

**The effectiveness of Investment Promotion Agencies to attract and preserve Multinationals to their country**

*A case-study research on the efforts and effects of the Investment Promotion Agency trying to attract Foreign Direct Investment brought by Multinational Enterprises to Sweden*

---

Name: Bart Bremer  
Studentnr.: 1454013  
E-mail: b.bremer@student.rug.nl

University: Rijksuniversiteit Groningen (RUG), Netherlands  
Department: Faculty of Spatial Sciences  
Master: Economic Geography  
Supervisor: Drs. P.J.M. van Steen

Host University: Stockholm University, Sweden  
Department: Human Geography

Date: July, 2011

---

## Preface

The final chapter to my studies, as the end of my Master Economic Geography came in sight, was the thesis. Over half a year ago I first started thinking about a possible subject. Known to me then already was the fact that I was going to conduct research for the thesis in Sweden, because I signed up to study at the Stockholm University for one semester as part of an exchange programme. What I also knew were the areas of economic geography my interest was in; globalization, Multinationals and their location patterns. A definite subject was, however, hard to find. Something on location decision factors of Multinationals was shortly attempted, before I was discouraged by members of the Faculty of Spatial Sciences in Groningen. It would be rather difficult to conduct primary research among Multinationals as they are known not to be too willing to co-operate. After discussing my options with Drs. Van Steen, my interest was caught by the influence governments try to exercise over the attraction of FDI to their country. After obtaining some available literature on Investment Promotion Agencies, a research proposal was in the making. A case-study research on Sweden's Investment Promotion Agency would be done.

To conduct research, third parties' co-operation was essential to gather the necessary information. For making this possible, I would very much like to thank Magnus Runnbeck and Anna Hammarberg from Invest Sweden for giving me all the information I asked for and more. Two times 1,5 hour were made available for answering my questions and documented information was offered on request. I really appreciate the kindness and openness with which I was received and also the interest shown in my research.

Then, I would like to thank Drs. Paul van Steen for his help throughout the entire process of conducting research and writing the thesis. As mentioned before, assistance was given with formulating the topic and the research proposal. Reassuring was that my questions were always answered on short notice by phone and in meetings. Also, I thought very helpful was how precise and thorough the feedback was I received.

Then a few more thanks go out to the representatives of the Multinational Regional Headquarters who spared their time and allowed me to conduct interviews. I would like to thank prof. dr. Philip McCann for sharing his experience and knowledge in the topic decision phase. Finally, I would like to thank Sietze Bremer and Peter Hofman for their feedback on my research.

Bart Bremer

## Summary

Increasing international financial flows are the result of ongoing globalization. With some major fluctuations in recent years due to economic crises, the amount of FDI invested worldwide has risen significantly over the last thirty years. FDI inflows rose from 50 billion \$U.S. in 1980 to around 1400 billion \$U.S. in 2011. With both advantageous and disadvantageous characteristics of FDI, the overall perception is that FDI brings economic development to a country and it increases competitiveness. Governments therefore actively encourage FDI attraction to their country. To do so, government agencies are established, the so called Investment Promotion Agencies (IPAs). In two decades nearly 200 IPAs have been established worldwide. IPAs try to create a positive image of their country by disseminating information and investments are generated and facilitated. Also, an important role of an IPA is policy advocacy where the IPA plays the role of mediator between investor and government policy makers by giving feedback in order to improve the investment climate of the respective country. Research has proven that the increase of an IPA's budget results in an increase in FDI attraction. In other words, countries benefit from the presence of their IPA. How much more FDI is attracted with an increase in the budget depends on the investment climate of the country and the income level of a country. The better the investment climate and the higher the income level, the more effective an IPA's activities are.

This case-study research focuses on Sweden in particular to examine the efforts and effectiveness of their IPA, which is called Invest Sweden. Sweden is considered a high income country with a quite favourable investment climate. To examine the specific case of Sweden's IPA, interviews were held among representatives of Invest Sweden. Questions were based on, and results were compared to, what the literature suggests as being best practice. Besides that, evaluations held in practice were used as an indication of how Multinationals perceived Invest Sweden's services. Also, Interviews were held with representatives of Multinational Regional Headquarters in Sweden to examine their view on an IPA's activities. In accordance with the literature, Invest Sweden, in a lot of ways, seems to offer best practice services. Both the literature agrees on multiple aspects with how activities are carried out as well as the evaluations held in practice. Invest Sweden is perceived to be effective and to have the necessary know-how. MNE RHQs that were interviewed did not make use of the services offered by IS. Due to their large size or the number of years of experience in doing business in Sweden, IPA services were not needed while setting-up their RHQ. However, Invest Sweden claims that help is sometimes asked for by MNEs concerning the set-up of a (R)HQ. If so, what is mainly required is information about Sweden's investment climate in the location decision making process.

