

Multinational Firms in Small, Advanced Economies:
Foreign Direct Investment, Linkages and Firm Development
Proposal for Cross-Country Research

Abstract

This paper will examine the role of foreign direct investment in, and from, small, advanced host economies on both MNC and local firm development, with particular emphasis on both *intra-* and *inter-firm* capability building and knowledge transfer. The paper begins by reviewing trends in foreign direct investment to, and from, small advanced economies in light of a shift towards global strategy. The second part of the paper develops research propositions from these two different, but complementary perspectives. First, it adopts an intra-firm perspective by considering the role of the foreign subsidiaries based in, or originating from, small advanced economies as ‘bridges’ for knowledge transfer between corporate and local/foreign business networks. Second, it adopts an inter-firm perspective by discussing the role of foreign subsidiaries and other locally-based business partners (including national MNCs) in mutually beneficial upgrading of firm capabilities. The third part of the paper presents a model illustrating the relationships between key variables as per the propositions and brief methodology, and concludes with a request for expressions of interest from researchers wanting to be involved in the empirical stage of this research.

Key words Foreign direct investment, multinational corporations, subsidiaries, global strategy, firm development, linkages, spillovers, knowledge transfer, capabilities upgrading, small economies.

Introduction

In an age of global competition, MNCs are seeking to optimise configuration and coordination of resources worldwide. Ordóñez de Pablos (2006) argues that MNCs can benefit from ‘international fertilisation’ and must learn how to exploit existing firm-specific resources as well as those acquired in foreign markets (p. 544). However cross-fertilization may also occur through asset augmentation by subsidiaries, particularly where subsidiaries can tap into local sources of competitiveness (Porter, 1998). This seems most likely to occur in industrialised countries where both firm capabilities and linkages between global MNCs and local firms, are strong (Le Bas and Sierra, 2002). Thus, subsidiary embeddedness in the corporate as well as the local context has important implications for the development of firm-specific advantage not only for the MNC itself but also for host economy firms (Forsgren et al 2005).

Such cross-fertilisation of global and local ideas and resources is of particular importance to firms from small, advanced economies which rely heavily on international business activities (van den Bulcke and Verbeke 2001). Yet the interactions and outcomes of global and local firm linkages, resource transfer and firm development have received insufficient attention within the small open economy context. More importantly, there has been minimal cross-country *comparison* of the role of FDI in small advanced economies, despite the potential for learning from different countries’ experiences in the context of global MNC strategies (Benito et al. 2002).

Hence, the purpose of this research is to investigate the role of FDI in small advanced economies using a cross-country methodological approach. We are particularly interested in the influence of global strategies on the role of subsidiaries, the formation of relationships or *linkages* between foreign subsidiaries and national MNEs and locally-owned firms, and any inter- and/or intra-firm resource exchange, creation or diffusion that occurs as a result. Subsidiaries of *foreign* MNCs will

be examined from four perspectives: 1) as repositories for resources (such as knowledge and technology) from parent and affiliated subsidiary companies (Chini, 2004; Karlsson and Horte 2004), 2) as potential mediums for the transfer and diffusion of resources to local firms (Görg & Strobl, 2002), 3) as centres for resource and capability development in their own right (Frost et al., 2002, Holm & Pedersen, 2000; Moore 2001) and 4) as channels for intra-firm knowledge transfer to parent and sister subsidiaries (Ambos et al., 2006; Driffield & Love, 2003). We are also interested in the activities of home grown or *national* MNCs from small advanced economies. Their need to internationalise is even more critical as markets for demand and supply can be limited. National MNEs, particularly if operating from an industry cluster are just as, if not more, likely to form linkages with other locally-based firms (Castellani and Zanfei, 2006). Therefore, outward FDI is equally, if not more important to small advanced economies, and many are heavily dependent on the activities of their own MNEs abroad. This research will, therefore, also consider the roles of national MNEs in their home economies and relationships with their own foreign subsidiaries, as per 1-4 above.

The paper is set out as follows. First, it sets the scene by outlining the global and local contexts of the research. Second, it gives recent figures on inward and outward stocks of FDI to, and from, small economies. Third, it focuses on intra-firm linkages and capability development and discusses the strategic and operational roles of subsidiaries based in, or from, small economies in the context of their parent company's global strategies. Fourth, it focuses on inter-firm linkages between foreign subsidiaries, national MNEs and domestic firms in small advanced economies. Finally, a brief overview of the proposed method, an invitation for expressions of interest from other researchers and concluding comments are presented.

Global Strategies, Knowledge and Value Chains

Globalisation is characterized not only by convergence in industries and markets, but a growing interdependence of firms, industries and economic systems (Yip, 1992; Kim et al. 1997). Global competition has prompted multinational corporations (MNCs) to search for optimal locations for value-chain activities, and to concentrate and coordinate these activities for maximum competitiveness (Kristiansen and Zeitlin, 2005). The choice of optimal locations is becoming less concerned with lowering the costs of production or exploiting existing advantages and more with leveraging host country firm or industry-specific advantages, including knowledge and technology. Similarly, this paper is more concerned with the acquisition and augmentation of knowledge within specific host country contexts rather than productive efficiency.

