direct investment and where the decisions inherently have an impact on the strategic positioning of the firm to gaining/sustaining their competitive advantage.

The analysis of the literature in Chapter 2 (sections two and three) identified three key strategic factors that successfully drive investment decisions. Firstly, any form of locational investment decision by MNEs requires the presence of a competitive macro-economic environment from the host country. In this respect, the National Competitiveness concept theoretically underpins this research. Secondly, we state that investment decisions require the presence and alignment of firm-specific advantages with country specific advantages. In this respect, we employ the internationalisation theory for motivations of foreign direct investment to strengthen theoretical thinking. Lastly, we propose that in order for a firm's investment motivations to develop its core competences (factors stemming from the firm's resources and capabilities), those core competences have to be identified and aligned in terms of the firm's strengths with external opportunities.

As discussed earlier, to-date the IB literature takes the competitive advantages of the firm as given and RBV theory offers insight into how these strategic advantages develop within the MNE. We propose that a combination and interaction of firm resources, capabilities and core competences must be used in order for firm investment motivations to develop.

The research identified in a number of cases where the firm does not only exhibit a single motivation when investing abroad, but actually a combination of motivations. This finding is one of the main contributions of this study, as the research has not identified any studies that have discussed this previously. The thesis has observed and empirically validated that firms can exhibit multiple motivations. Empirically applying the conceptual framework to Ireland, it can be seen that market seeking and strategic asset seeking considerations are the main motivations for firms' investing in the country. Thus, Ireland has developed the conditions necessary to attract MNE

investment across different industries and at different levels (this was discussed in detail in Chapter 6).

The first empirical examination, comprising country level determinants, (Chapter 6) confirmed that there are two factors that mainly contributed to the attractiveness of Ireland as an investment location for multinationals, namely structural and policy considerations. Firstly, the chapter identified demographic and economic structural factors which include Ireland's young population relative to other European countries, its language, its geographic location and its membership of the European Union, combined with its openness to foreign investment, all of which contributed significantly to offering a high degree of comfort for investors.

Secondly, it identified policy factors, which include good education, transport, telecommunication and technology systems and most importantly industrial policy and the development authorities (including the IDA support of foreign firms' operations). The IDA has played a critical role in attracting FDI into Ireland and this was highlighted in the development authorities' discussion incorporated in Chapter 6. Furthermore, the policy initiatives, primarily low corporate profit tax rates, education and training policy and the infrastructure investment program (e.g. the restructuring of the telecommunications systems) are all factors that contributed to the attractiveness of the Irish location. The empirical data confirmed that firms identified a skilled workforce and the programmes provided by development authorities, as important aspects of their investment decision. It also confirmed that firms' have also identified expanding and branding themselves into Ireland for regional and domestic growth purposes. This constitutes market-seeking motivation, which connects country-specific advantages with the firm-specific advantages (Rugman and Verbeke, 2001).

Furthermore, in response to the second research question, we performed a cluster analysis of firms within two sectors, Financial Services and Software & IT. This analysis was undertaken using a sector study method. The clustering helped determine the nature of core competences (RBV) required to formulate multinational motivations, leading to their specific investment location choice, in this case Ireland.

The Financial Services sector is driven by changes in its global external environment; the industry is primarily market seeking in terms of its investment in Ireland. In contrast to the Software & IT sector which is driven by the industry internal development and environment. The industry demonstrates a combination of strategic asset seeking and

market seeking investment motivations. It is evident therefore that within the same location, different industries could potentially demonstrate different investment motivations when firms match their resources with opportunities.

A country can therefore attract FDI from specific sectors by designing tailored strategies. It can also attract sectors by allowing some kind of dynamic development of certain factors that are not necessarily strategically design by the country itself. The financial services sector investment is an example of this. In targeting a specific sector, there may be latent linkage effects within it that may contribute to other sectors investing in the location. For the Software & IT sector there was a clear government policy driven strategy to attract this knowledge intensive industry. However, as a consequence of this strategy Ireland also attracted a large level of inward investment from the Financial Services sector. Although, the Irish strategy, through deregulation, may have helped to develop the latter sector, it is evident from this research that global financial firms followed their customers into Ireland to service their needs. Thus, if a country can attract different industries this does not necessarily mean that the government is pro-actively designing and formulating policies to attract such industries. This has implications for policy makers who may seek to attract a certain sector but the strategy that they design might have other positive externalities that could attract other sectors as well.