Recommendations are given to improve Invest Sweden's effectiveness. Recommended is to put current funds and resources available to Invest Sweden to its best use and not strive to enlarge the budget as coordination problems might occur. Then, Invest Sweden should try to receive more specific feedback on its services and get a more structured idea of the investor's perception of Sweden's investment climate, which could be done by adjusting the evaluation method to add (open) questions. Finally, Invest Sweden could focus on attracting Multinational (Regional) Headquarters on a more pro-active basis to further improve Sweden's leading position in (Regional) Headquarter accommodation. The insights given in this case-study research could also be valuable to other IPAs around the world striving to effectively attract FDI to their country.

## Table of Contents

<b>Preface</b>	<b>2</b>
<b>Summary</b>	<b>3</b>
<b>1. Introduction</b>	<b>5</b>
1.1 Research problem	6
1.2 Research goal/objective	6
1.3 Research questions	6
1.4 Conceptual model	7
<b>2. Globalization, foreign investment and the movement of operations</b>	<b>8</b>
2.1 Globalization	8
2.2 FDI	9
2.3 Multinationals and the Eclectic-Paradigm/OLI-model (Dunning)	12
2.4 Headquarter operations	13
2.5 Location factors for multinationals (HQs) and the importance of clusters (Porter)	14
<b>3. Investment Promotion Agencies</b>	<b>16</b>
3.1 Literature review on IPAs	16
3.2 Recapitulation / statement generation	19
<b>4. Sweden</b>	<b>21</b>
4.1 Background on Sweden's economic geography	21
4.2 Sweden's investment climate	22
<b>5. Case-study research methodology</b>	<b>26</b>
<b>6. Case-study research</b>	<b>28</b>
6.1 Invest Sweden's view on the from literature derived statements	28
6.2 Literature compared with Invest Sweden's services	32
6.3 Evaluating IS / IPAs in practice	37
6.3.1 <i>Evaluation of IS's services by MNEs; following questionnaires held by IS</i>	37
6.3.2 <i>Evaluation of an IPA's (or IS's) services by MNE RHQs in Sweden; personal interviews conducted</i>	38
<b>7. Conclusion and recommendations</b>	<b>41</b>
<b>References</b>	<b>44</b>
<u>Appendices</u>	

## 1. Introduction

Countries all over the world try to attract Foreign Direct Investment (FDI) to their country. The reason they do so is to try to achieve economic growth in the country (or in a specific region). The attitude towards inward FDI has changed over time as countries started to realize the positive aspects of FDI to the development of their country. This belief stems from the realization that FDI does not only provide direct employment and capital financing, but also generates positive externalities through foreign technologies and know-how (Alfaro et al., 2006; Hjälmsroth & Westerberg, 2009; OECD, 2002a; Rajan, 2004). Positive spillovers are sought for by governments through the transfer of foreign management, marketing and technological skills and the introduction of global production networks. Established linkages between foreign and domestic firms should hereby spin off new investment and further improve a country's competitiveness.

Governments play an important role in the development of a country's investment climate and the promotion of the country's favourable investment climate to the outside world. By realizing the importance of FDI, governments started establishing agencies responsible for attracting FDI to their country. These agencies are so called Investment Promotion Agencies (IPAs). As of 2001, there are at least 160 national and more than 250 sub-national IPAs, compared with only a handful two decades earlier (World Bank, 2004).

The investment climate is different per country. The total labour force, the level of education, available technologies and corporate tax levels, for example, are of influence to the investment climate. Then there is the country's geographical component which distinguishes it from other countries (and regions). In trying to attract FDI, IPAs depend on these national and regional characteristics. There is literature available on how to attract FDI to a country, but depending on a country's geography, resources and investment climate, more or less attraction of FDI is possible.

This study will focus on Sweden, a developed economy in Northern Europe. A case-study research will be done to examine the efforts and effectiveness of Sweden's IPA on attracting FDI. This study will test statements drawn from existing literature on the Swedish IPA. Also, primary research in the form of interviews will be done among Multinational Enterprises (MNEs) to evaluate the services they received by the Swedish IPA.

There have been some reports made public by countries on their efforts to try to attract FDI (Tan, 1999; Watanabe, 2003). However, so far little is known on whether the actual efforts of IPAs are congruent with what the theory suggests as best practice and also little information is available on how an IPA's services are evaluated by the companies they have been of service to. This case-study research will try to do so for Sweden and give recommendations on where to improve to be of better service in the future.