Knowledge is not only a key source of advantage for MNCs but also a key driver of the evolution of a global economy and strategy. MNCs play a dominant important role in the development, commercialisation and dissemination of technology and knowledge-based product, process and managerial innovations (ninety-eight per cent of the top 700 research and development (R&D) spenders are MNCs (DTI, 2004)). Research suggests, however, that in-house development of technology and knowledge is increasingly supplanted by asset augmenting and asset-seeking investment in industrialised economies (Le Bas and Sierra, 2002). Ordóñez de Pablos (2006) argues that MNCs can benefit from 'international fertilisation' and must learn how to exploit existing resources as well as those acquired in foreign markets (p. 544). This trend has important implications for the development of firm-specific advantage not only for the MNC but also for firms based in host locations where MNCs are present.

The last decade has seen escalation of merger, consolidation and rationalisation activity by multinational corporations as industries become more global (and regional) in nature, and

competition intensifies. The process of economic globalisation has prompted multinational corporations to search for so-called 'optimal' locations for value-chain activities, and to concentrate selected activities in these locations. This often results in a breakdown of the value-chain so that different activities can be strategically located and managed for maximum efficiency, development and return. As a result, the MNC has begun to resemble more of an interorganisational network, incorporating both intra- and inter- firm exchange (Ghoshal & Bartlett, 1990; Hedlund & Ridderstråle, 1995; Nohria & Ghoshal, 1994). For host and home economies, and small advanced economies in particular, this trend suggests that truncated value-chains, or selected value-chain activities are likely to be located there.

Multinational Corporations and Small Advanced Economies

The open character of small advanced countries provides for a unique context to test the effects of globalization, and in particular, the interaction between global and local business networks. On the one hand, their size means they must rely heavily on international activities relative to their larger country counterparts, but on the other, it also means they are less than optimal locations for market- or efficiency-seeking investment by multinational corporations (MNCs). MNCs tend to focus on countries or regions with large consumer markets, large 'workshops' or specialized competencies that can be acquired to tapped into (Buckley and Ghauri, 2004). The adoption of a global network approach to strategy makes location more, rather than less, important for MNCs and has implications for nature and impact of MNC activity on firms within the host economies they operate in (Narula and Lall, 2004).

Given that small advanced economies are not likely to be the focus of global strategies and host increasingly truncated value chains, many consider the development of specialized or niche areas of knowledge might be the best path towards a virtuous cycle of competitive advantage (for country-

specific studies that consider foreign investment see Barry et al., 2003 (Ireland); Andersson, 1996 (Sweden); Demos et al. 2004 (Greece); Bellak 2001 (Austria); Scott-Kennel and Akoorie, 2004 (New Zealand); Hansen and Schaumburg-Müller, 2006 (Denmark); Hoesel and Narula, 1999 (Netherlands); Larimo, 2003 (Finland). Such a path would serve to promote outward FDI by national MNCs and attract inward FDI by foreign MNCs, thus drawing on resources and advantages at home and abroad (Maskell and Hannibalsson 1998; Ivarsson, 1999). Thus, in a small advanced economy reliant on both global and local sources of competitiveness, inward and outward FDI can play an important role in the upgrading of *local firm* capability. Yet, there are few studies that adopt a holistic approach to studying this role within the small advanced economy context.

Whilst almost all countries welcome inward investment as an engine of employment and development¹, the majority of studies consider investment by (largely) developed economy firms into developing nations where the technology gaps between foreign and local firms are large. This has been of interest to researchers because the host country is in an earlier stage of its development and local firms have (potentially) a lot more to learn from their foreign counterparts. However, due to the differences in firm capability and limited absorptive capacity of developing country firms spillovers are less likely to occur (Blomström and Kokko, 1997). Contrast this to the experiences of small advanced economies, where foreign subsidiaries and local firms in the host economy are more likely to be at similar stages of development. Our discussion, thus far, raises the questions of how where do small advanced economies fit in the context of global strategies (as played out by national MNCs and foreign subsidiaries)? Do some become marginalized, while others successfully exploit niches within broader regional or global business environments? What do location- and firm-specific advantages or disadvantages bring to bear on the outcome for these economies?