This is evident in the two studies discussed in Chapter 7. The cross case study demonstrated that the motivations for the Software & IT sector are significantly different from those of Financial Services. This clearly highlights the different motivations that exist for the same location but within different industrial sectors. The findings indicate that both sectors do not exhibit the same motivations; neither are both attracted by the same policy design and related factors. For example, in Ireland a skilled workforce and developing domestic markets attract completely different types of MNEs. The chapter also demonstrated that some firms have more than one motivation. This occurs when firms possess more than one core competence of strategic importance to the firm's competitive position. Exhibiting a combination of three or more motivations is relatively unique for companies, only one of firm, Siemens, reported three motivations (out of a total sample of 98 projects).

Ireland's industrial policy focuses on inward FDI flows in innovation and knowledge-intensive industries driven primarily by the search for strategic assets, efficiency and market seeking investment. Through the last stage of our empirical examination, (the

firm level analysis in Chapter 8), we found that in some cases firms exhibit two or more motivations. There are examples where a single motivation is dominant and other cases where two or more motivations are equal and complementary. The basic premise of this thesis is that the resources, capabilities and core competences of the firm command its strategy and motivations. Chapter 8 addressed the propositions, which were developed from the literature review through the conceptual framework. By empirically validating the propositions two gaps in the RBV were addressed; in addition the research linked the analysis and findings with the specific industry context and country characteristics.

Market seeking is the primary reason for firms' investment in Ireland. Many firms exhibited two motivations for investment, market seeking and strategic asset seeking. The majority of those firms reported the possession of upstream core competences (relating to the production capacity of the firm). The findings highlight that this might constitute a contradiction in MNEs behaviour as market-seeking behaviour is usually linked to downstream core competences. The majority of firms within this category (mainly US firms) have established their upstream core competences at home, thus they exploit these in the Irish context.

Not many firms invested for resource seeking reasons, but the ones that did, considered it only as a secondary factor.

Efficiency seeking is of high importance as firms considered it as a complementary reason. However, the findings on efficiency seeking MNEs were linked with firms restructuring their business because Ireland was cheaper relative to other countries. Thus, the cost of doing business in Ireland is an issue that needs to be at the forefront of the policy makers' agenda. Competition from countries with comparative advantages coupled with MNEs desire to restructure their global network to achieve efficiencies may result in transient MNEs moving more cost effective location.

Regarding upstream core competences the finding from this research is that firms with upstream core competences locating in Ireland are engaged in exploiting their home base strategic assets rather than seeking strategic assets locally. Their decision to launch or expand their presence in Ireland is partly due to the desire to employ their core competence and to seek new customers for their products. This was verified

through an analysis of proposition three³⁶. Proposition number seven³⁷ relating to upstream core competences, was also verified as resources such as research and development, knowledge creation, knowledge exploitation, knowledge adoption and human skills lead the firm to exhibit strategic asset seeking investment motivations and this has been exhibited through the empirical data.

For the downstream core competences, the majority of firms that reported the possession of downstream core competences are motivated by market seeking and strategic asset seeking motivations. The findings highlighted the significance of customer focus and marketing for firms, whose decision to invest in Ireland is resultant from market seeking motivations, as verified through proposition four³⁸. Proposition number eight³⁹ regarding downstream core competences was also verified through the empirical data as exploiting new markets through the available path links with strategic asset seeking motivation of the firm.

9.5 Research Limitations

This section identifies the key limitations associated with this study.

Conceptual limitations

The uniqueness of the study presented a problem, namely the scarcity of studies (use of qualitative data), which could serve as a basis for comparison for the results of this research. There are a number of studies that have been presented in the literature review chapter and the conceptual framework chapters (Chapters 2, and 3 respectively), which have examined firms' investment motivations and core competences. The conceptual limitation stems from the lack of similar studies. This posed challenges in positioning this research in a direct and comparable way. However, this is one of the strengths of the thesis as it sought to bridge the literature gap and its major contribution has been its ability to achieve this goal. The perspective

³⁶ P3: the existence or possession of upstream core competences such as coordination, strategic focus and innovation leads the firm to exhibit market seeking investment motivations.

³⁷ P7: the existence or possession of upstream core competences such as research and development, knowledge creation, knowledge exploitation, knowledge adoption and human skills leads the firm to exhibit strategic asset seeking investment motivation.

³⁸ P4: the existence of downstream core competences such as competitive marketing and communication leads the firm to exhibit market seeking investment motivation.