The focus in this thesis is on attracting and preserving MNEs, hereby ruling out FDI brought by forms of internationalization, such as licensing and contract manufacturing. Examined will be what the efforts and effects are of the Swedish IPA on creating new Joint Ventures and attracting fully owned foreign subsidiaries by means of new start-ups or mergers and acquisitions (M&As). The reason for doing so is that FDI brought by non-equity modes, like the before mentioned licensing and contract manufacturing (among a few other forms) does not involve that much investment, risk nor control by the foreign investor, meaning that the IPA can exercise much less influence over these foreign operations and it is

therefore not interesting enough to research (Gooderham & Nordhaug, 2003). The (significant) role MNEs have on global FDI will be discussed in the theoretical framework of the thesis.

In this case-study research there will be a further focus on Multinational Regional Headquarters (RHQs), as the Swedish IPA claims to be the preferred choice of location for RHQs. Also, UNCTAD (2003) suggested that a 'world market for corporate headquarter operations' is emerging and the relocation of HQ operations is on the rise. This process makes it interesting to see what the role of RHQs is in Sweden in 2011.

An Investment Promotion Agency is sometimes concerned with both attracting FDI to their country, as well as with promoting outward FDI to other countries. In this research there will solely be a focus on the inward investment from foreign Multinationals to Sweden. This leads to the following research problem, research objective and research questions.

### 1.1 Research problem

Research will be done to establish how the Investment Promotion Agency in Sweden tries to attract and preserve Multinationals to Sweden and how effective their actions are considered to be, according to literature and practice. This case-study research singles out Sweden in order to add to the existing literature on what is considered best practice for an Investment Promotion Agency in a developed economy (in (Northern) Europe).

### 1.2 Research objective

The objective of this thesis is to find out what is done effectively and where changes might be in place to improve the effectiveness of the Swedish Investment Promotion Agency. A case study on Sweden's IPA is carried out which might contribute to the broader existing literature on the effectiveness of IPAs by evaluating their services in practice.

### 1.3 Research questions

1.
  - a. What is Foreign Direct Investment and how is it related to globalization and Multinational operations?
  - b. What are the effects of FDI on a country's economy? How has FDI affected Sweden?
  - c. What is the role of MNE (Regional) Headquarters in global Foreign Direct Investment and in Sweden?
2. What is an Investment Promotion Agency? What role does it play in attracting FDI?
3. What instruments are available to attract FDI and which does the Swedish IPA use?
4. What is the role of the Swedish IPA in attracting FDI or RHQs?
5. How have foreign companies experienced the role of the Swedish IPA?

## 1.4 Conceptual model

The conceptual model in figure 1.1 shows how globalization has gone along with FDI and how MNEs have played part in the investments done globally. MNEs have set-up more and more RHQs as the amounts of FDI and the geographical spread of it has increased. Governments realizing the importance of FDI try to attract FDI and preserve MNEs to their countries. A very common manner to do so is by setting-up an IPA to take charge of this. The blue box in figure 1.1 shows the specific case of how FDI led to the establishment of Sweden's national IPA, called Invest Sweden and how the economic geography of the country has influence on Invest Sweden. Also there is a relationship between the Swedish central government and Invest Sweden where both parties have an impact on each other. Finally Invest Sweden depends on the business climate present in Sweden.