FDI in Small Advanced Economies

Tables 1a and 1b reveal that the experience of small advanced countries with FDI has been mixed. Table 1a shows that some are more attractive to foreign MNCs (for example, Singapore, Belgium and Ireland) than others (eg. Israel, Norway and Finland). Some have been extremely successful at internationalising 'home-grown' MNCs (eg. Denmark, Switzerland and Sweden), and accumulating foreign direct investment stocks abroad (eg. Norway, Switzerland, Belgium and the Netherlands) while others appear to have made little progress (eg. Ireland, Israel and New Zealand). Table 1b reveals a heavy dependence on both inward and outward FDI flows as a percentage of gross fixed capital formation (GFCF) and inward and outward FDI stocks as a percentage of gross domestic product (GDP) for Belgium, Singapore and the Netherlands. Switzerland and Norway show high outward stocks of FDI as a percentage of GDP, while Ireland has high stocks of inward FDI as a percentage of GDP. Outward flows as a percentage of GFCF are high for Switzerland and Sweden.

Tables 1a and 1b here and Figure 1 here

By combining the experiences with inward and outward FDI stocks of all these countries, we see that they fall into different quadrants of Figure 1. Some are relatively low on both inward and outward investment, while others fall in the middle, and still other countries are extremely high on both. What local and global forces are behind these trends? The countries that are receivers and investors of high levels of investment are clearly both attractive to foreign MNEs *and* have been able to foster the development of national MNEs (or at least outward investment by foreign subsidiaries, so the creation of subsidiary-specific advantages). Indeed, certain small economies, such as those in the Scandinavian region are known for leading firms that have emerged amidst clusters of competitiveness, and in many cases help to fuel the growth of such clusters (such as food

¹ This is supported by the fact that between 1991 and 2004 94 per cent of the 2156 modifications made to changes to

and beverage (Denmark), chemicals (Switzerland), forestry (Finland) and telecommunications and trucks (Sweden). Others, such as Singapore and Belgium appear to have built on their central locations to act as ‘hubs’ for manufacturing, trade or financial services. Lead firms and local innovation serve to encourage both inward and outward investment (Ivarsson, 1999).

The role of small advanced economies as host locations for inward FDI by foreign MNCs and as home locations for outward FDI by national MNCs can be explored by considering the motive for investment. The motive for investment into, or out of, a small advanced economy will be influenced by the complementarities between the global (or regional) strategy of the MNC and location-specific (dis)advantages associated with the small, advanced economy. Specifically, we can hypothesize that:

H1a: location-specific advantages will be positively related to asset seeking or asset augmenting motives for inward investment by foreign MNCs; and

H1b: location-specific disadvantages will be positively related to efficiency or market seeking motives for outward investment by national MNCs.

In other words, ask why, in a liberalized world of ‘sticky places in slippery space’ (Makusen, 1996), do MNCs choose to invest in small advanced economies? This research will explore where small advanced economies can play a part in the context of established and emerging MNC strategy, by considering the motives for investment and which local industries are most attractive to MNCs, and which generate or are likely to generate the most outward investment. ‘Fine slicing’ of the value chain by MNCs also means that even when small economies attract new FDI it is likely to be limited to particular activities, rather than a complete chain. Similarly, national MNCs are likely to

take the activities unable to be performed (efficiently or effectively) at home, abroad. These trends have implications for the activities or roles of subsidiaries, and their subsequent impact on local firm capability development. We explore these two issues in the following sections.

Subsidiary Role and Intra-firm Knowledge Transfer

The second area for investigation is the strategic and operational roles of foreign subsidiaries. Here we are interested in the extent to which subsidiaries gain resources and advantage by virtue of their host location or via transfer from parent or affiliated subsidiaries, over time. If the modern MNC resembles a global inter-organisational network gleaning advantage from multiple sources and locations (Ghoshal and Bartlett, 1990), the role of the subsidiary within this modern MNC is evolving from ‘foreign outpost’ to ‘trading post’ between international corporate and local business networks. In line with the findings of Forsgren et al. (2005) and Castellani and Zanfei (2006), we argue that subsidiaries can play a crucial role in the development of firm-specific advantage in the MNC by acting as a ‘bridging institution’ between MNC units and business partners in host economies.

Subsidiaries are typically assigned different roles in host economies by headquarters (White and Poynter, 1984; Bartlett and Ghoshal, 1989; Gupta and Govindarajan, 1991). The role reflects the strategic importance of the host location to the MNC. Some subsidiaries may act merely as implementers of corporate strategy, while others are independent innovators or even centres of excellence (Holm and Pedersen, 2000; Frost et al., 2002). The latter perform specialised tasks locally and contribute subsidiary-specific knowledge to the wider corporate network. Many subsidiaries’ initial roles have evolved beyond assigned mandates as they have developed subsidiary-specific advantages conjunction with country-specific advantages (Birkinshaw et al.,

1998; Benito et al., 2003), which has enabled them to take initiative for resource development and to adopt their own self-styled mandates.