³⁹ P8: The existence or possession of downstream core competences such as the ability of the firm to create, transfer and exploit new markets leads the firm to exhibit strategic asset seeking investment motivation.

from which to investigate MNE foreign direct investment motivations is unique in its field.

The paucity of previous research on the impact of core competences in determining firms' investment motivations required that this research link both country and firm level approaches. The existing concept of value chain (discussed in Appendix 3.1) may not be applicable in this context because treating the MNE as a value chain makes it extremely complex and complicated. An analysis of the linkages between the firm activities is what constitutes a value chain. The conceptual framework developed for this thesis is different from a value chain analysis as it includes a discussion of the core competences that are used to perform those activities. This research is not examining the linkages between the different elements of the chain. It is instead analysing the competences that drive those linkages⁴⁰. Therefore we had to commence by developing a conceptual framework. Thereafter to empirically verify the conceptualisation we opted for the analysis of all inward FDI projects into Ireland for a period of five years, from 2003 to 2009.

Empirical limitations

The empirical limitations mainly stem from the lack of similar studies in this field. This made it difficult for us to compare the findings from an empirical perspective. Although we believe that the single country approach was the appropriate choice for this type of research challenge, we are aware of the associated limitations associated. The single country study does not capture cross-country differences. Thus, the single country approach did not facilitate an in-depth verification of all the elements within the framework.

The final limitation of this study is associated with the firm level data perspective that was adopted in this research as a result of the scarcity of qualitative data and the nature of the dataset. Although it covers all FDI in Ireland over the period under investigation (2003-2009), it does not capture the early stages of significant FDI inflow to Ireland in the 1990s. The explanations within each project of the 98 projects in the sample are not easily comparable⁴¹.

⁴⁰ The conceptual framework categorises firm core competences in manner which includes firm motivations. The alternative would be a highly complicated model, difficult to conceptualise, resulting in different scenarios across various parts of the value chain. The complexity of the model would make it difficult to apply in an organisational context.

⁴¹ The limitation of the methodology comes primarily from the nature of the data that it is secondary data. As discussed in section three of chapter five, the researcher did not have access to the TMT within firms

It is important to state that the empirical data is limited and may not be comprehensive enough to validate all propositions due to the empirical nature of the study that focuses on a single country (Ireland) over a specific period (2003-2009). The newly developed conceptual framework is generic in nature. Therefore, the empirical evaluation may result in a situation where not everything can be verified through the available data as the conceptual framework was not developed for this specific dataset, but has a more generic dimension. The framework was developed to meet a number of requirements. Firstly, it aimed to explain the motivations of companies on the basis of their resource capabilities and core competences. Secondly, the framework was targeted to fill the gap between the international business and the strategic management literature, which was identified in the literature review chapter.

Ireland was chosen as a country for study for the following reasons - Ireland is an interesting case as it is a small and open economy which went through the major economic transformation via its macroeconomic stabilization programme since the 1990s (this is discussed in detail in section 3.3 of Chapter 3). Ireland is a unique example of the transformation of a weak peripheral economy into a significant centre of high-technology manufacturing and advanced services. It is also integrated into the European Union, which positions Ireland as an attractive location as it forms part of a larger trade block and market for MNEs. To sum up, the nature of this empirical exercise is based on a single country, the conceptual framework is generic and the limiting nature of the empirical data means that we might be unable to fully validate all propositions.

To the best of the researcher's knowledge this is the closest we could get to obtaining qualitative data to capture MNE motivations as articulated by the companies concerned. The explanations are similar to data obtained via an open access questionnaire. Given the challenge in collecting data on MNE motivations, we had to consider a compromise between what we ideally would like to collect and what we can realistically achieve as gaining access to and having sufficient time to cover 98 projects would have been extremely difficult. Furthermore, this limitation does not have any empirical impact as

and thus relied on interviews where at times had the researcher conducted the interviews herself would have asked questions on the themes and would cover and extracted further information about the nature of the firms' motivations. The researcher is aware of the possibility that the secondary data she obtained may be missing part of the information that could have influenced firms' decisions. In addition, the inherent nature of the qualitative research where the subjectivity of the coding process and the interpretation of the findings can present a limitation. However, this limitation was overcome by the rigorous coding process and the cross-reference of documents and sectors.

the results we obtain through the application of the conceptual framework remains consistent with the researcher's expectations. The coding process enabled us to categorise the data to get clear and consistent results. Furthermore, to balance the limitation of the empirical evidence discussed above, the findings from this empirical data indicate a consistency of results with the expectations.