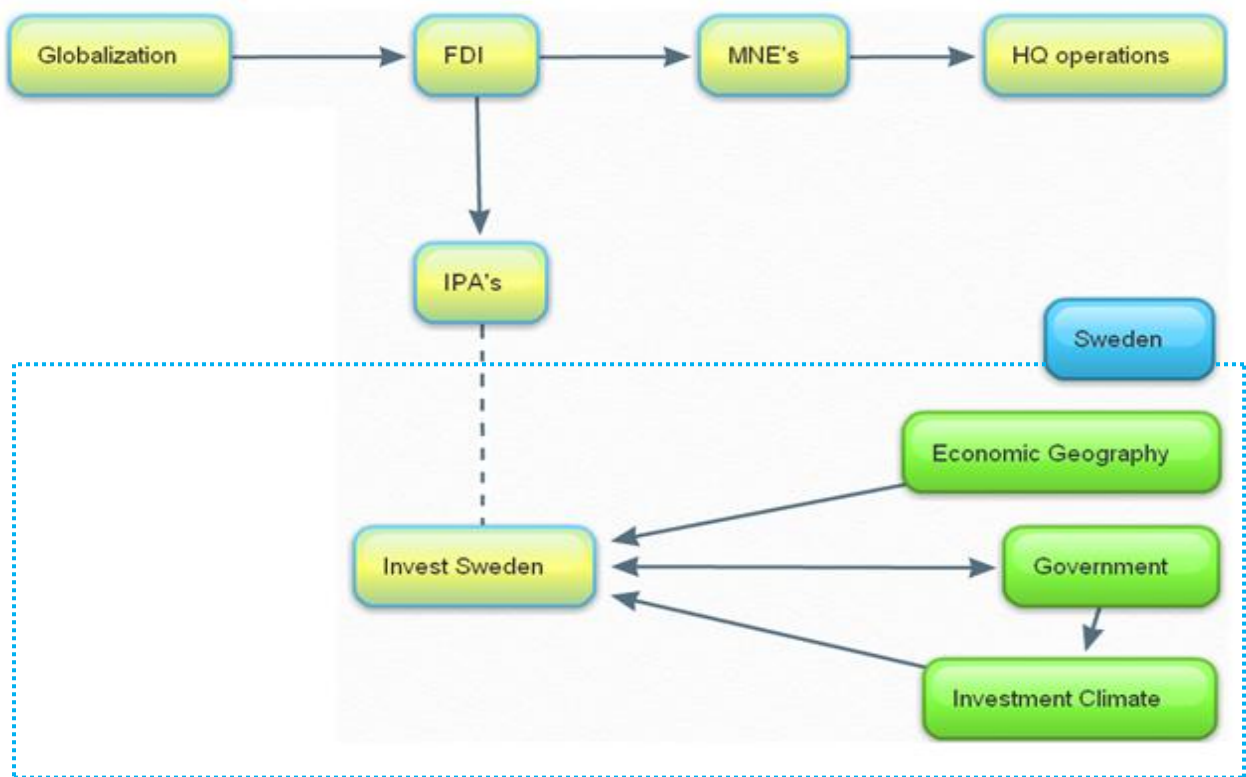


Figure 1.1: Conceptual model

The conceptual model is also the basis of the table of contents and thereby the thread through the thesis. Chapter 2 of the thesis is a literature review of, consecutively, globalization, FDI, MNEs and (R)HQs. Also the location decision factors of MNE (R)HQs and the importance of clusters will be dealt with in this chapter. Chapter 3 will examine the literature on IPAs and the role they play in attracting FDI. Chapter 4 will focus on Sweden's economic geography and its investment climate. At the end of chapter 3, after the literature review done in the chapters 2 and 3, statements will be drawn on what the literature suggests as an IPA's best practice. These statements will be tested in a case-study research on Invest Sweden. Chapter 5 shows how the primary research has been executed and explains which choices were made. Chapter 6 will discuss the results of the interviews that were held among professionals in the field of attracting FDI and of MNEs and compare literature with practice. Chapter 7 will try to draw conclusions and recommendations based on the previous research.

## 2. Globalization, foreign investment and the relocation of operations

FDI is proposed to be one of the most important mechanisms underlying what is generally known as globalization (Chesnais et al., 2000). Governments have played an important role in making globalization and FDI possible with deliberate policies of liberalization and deregulation and today it is MNEs that influence economic activity on a large scale all around the world. This chapter will consecutively discuss what globalization is, what the impact is of FDI on the world's globalizing economy and what role MNEs and MNE (R)HQs have played in this.

### 2.1 Globalization

Up till the nineteenth century the economic geography of the world was quite homogeneous. People lived in agrarian societies and pretty much consumed what was produced locally. Domestic and international trade occurred only to a limited extent. As advances in transport technology were made, the costs of trade fell (Crafts & Venables, 2003). People started migrating and big and small markets arose. More interaction between nations began to take place and people started sharing their ideas, cultures and traditions. Trade links started developing between countries globally, which influenced economies to a great extent. This is what eventually led to today's globalized world.

Globalization in the contemporary world is known as the ongoing process of interaction and integration among people, companies and governments globally which is driven by international trade and investment and aided by information technology (Levin Institute, 2011). Indication of the effect of the ongoing globalization is the increase of the total value of trade of goods and services as a percentage of world GDP, which rose from 42.1% in 1980 to 62.1% in 2007 (IMF, 2008).

Globalization has not always developed at the same pace. The process of globalization has known two so called waves<sup>1</sup>. The first wave extends itself over the period from 1870 until 1914. The second wave of globalization runs from the post war period starting in 1960 until the present (Crafts & Venables, 2003). Important drivers of the first wave of globalization were fallen trade costs, economic growth and higher productivity (mainly instigated by the British Empire) and changing government policies (Jacks et al., 2009). Large income differences originated between the industrializing north and the south. The first wave ended with the First World War and only returned after the next almost 50 years including the Great Depression, a period in which governments introduced all kinds of forms of protectionism, and the Second World War (Crafts & Venables, 2003; Baldwin & Martin, 1999). The second wave meant a return of international global trade and capital flows and was helped by the trade, investment and financial liberalization and deregulation of markets that started in the 1970's (Chesnais et al., 2000). Characteristic of the second wave is the importance of the trade in ideas as the north de-industrialized. The second wave brought a different nature of FDI and MNE activity. There is a larger focus on *"intra-industry FDI among similar nations with a focus on manufacturing, services and outsourcing rather than the North-to-South investment in primary product sectors and railroads that were characteristic of the first wave"* (Baldwin & Martin, 1999).