The subsidiary's role in the MNC will first determine the extent to which they receive knowledge from their parent organisation (Gupta and Govindarajan, 2000; Harzing and Noorderhaven, 2006), but then will be influenced by their ability to innovate and develop subsidiary-specific advantage (Moore, 2001), and ultimately transfer knowledge to other units of the firm (Buckley and Ghauri, 2004; Ambos et al., 2006). Thus a subsidiary's role will also depend on the degree to which it engages in knowledge creation and accumulation via interaction with other firms based in the host economy (Ivarsson and Vahlne, 2002). Locations characterized by clusters of competence embedded in local firms and/or industries (Porter, 1998) are likely to attract strategic-asset seeking investment (Ivarsson and Jonsson, 2003) and to encourage asset augmentation via foreign-local collaboration (Scott-Kennel and Enderwick, 2004) and collective learning (Ivarsson, 2002). Thus, the extent of interaction with locally-based firms (subsidiary embeddedness) not only depends on their role within the MNC, but also shapes their role within the MNC (Forsgren et al. 2005).

In effect, the subsidiary acts as a 'bridge' between the global parent corporation and the local business network of the host country. However, there is uncertainty in the literature with regard the exact nature of this relationship. Forsgren et al. (2005) and Mudambi and Navarra (2004) argue that subsidiaries who develop their own advantages through local business networks achieve more power in the corporate network. They tend to be less reliant on the corporate network for the transfer of resources, instead taking a more active part in the transfer of resources to other units. Hence, their advantages are based primarily on interaction with host country business networks. Scott-Kennel (2004), however, finds a positive and significant association between subsidiary competitiveness and the transfer of resources from both the corporate network to the subsidiary and local business networks.

The nature of the host economy will also influence the extent of development of subsidiary-specific advantage, and the subsequent role it plays in contributing to firm-specific advantages within the wider MNC context. For this reason, there has been a shift by researchers from knowledge creation in, and transfer from headquarters to the subsidiary to looking at the ‘reverse’ spillover from subsidiary to headquarters (Holm and Pedersen, 2000; Birkinshaw and Hood, 1998; Ambos et al. 2006). Recent research suggests that the multinationality of the MNC complemented by local business (and social) networks in the host economy drive knowledge development in the subsidiary (Andersson and Forsgren, 2000; Castellani and Zanfei, 2006; Björkman et al. 2004; Li et al. 2007). Ambos et al. (2006) posit knowledge from subsidiaries in based in host countries where firms and industries already demonstrate competitive strengths will be the most useful to corporate capability upgrading. Le Bas and Sierra (2002) find that asset-augmenting investment was likely to occur when MNCs had revealed technology advantage (RTA) both at home and in the host country. These findings strongly suggest that MNCs may stand to benefit from their subsidiaries located in small advanced economies where competitive clusters or leading firms are apparent (Porter, 1998; Ivarsson, 1999, Benito et al., 2002).

Key to the subsidiary’s role, overtime, is subsidiary capability. Subsidiary capability is first influenced by intra-firm transfer of resources from the parent, and later will be complemented by its initiatives and development of its own subsidiary-specific advantages (in part rising from embeddedness in local business networks, which is discussed further in the following section). Thus our second set of hypotheses is as follows:

Subsidiary capability (time₀) in a small, advanced economy is expected to be positively influenced by:

H2a: intra-firm resource transfer from MNC to the subsidiary; and

H2b: assigned subsidiary role.

Subsidiary capability (time₁) in a small, advanced economy is expected to be positively influenced by:

H2c: subsidiary-specific advantages; and

H2d: adopted subsidiary role.

Finally, if the subsidiary develops advantages that are both unique to the MNC and of use to other units of the MNC (eg. becomes a ‘centre of excellence’ for a specific task or function), there is a higher likelihood that these advantages will be transferred to the MNC (either the parent or other units). Ultimately, if the transfer is successful this may contribute to the ownership-specific advantages of the MNC. This relationship could apply equally to foreign and national MNCs.

H3: Intra-firm resource transfer from foreign subsidiary to MNC will be positively influenced by subsidiary-specific advantages.

Foreign Subsidiary – Local Firm Linkages and Firm Capability Building

Finally, we consider the relationship between the role of the foreign subsidiary and the competitiveness of other local firms. Specifically, do resources transferred or diffused as a result of these linkages contribute to upgrading of firm capability? Foreign direct investment has often been associated with economic development in host economies (Dunning, 1993; Görg and Strobl, 2002; Dunning and Narula, 2004; Dunning and Fortanier, *work in progress*). Many studies point to the

efficiency, technological superiority, unique competitive advantages and organizational capabilities of the MNC to explain why the spillovers they create differ from those created by indigenous firms (for a review on spillovers see Blomström et al. 1999; Javorcik, 2004; Giroud, 2003). However, the relationship between spillovers at an industry level and upgrading at the firm level is by no means straightforward. In line with Giroud and Scott-Kennel (*work in progress*), we suggest that a better understanding of this relationship would be afforded by the study of linkages as a mechanism for the transfer of technology from foreign to local firms (UNCTAD, 2001; Crone and Roper, 2001; Glass et al., 2002; Lin and Saggi, 2005).