A further limitation is the one single country context of the empirical data, which is limited to Ireland. The propositions were developed from a generic conceptual framework that is applicable to other cases also. The data did not enable the researcher to address and verify all propositions. This presents an empirical limitation for this thesis because although those propositions (P1, P2, P5, and P6) are developed from the literature viewpoint, firms did not report the core competences discussed in these particular propositions as being investment motivations for their location in Ireland.

For the upstream core competences we were unable to verify proposition one⁴², although some firms with core competences related to the cost of primary material/procurement were identified as resource seekers, they did not mention those core competences as a reason for their investment motivation in Ireland. Furthermore, the researcher was also unable to verify proposition number five⁴³ because firms did not report economies of scale as a motivation for efficiency seeking behaviour in Ireland. Instead they reported relocating and restructuring their network as efficiency seeking reasons for their investment.

For downstream core competence we were unable to verify proposition number two⁴⁴ as firms that reported downstream core competences in customer focus, team orientation and technology did not report resource-seeking motivations. Firms with such core competences seek to integrate resources quickly and efficiently and one would expect them to exploit all opportunities to get resources into the organisation; however this has not been the case in the Irish context. The researcher was also

⁴² P1: The existence or possession of upstream core competences such as cost of primary material and procurement leads the firm to exhibit resource seeking investment motivation.

⁴³ P5: The existence of upstream core competences such as economies of scale leads the firm to exhibit efficiency seeking investment motivation.

⁴⁴ P2: the existence or possession of downstream core competences such as customer focus, team orientation and technology leads the firm to exhibit resource seeking investment motivation.

unable to verify from the dataset proposition number six⁴⁵ as firms with downstream core competences such as synergies, technological, organisational and human contribution did not exhibit efficiency seeking investment.

9.6 Recommendations

Based on the findings from the examination of FDI in Ireland, this thesis is able to propose managerial recommendations and suggest policy implications. It starts by identifying specific groups who have interest in this study and suggests the reasons for such interest. Thereafter it makes relevant managerial and policy implications.

9.6.1 Managerial Recommendations

The conceptual framework (developed in Chapter 3) could be used as a tool for analysis that assists a management team in the decision making process related to their investment strategy, including the identification of strategic locations. Managers will be familiar with their organisation's resources, capabilities and core competences; the conceptual framework can assist them in their investment decision-making process and the identification of countries which enable the optimum utilisation of their resources, capabilities and core competences.

In this respect, of key importance is how a firm aligns the resources and capabilities with the country characteristics through identifying the strength of these capabilities and moreover how they can exploit and augment these in different locations to gain and further sustain firm competitive advantages. Therefore, the managerial recommendations that were developed conceptually in Chapter 3 were then verified empirically in Chapter 8. Through identifying the correct location for their investment, the conceptual framework highlights the objectives of the managers in terms of sustaining, utilising, exploiting, and augmenting their firm's resources and capabilities.

What was observed from the empirical evidence in a number of cases where firms combine different motivations was effectively, when a firm is investing abroad it could use its competences in an intersecting way. It could use the same resources and competences to allow itself the ability to utilise particular locational characteristics (Teece et al., 2007, 2009). This is something firms need to take into consideration so

⁴⁵ P6: the existence or possession of downstream core competences such as synergies, technological, organisational and human contribution leads the firm to exhibit efficiency seeking investment motivations.

their dominant motivation may be complemented by other motivations in order to strategically take advantage of all their resources and capabilities. Resource alignment and matching motivation with firm's core competences are important to the success of the firm's strategy.

9.6.2 Policy Implications

Policy makers need to adopt a targeted approach to FDI, focusing on very specific industries and firms. Policy makers need to study their country's strengths, what their country is good at, where they see the future of their economy in a few years and most importantly, they also need to design and develop a clear strategy for the future path of industrial development. They need to decide on the type of industry/sectors they would like to attract. Industrial policy needs to focus on attracting specific targeted types of investment. The policy makers may apply the conceptual framework using the industry as the starting point and then identifying specific firms within the industry. The framework devolved within this thesis will help policy makers identify MNEs with specific competences. This will lead to designing a policy that will seek to match the location profile with the possible MNEs targeted. That policy will eventually lead to attracting those MNEs to the location.