---

<sup>1</sup> In the literature sociologists vary from economists in their opinion as to which wave of globalization belongs to which period and also on the total number of waves. Sociologist Therborn (2000), for example, talks about at least six waves in total of which the first wave started in the 4<sup>th</sup> century with the diffusion of world religions and the establishment of transcontinental civilizations.



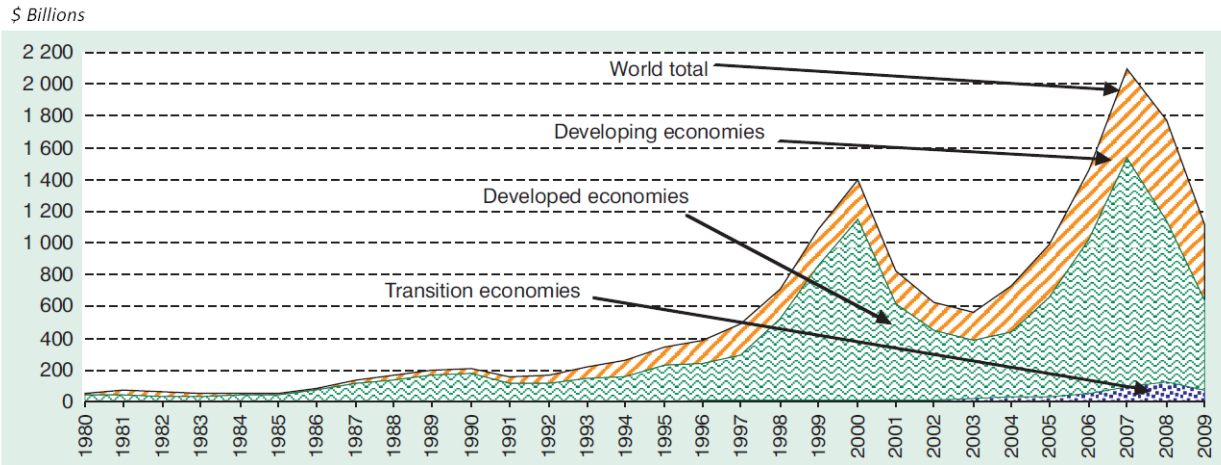
Globalization is by some regarded as a positive process and others think of it as something negative. Advantages ascribed to globalization include the spread of knowledge, improved quality of products and services, an increase of choice and the boost of economies. Opponents claim that globalization destroys local cultures and markets. Penalver (2002) says that both supporters and opponents are partially or totally right in their arguments, it is just that they are discussing different processes of globalization. The benefits mentioned often concern investments in countries with a healthy political and institutional climate while critics emphasize, for example, monopolistic behaviour and the extraction of oil and minerals from foreign countries. Thomas Friedman (1999) states that globalization is not just a passing trend, but an international all-embracing system, which, he states, is comparable to fire. Fire in itself is not a good or a bad thing, it is the way you put it to use that makes it good or bad. In trying to make as many people as possible benefit from globalization, international institutions and governments have an important role to play by removing barriers and helping countries to integrate into the global economy, according to the IMF (2008).

*“Globalization is often defined as a combination of four major trends, including the expansion of international trade, financial flows (with FDI as the most important component of these flows), global communications (including transport) and movements of people (immigration)”* (Penalver, 2002). The economic importance of FDI to countries around the world is the part of globalization that this thesis will further focus on.

## 2.2 FDI

*“According to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The “lasting interest” implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter”* (Duce, 2003). An interest of at least 10% in the foreign operation must be obtained to consider it FDI.

FDI worldwide has emerged since the 1970's. Figure 2.1 shows the increase of flows of FDI since 1980 with some major fluctuations as of the year 2000 after a huge rise between 1997 and 2000. The sharp descent in 2001 was due to a sharp contraction in mergers and acquisitions (M&A's) among the industrial countries (IMF, 2003). FDI flows fell from 1400\$ billion in 2000 to around 600\$ billion in 2003 before picking up again. The trend towards liberalization in government policies was reinforced by the downturn (UNCTAD, 2003). In 2001 and 2002, FDI policies and regulations changed significantly in the favour of FDI. From the 248 changes in legislation that were made by countries that introduced changes in their investment regimes, 236 were favourable to FDI (UNCTAD, 2003). The same turn of events, however, happened in 2007 when, after a preliminary increase, FDI fell dramatically from around 2100\$ billion to 1100\$ billion in 2009. The drop in FDI flows then again started to bottom out into a slight recovery in 2010. Predictions are that global FDI flows will pick up from 1200\$ billion to around 1400\$ billion in 2011 and 1800\$ billion in 2012 (UNCTAD, 2010). However, these prospects are very uncertain and depend heavily on the way the global economy will progress. As we can see from figure 2.1, the bulk of FDI continues to flow into developed economies even though the emerging countries' share has grown.