Linkages are inter-firm relationships that involve intended exchange between firms. They can be categorised as either *backward* linkages with suppliers, *forward* linkages with customers or *horizontal* linkages with alliance partners. Relationships vary from the simplest ‘spot’ transaction, to subcontracting and on-going collaboration between the firms (Hansen and Schaumburg-Müller, 2006). Inter-firm exchange can involve many different types of tangible and intangible resources, such as payment, products, technology, processes, knowledge, expertise, assistance, and access to markets or contacts (Scott-Kennel, 2007).

However, why would MNCs want to share their technologically superior advantages with local firms? The international business literature has traditionally argued that MNCs can manage advantages more efficiently in the internal firm hierarchy, thus protecting monopolistic advantage and preventing leakage to other firms (Hymer, 1960, Dunning, 1958, Buckley & Casson, 1976). In today’s competitive business environment however, MNCs actively seek to collaborate with other firms in order to keep pace with rapidly changing technologies and to specialize (Castellani and Zanfei, 2006; Duysters and Hagedoorn, 2001). Collaboration with firms with the smallest technology gaps and the greatest absorptive capacity – in other words those from industrialized nations – offers the most potential for mutual benefit (Girma, 2005).

With regard to subsidiary role, Jindra et al. (*work in progress*) found that in Eastern European countries foreign subsidiaries' activities relating to local sales, supply and product scope were important precursors to linkage formation and intensity. Subsidiaries with higher levels of technological capability also tend form more intense forward and backward linkages. In this context, inter-firm knowledge transfer potential is highest in a situation where the subsidiary also benefits from the technological knowledge base of the MNE (i.e. is internally embedded with the MNE network). Scott-Kennel and Enderwick (2004) also find that local innovation by the subsidiary is strongly linked to vertical linkage intensity and formation. These results are in line with a recently emerging literature that emphasizes the importance of technological capability in foreign subsidiaries for positive knowledge externalities to domestic firms (Castellani & Zanfei, 2006).

Thus, the nature of the subsidiary's activities or role in the host economy will determine which types of local firms they interact with, the extent of such interaction, and the intensity (quality, quantity and scope) of the interactions. The literature on inter-firm linkages strongly suggests that intensity of linkages is the most important factor when considering the impact on local firms (Giroud and Scott-Kennel, *work in progress*; Chen et al. 2004). We propose that the greater the extent of exchange and transfer of firm resources between firms, the higher the likelihood that such linkages will lead to firm upgrading.

From a firm perspective linkage formation and intensity is influenced by the 1) subsidiary's assigned role in the MNC, 2) subsidiary initiative (or adopted role) in the host economy, as well as 3) the firms' capacity to act as suppliers, customers and partners in inter-firm linkages. Absorptive capacity has a direct relationship with the ability of local firms replicate, apply, absorb and adapt the tangible and intangible knowledge transferred or diffused through linkages. Location-specific

factors, including institutional and supporting infrastructure, also determine the extent of transfer (Cantwell and Mudambi, 2005). The type of linkage formation between subsidiaries and local firms can be evaluated in terms of scope, quantity and quality, or, in other words, linkage intensity. Thus we can hypothesize:

Linkage intensity is expected to be positively influenced to the extent of:

H4a: the role of the subsidiary;

H4b: the capability of the subsidiary; and

H4c: the capability of local firms.

Finally, the extent to which linkages have the potential to contribute to firm-specific advantages both in the subsidiary itself and in local firms (domestic and international) will depend on the extent and direction of inter-firm resource transfer (either mutually beneficial, one-sided or hollowing out of local firms). Our last set of hypotheses is as follows:

Inter-firm resource transfer via linkages between foreign subsidiaries and local firms is expected to have a positive impact on:

H5a: subsidiary-specific advantages; and

H5b: local-firm (dis)advantages.

Proposed Model

The model illustrated in Figure 2 shows the relationships between our key variables, and hypotheses through the use of solid arrows and H1-H4. To recap, hypothesis 1 considers the influence of host country (dis)advantages on the motives for inward and outward FDI. Hypothesis 2 investigates the relationship between subsidiary capability and intra-firm resource transfer, subsidiary role, and subsidiary-specific advantage. Hypothesis 3 links subsidiary-specific advantage to intra-firm

resource transfer. Hypothesis 4 suggests that inter-firm linkage intensity is dependent on subsidiary role as well as the capabilities of both subsidiaries themselves and local firms. Finally, hypothesis 5 posits that advantages of both foreign subsidiaries and local firms (including national MNCs) will be influenced by inter-firm resource transfer. These relationships have a time dimension too, where there is likely to be a positive (or negative) circle of firm capability upgrading (or decline).