Ireland needs to continually invest in its knowledge creation and infrastructure in order to keep its edge in attracting FDI and jobs. Policy makers need to follow a strategy of building links with targeted firms. This should reduce the phenomenon of transient MNEs once the comparative and competitive advantage between them and other countries within their region change.

When designing policies to attract a particular industry, policy makers also need to consider the other industries, which may invest to complement the targeted industry as a result of linkages with the particular industry.

The empirical findings of this research emphasise the importance of FDI for policy makers. Empirically, this thesis has demonstrated that firms could be very different in terms of resources, capabilities and core competences but similar in terms of their investment location choice. So a generic policy design might not have the outcomes policy makers wish for. Therefore, undertaking an analysis on the company's potential capabilities and potential core competences is of importance.

For a policy maker to be successful in attracting MNEs they need to go a step further in thinking about specific sectors and in particular they should think about selected firms within the sectors. The key message is, even industrial targeting might not be sufficient for a successful inward investment strategy for a country because firms within industries could be very different. This explanation justifies why the Porterian approach was not used in the application of this research. Porter's focus is on the attractiveness of industries⁴⁶. The outcome from this research is that even within the same industries there are firms that are market leaders and market laggards; each of those firms can have different resources and competences. Policy designers should focus on attracting the market leaders and this can be done by being very specific in terms of looking at the firm's competences and what the firm would want to achieve from investing in a certain country.

In addition, when investing overseas firms like safety, security and credibility when liaising with the local institutions. Although the existence of an organisation such as the IDA does not guarantee investment into a country, a focused and directed government policy (strategy) for attracting MNEs has to come first; the IDA is the instrument of the successful implementation of these policies. In the case of Ireland, the IDA was highlighted as an important instrument for facilitating and fostering positive experience for firms' investment. Thus, organisations such as the IDA or equivalent are important for the implementation of that government policy. Governments need to focus on certain firms, they should also direct and give credibility to an institution to develop the relationships with the local environment. This approach helps firms by providing them with incentives that contribute to the maximisation of their resources by investing in an economy.

9.6.3 Recommendation for Further Research

The first recommendation for further research is conducting a studies adding time as a variable for discussion. This would be a follow-up paper to investigating the change of motivation over time for the 98 projects for period 2003-2009. By replicating the three chapters with the time element included, the study would determine which motivations were focused during one period (year). Including time in the discussion currently is beyond the scope of this study. The research currently has a snap-shot of 2003-2009 and exploring the time dimension will demonstrate whether the behaviour changes

⁴⁶ Following Porter's view (the five forces, diamond analysis) will lead policy makers to identify industries not market leaders.

throughout different years. The data for this is available; therefore, this research could be conducted in the short term.

The second recommendation for further research is approaching MNEs to conduct quantitative analysis. By quantifying and factoring in the projects' sizes in terms of finance and employment, this may clarify whether a particular type of resource is associated with bigger or smaller projects. This research could have policy implications, which will lead policy makers to target sectors that attract projects of a certain size. The data for this is available; therefore, this research could be conducted in the short to medium term.

The third recommendation is expanding the empirical exercise to other countries and finding out how this framework may apply to other countries. Taking another country that has a different profile to Ireland and undertaking the same analysis will further demonstrate the range of companies exhibiting different internationalisation motivations. Comparing different countries will demonstrate whether the outcome of the findings is similar or different. The dataset did not necessarily allow us to validate every single proposition. Therefore, expanding the sample may allow the validation of the remaining propositions. For example, selecting a country that is rich in natural resources and observing the type of behaviour MNEs demonstrate, or alternatively, creating a profile for companies in country A and country B. This research could be conducted in the short to medium term as data collection time for country B is needed.

The fourth recommendation for further research is interviewing policy makers to get their perspective. A triangulation between policy makers, firms and location will further explore the way firms view a location and a location views firms. This will provide a richer perspective on how location views MNEs. This data will need to be collected; therefore, this research could be conducted in the longer term.

Finally, further research is required conceptually to create a typology of MNEs based on SM and IB behaviour merging again the two literatures. The hierarchy of core competences aims to explain if the motivations are more of a resource seeking (require lower core competences), a market seeking, an efficiency seeking, a strategic asset seeking (require higher core competences) nature or another. The hierarchy of the motivations depends on the hierarchy of core competences. Creating a visualisation of the hierarchy of investment motivation from an international business perspective and the hierarchy of core competences from Hamel and Prahalad's (1994) viewpoint

creates an argument for linking the two together. The research may end up with a valuable typology of MNEs.

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