Source: UNCTAD, 2010

Figure 2.1: Yearly inflows of FDI, globally and by groups of economies, between 1980-2009

FDI can occur in different initial forms. A foreign investor can make a ‘Greenfield Investment’, then there is the opportunity of a Merger and Acquisition (M&A) and a Joint Venture can be set up (Raff et al., 2007). Of course FDI can also be made later, as a form of expanding earlier investments. A Greenfield investment takes place when a foreign company opens up its own branch in the host country to produce its goods and services locally. In a Merger and Acquisition a domestic company is taken over by the foreign investing company for more than 50% of the shareholders’ voting power and a joint venture happens when a formal cooperation is set-up between a foreign investor and a domestic company. The foreign and the domestic company own between 10% and 50% of the shares (Duce, 2003). According to Raff et al. (2007), interdependence exists between the different modes of entry to a foreign market. For example, when a company decides that a Greenfield investment is more profitable than the export from their home country, the price that needs to be offered to a company for an M&A goes down, making this option more interesting maybe than a Greenfield investment. Also, it can happen that the arising opportunity of a new Greenfield investment in a host country may lead to an increasing support from domestic firms to set-up a joint venture (Raff et al., 2007). Müller (2007) finds that the choice for Greenfield investment or an M&A should be based on the host country’s competition intensity in the sector. Very little or very much competition calls for Greenfield investment while with an average level of competition acquisition is more profitable (Müller, 2007). The advantages to a company of setting up a joint venture include having lower costs, sharing knowledge and gaining access to the foreign market (Lee, 2006). Disadvantages associated with joint ventures are that control and coordination problems could arise when working with a partner, possibly reinforced by cultural differences between the foreign and domestic firm. Also, rewards have to be shared and there is potential to conflict of interest between the parties involved as both companies will strive to maximize their company specific interests (Lee, 2006; Pothukuchi et al., 2002).

The decision of a company to invest directly in a foreign country affects both the ‘home country’ and the ‘host country’. The country where the company is originally based is called the ‘home country’. The country where the investment takes place is the ‘host country’. FDI has an impact on both and can affect the countries involved in both positive and negative ways. The reason for home and host countries and their respective governments to promote inward/outward FDI are multiple.

Home country benefits vary on the characteristics of the investment and on the environment in which the investment takes place (Kokko, 2006). Outward investment may stimulate business at home as the company's market share grows abroad. Negative to the home country can be a drop in employment if labour extensive activities move abroad to lower wage countries (Kokko, 2006). In general, outward investment is encouraged by most governments as the advantages are perceived to be more important than the disadvantages.

To the host country, first and most straightforward advantages are direct employment and economic contribution to the country's economy (OECD, 2002a). Unless they go at the expense of domestic jobs, economic growth is achieved by higher productivity levels due to the presence of foreign direct investors (Penalver, 2002). Comparisons between foreign and domestic firms have almost always shown higher productivity in foreign-owned firms, plus there is evidence that the presence of a foreign company has positive effects on a country as the average wage level will rise (Lipsey, 2002). Also, inward FDI will introduce new industries and products to the country invested in and also the host country will be more incorporated in the world's system of trade. Then there is the advantage of positive externalities of FDI when new products, industries, technologies and know-how spill over from the foreign firm to domestic firms through backward linkages (Alfaro et al., 2006). The link created between foreign- and domestic firms is supposed to spin off into new investments which can further contribute to economic growth.

Whether spillovers actually occur is debated about intensively in the literature. Also, the evidence on spillovers from foreign investors to domestic firms is mixed in nature (Lipsey, 2002; Görg & Greenaway, 2004). Some find it hard to prove intra-industry spillovers to occur, Javorcik (2004) does find positive productivity spillovers happening across industries, so between foreign companies and their local suppliers. Schoors & Van der Tol (2002) find positive spillovers on labour productivity of domestic firms within the same sector and even more important spillover effects between different sectors. Konings (2001) on the other hand claims a negative competition effect of the presence of a foreign company to dominate the positives of possible technology spillovers. Despite these sometimes contradicting outcomes, there seems to be a consensus amongst researchers that the level as to which spillovers may occur depends on the absorptive capacity and the openness to FDI of the host country. To enjoy the benefits of FDI to a maximum, certain conditions in a country must be reached. A high absorptive capacity is needed and is based on whether a country has a well-educated workforce, a good infrastructure and political stability. Also, there has to be a positive business climate (Penalver, 2002; Alfaro et al., 2006). A positive business climate means a situation where domestic and foreign investment is encouraged and incentives are provided for innovation and the improvement of the workforce's skills (OECD, 2002a). This means there is a difference in the extent to which the above mentioned advantages (and disadvantages) of FDI influence a country. This is also reflected in the literature, as in many articles a distinction is made between FDI from and to developed economies and FDI from and to developing economies (Alfaro, 2006 et al.; Kokko, 2006; Lipsey, 2002; Penalver, 2002).