Figure 2 also shows other relationships between firm and location-specific variables that influence our hypotheses with dashed arrows (most of these will only be controlled for in the empirical study). First, is the influence of the (dis)ownership advantages of parent MNCs on the motive for investment. These may influence the choice of inward investment into small advanced economies by foreign MNCs, as well as outward investment from small advanced economies by foreign subsidiaries and national MNCs (as indicated at the top and bottom of the model). Second, location-specific advantages of the small advanced economy will influence the development of local firm capability, and ultimately the development of advantages specific to national MNCs. In turn, improvements to local firm capabilities will make industries in small advanced economies more competitive, thus improving location-specific advantages.

Figure 2 here

Method

The research will include small developed economies selected on the basis research feasibility and economic criteria. For the purposes of this research and in line with United Nations criteria, small advanced economies are defined as countries with a human development index higher than 0.9, nominal gross domestic product (GDP) less than \$600 billion, and nominal (GDP) per capita higher than \$15,000 per annum, and population between 2 and 20 million., where tertiary and quaternary

sectors dominate. This definition includes Austria, Belgium, Denmark, Finland, Greece, Ireland, Israel, New Zealand, Norway, Portugal, Singapore, Sweden, Switzerland and the Netherlands.

The research will involve a survey of the largest 1000 (or so) firms, including both foreign-owned subsidiaries and national MNCs, within each small advanced country selected. This may require construction and/or updating of databases of firm contact information prior to the administration of the survey. An initial set of variables for measuring the intensity of linkages is included below in table 2, and a draft questionnaire will be available for comment at the EIBA Conference.

Table 2 here

Researchers, Schedule and Outputs

The authors are currently looking for partner researchers to be involved in this project, principally in the capacity of country-specific researchers (ie. based in, or with access to, a small, advanced country as defined earlier). Preference will be given to those researchers with a strong interest in the topic, and expressions of interest from doctoral candidates whose topic could focus on or incorporate this research are also welcome.

In addition to undertaking part in the tasks assigned to partner researchers (see below), the authors will provide leadership and direction for the duration of the project. This will include project outline, objectives, expected contributions and outputs, draft model, research design and questionnaire, coordination of contributions from associate researchers and writing of key academic papers arising from the project. Partner researchers would retain use of their own datasets, and their broader role in the project would involve database construction or purchase, data collection via survey instrument, and contribution towards at least three co-authored papers (including

contributions to country-specific material and academic literature where appropriate) to be submitted to top journals. Ownership of the data from all countries studied will lie with the primary researcher and the associate researchers, and use of data from multiple countries or ideas developed by the authors will be conditional on agreement between the researchers concerned (eg. the author(s) and partner(s)) as well as any journal-specific copyright conditions that might be applicable.

While the authors have funding for the central tasks associated with the project, applications for funding for collection of contact details of foreign subsidiaries and data should be undertaken by each researcher for their respective countries. Design of the questionnaire will take place July-August with administration of the survey instrument anticipated for either April/May or September/October 2008. Data for the different countries should be collected no later than 1 year apart. Writing up and dissemination of results will begin in 2008, with the following outcomes expected. At least three articles in top-ranked journals, themes of these articles are available from the authors. Other publications, at the discretion of the authors and partner researchers, on individual, paired or groups of countries and other themes will also arise from the research. These might take the form of a book and/or a series of conference and journal articles.

Concluding Comments

The developmental role of multinational corporations and the positions of firms based in and from small economies in the global economy is a rather neglected area of research (Scott-Kennel, 2004). Specifically, this study will provide analysis on which industries attract foreign investment and why; local embeddedness of foreign subsidiaries (ie. activities, sourcing, relationships), innovation, initiative and upgrading and the contribution of outward investment to knowledge development and capability building at home (Moran et al. 2005; Fotopoulos and Louri, 2004; Pain, 2001; Xu, 2000).

Understanding the role that small economies can play within the wider strategic goals of international firms will suggest a way forward for policymakers considering how to best support economic growth through foreign direct investment. Policy makers need to be very aware of the activities and strategies of subsidiaries as well as the capabilities of local firms in order to capture the benefits of foreign direct investment through inter-firm linkages. Their challenge is to facilitate investment by the subsidiaries that are locally innovative and 'bridge the gap' between foreign subsidiaries and local firms where linkage and resource exchange have potential but do not occur.

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**Table 1a. Foreign Affiliates, Parent Corporations, FDI flows and Stocks
and Cross-border Mergers and Acquisitions in Small Advanced Economies**
US \$ million

Country	Foreign affiliates located in economy	Parent corporations based in economy	FDI Flows		FDI Stocks		Cross-border M&A	
	Latest Years		Inward 2005	Outward 2005	Inward 2005	Outward 2005	Sales 2005	Purchases 2005
Austria	2665	1006	8919	9293	61344	67243	5934	5125
Belgium	2341	991	23691	22925	492330	386294	7851	6035
Denmark	2305	9356	5309	9328	101568	118104	8928	11728
Finland	2030	900	4561	2705	52821	74413	2894	2973
Greece	750	170	607	1451	29312	13345	1295	408
Hong Kong, China	9072	948	35897	32560	532956	470458	9472	10470
Ireland	1225	39	-22773	12938	211190	117909	2420	3510
Israel	37	154	5587	2492	36343	20096	2053	1446
Netherlands	13714	1608	43630	119454	463416	641259	29014	95024
New Zealand	2022	217	1603	-1300	55077	11046	4033	1041
Norway	5105	1346	3413	6690	54853	365113	7969	8242
Portugal	3000	1300	3113	1146	64517	44457	1856	647
Singapore	14052	n.a.	20083	5519	186926	110932	5802	6106
Sweden	4656	4260	13389	25938	171517	202805	10054	13523
Switzerland	5359	4506	5795	42858	172489	394754	7241	16442
Total	68333	26801	152824	293997	2686659	3038228	106816	182720
As % of developed economies	n.a.	n.a.	28.2	45.5	37.7	32.8	17.9	29
As % of world	n.a.	n.a.	16.7	37.8	26.5	28.5	14.9	26

Source: UNCTAD, 2006.

**Table 1b. Foreign Direct Investment Flows and Stocks in Small Advanced Economies
as a Percentage of Gross Fixed Capital Formation and Gross Domestic Product**

Country	FDI flows as a % of GFCF		FDI Stocks as a % of GDP	
	Inward 2005	Outward 2005	Inward 2005	Outward 2005
Austria	14.1	14.7	20.0	21.9
Belgium	32.1	31.0	132.3	103.8
Denmark	10.6	18.7	39.1	45.5
Finland	12.3	7.3	27.3	38.5
Greece	1.1	2.7	13.2	6.0
Hong Kong, China	97.0	88.0	299.9	264.7
Ireland	-42.3	24.1	105.7	59.0
Israel	25.9	11.5	29.4	16.3
Netherlands	36.0	98.7	74.1	102.6
New Zealand	6.2	-5.0	50.7	10.2
Norway	6.2	26.2	18.5	123.3
Portugal	7.6	2.8	35.2	24.2
Singapore	78.9	21.7	158.6	94.1
Sweden	22.1	42.8	47.8	56.5
Switzerland	7.4	54.8	46.9	107.4
Average	21.0	29.3	73.2	71.6
Developed economies average	8.0	9.5	21.4	27.9
World average	9.4	8.3	22.7	23.9