Most governments seem convinced of the positive spillovers FDI could bring and they sometimes try to foster spillovers from FDI to their domestic market. Some governments tried to do so by setting requirements to foreign investors making them use local content or they obliged the investors to create joint ventures to promote links between foreign and domestic companies (World Bank, 2004). These requirements can, however, have the opposite effect as companies might pull out of a potential investment. Also, they might become wary of using their most advanced processes and technologies, which in turn reduces favourable spillovers. Another government method to foster spillovers is the attempt to reduce the information, cultural and technological barriers between foreign and domestic

firms by lending organizational and financial support to the local companies (Moran, 2005). The difficulty with this method could be the question on whether it is healthy to competition to select one company over another to support financially.

The disadvantages accompanied by FDI to host countries are the changes that need to be made in the distributional processes of economic activity and the industrial restructuring efforts that need to be made. The costs of this are often met with resistance by the groups/people that do not expect to be a beneficiary of the new investment (OECD, 2002a). Another reason for some host countries to take a negative standpoint towards inward FDI is that some domestic firms might be forced to reduce in size or sometimes shut down as they are not efficient enough to compete with the new investing companies (Lipsey, 2002). Others, however, see this process as healthy competition. According to UNCTAD (2004), host countries need to be cautious in attracting FDI, because some services, which are natural monopolies, like basic utilities and infrastructure, are sensitive to abuse of market power. And while it might be more difficult to exercise power over foreign companies, this threat accrues mostly to developing countries and less to developed countries with a healthy institutional and political system. Caution also needs to be taken when there is a chance that letting in FDI might disrupt “the fabric of a society” when services are of a certain social and/or cultural significance (OECD, 2004).

The fact that FDI is used as a determinant for economic development and is seen as a way to improve competitiveness, along with the fact that most governments actively encourage the attraction of FDI to their country (as well as promoting outward FDI investment), states that the positives of FDI outweigh the negative aspects (Hjalmroth, 2009). The OECD (2002a) refers to FDI as a “major catalyst to development”.

### 2.3 Multinationals and the Eclectic-Paradigm/OLI-model (Dunning)

A foreign direct investor can be an individual, an enterprise or a government investing in a country different from the country of home residence (Duce, 2003). A company that manages production or offers its services in a foreign country is considered a Multinational Enterprise (MNE).

The Draft United Nations Code of Conduct on Transnational Corporations has defined a formal and more elaborate definition of an MNE to be *“an enterprise, comprising entities in two or more countries, regardless of the legal form and fields of activities of these entities, which operates under a system of decision-making, permitting coherent policies and a common strategy through one or more decision-making centres, in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of others, and, in particular, to share knowledge, resources and responsibilities with the others”* (UNCTAD, 1983).

In the literature the use of the terms FDI and MNE go hand in hand and no distinction seems to be made between FDI from governments/individuals and FDI from MNEs, probably because the vast majority of all FDI globally comes from MNEs.

Some disadvantages need to be considered by companies before investing in a foreign company and becoming an MNE. It needs to consider the costs of setting up a foreign branch and sales network. Also, it will take some effort to overcome cultural and legal differences between the home and foreign country. Finally, the foreign investor runs a risk in dealing with the exchange rates between home and host country (Brakman & Garretsen, 2008). The advantages of becoming an MNE and, thus, the reasons for a company to decide to go abroad were first described by Dunning in 1977 in his ‘Eclectic Paradigm’,

also known as the OLI-model. The OLI-model explains the motives of a company to set up a foreign branch, subsidiary or associate in threefold.

First, a company will benefit from an *ownership advantage* (the O in the OLI-model). Ownership, or firm-specific, advantages accrue to some companies and explain why only some companies move abroad and others do not. It suggests that some companies have a product or service that is unique and belongs to these companies specifically. This can be because of a company's patent, a brand name or their unique process of production, marketing skills or the managerial structure for example (Brakman & Garretsen, 2008; Neary, 2007). This is supposed to give the firm an advantage over other firms in the newly chosen market.