Source: UNCTAD, 2006

Figure 1: Inward and Outward FDI Matrix for Small, Advanced Economies

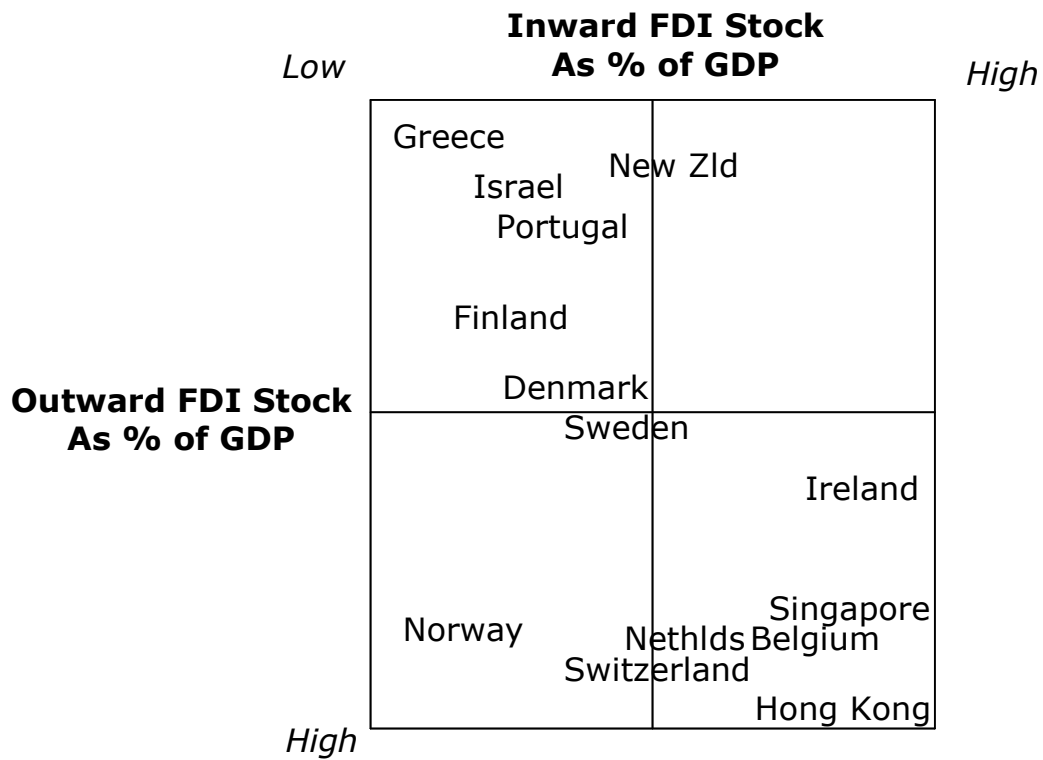


Figure 2: Model of Subsidiary Roles in the MNC and Small, Advanced Economies

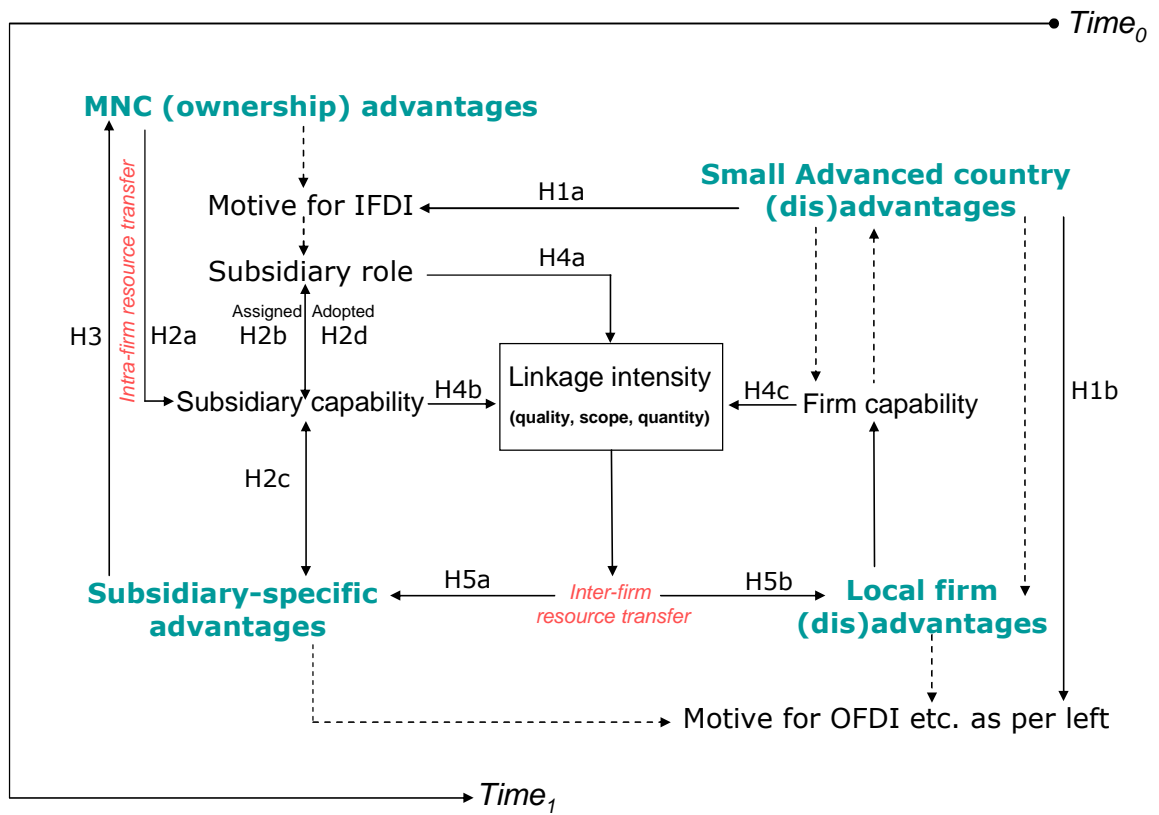


Table 2: Linkage Intensity Constructs

Construct	Variable	Measures
<i>Single Linkage</i> - development potential as a result of a single linkage between foreign subsidiary and local firm		
Quality	Depth	Extent of inter-firm lateral relations (between staff from the subsidiary and local firm(s)) Range of inter-firm interactions (between different people or departments)
	Duration	Time (years, months) since relationship first formed
	Transfer	Extent of inter-firm tacit knowledge transfer Extent of inter-firm codified resource and technology transfer
<i>Multiple Linkages</i> - development potential as a result of all linkages created by either foreign subsidiary or local firm		
Quantity	Number	Number of (critical) inter-firm relationships formed by the subsidiary Number of different firms with which linkages are formed by the subsidiary
	Value	Value of inter-firm business (sales and/or value-added) in (critical) associated with linkages formed by the subsidiary Value of local sourcing and/or supply (including exchange) associated with linkages formed by the subsidiary
Scope	Type & Breadth	Range of different types of linkages formed (where backward or forward = low, backward and forward, or horizontal = moderate, vertical (backward and/or forward) and horizontal = high)
		Range of value chain activities performed by the subsidiary versus local partners Range of industries (or sectors) in which linkages are formed