Second, the L in the OLI-model refers to *location advantages*. A location advantage is gained by producing in a foreign country and so avoiding barriers to trade, like tariffs and exporting costs (Brakman & Garretsen, 2008). FDI can have the character of 'horizontal FDI' or 'vertical FDI'. By investing horizontally a company moves abroad to gain access over a foreign market by, more or less, replicating the products/services that are offered in the home country. Vertical FDI means a fragmentation of the production process across multiple countries and is, unlike horizontal FDI, not (primarily) aimed at selling products and services to the newly acquired market, but seeks markets where production costs are lower (Neary, 2007).

Third, a company can enjoy an *internalization advantage*. The issue of internalization deals with the question whether a company should move abroad and keep production of their product 'in-house' or if it is more profitable to outsource foreign production to another company (Brakman & Garretsen, 2008). In other words, what is the best mode of entry into a foreign market? Should a company choose for a Greenfield investment or an M&A and have high costs, but be in charge of production itself, or is it more lucrative to involve a third party and choose for a joint venture or even a licensing contract with a foreign company? Costs are lower, but control and coordination problems can arise.

#### 2.4 (Regional) Headquarter operations

A firm can be considered as an entity having two activities; it is a headquarters and a plant (Hoffman & Markusen, 2008). If the firm decides to employ its activities in more than one country, as mentioned before, we consider the firm to be an MNE. If the firm chooses to have plants in different countries, it concerns a horizontal multinational. The cost advantage such an MNE has over two separate domestic firms is that it does not need the duplication of all the headquarter services (Davies, 2003). If the firm locates its headquarter activities in a different country than the plant, it is referred to as a vertical multinational. Typical headquarter services are assumed to be skill-intensive and consist of e.g. research and product/process development, management and marketing (Neary, 2007; Davies, 2003).

Collis et al. (2008) used the following definition of headquarters, namely "*staff functions and executive management with responsibility for, or providing services to, the whole of (or most of) the company, excluding staff employed in divisional headquarters*". Birkinshaw et al. (2006) described the definition of an HQ by its three elements. First, an HQ is characterized by a top management group that meets at an official location. Second, an HQ has the formal responsibility for fulfilling its roles, which will be discussed in the latter part of chapter 2.4. Finally, a corporate HQ has a legal domicile (its formal registration) in a particular sovereign nation.

In the literature, a distinction is made between corporate HQs and business unit HQs. Corporate HQs are mostly influenced by global financial markets and their international shareholders, whereas business unit HQs are more influenced by the market demand and the competitiveness of the host country (Birkinshaw et al., 2006). This difference in influence gives the two types of HQs their separate roles. Corporate HQs have an internal, administrative role to play, where they monitor the performances of the business units. Another role they have is the entrepreneurial one, where the corporate HQ sets out its strategies for the long-term. The business unit HQ has a role of formulating and implementing a competitive strategy to the market and industry in which it is active in (Birkinshaw et al., 2006).

Many examples of both business unit HQ as well as corporate HQ relocations have suggested that a world market for headquarter operations is emerging (UNCTAD, 2003). According to UNCTAD (2003) the 829 newly established HQs and HQ relocations between January 2002 and March 2003 indicated that relocation of HQ operations worldwide is rising significantly. Improved ICT and transportation technologies have activated the trend of MNEs to choose to slice up their (corporate and business unit) operations and set-up regional headquarters (RHQs). The reasons for setting-up a regional headquarter are underlined in Holt et al. (2006) and emphasize the limits to economies of scale met by global headquarters, the geopolitical developments of regionalization (e.g. EU, NAFTA and APEC), strategic reasons to better deal with the different markets and employees and organizational reasons to make sure a company stays open minded when it comes to specific subsidiary competences and initiatives.

RHQs are supposed to become an MNE's management centre in the region (Mori, 2002). According to Mori (2002), RHQs can play three roles. First, they carry out typical headquarter services, like research and product/process development, management and marketing, for their specific region. Second, the RHQ has the role of coordinator. It has to coordinate and support the firms within the region and also it needs to coordinate the link between global integration and local accessibility. Third, the RHQ serves to transfer knowledge from local markets to the global HQ and to other subsidiaries in the MNE (Mori, 2002).

## 2.5 (Re-)Location factors for MNEs (HQs) and the importance of clusters (Porter)

In the previous paragraph, the significance of HQ relocations was mentioned. This paragraph will focus on location decision factors important to MNEs and the trend of (re)locating MNE (R)HQs. First, the tendency of MNEs and MNE (R)HQs to cluster will be discussed.

Michael Porter is a professor known for his research and acknowledgment of the importance of clusters to competition. The definition of clusters, according to Porter (2000), "*are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standards agencies, trade associations) in a particular field that compete but also cooperate*". Clusters are said to affect competition in three ways (Porter, 1998). It increases the cluster firms' productivity, it supports and increases innovation and it stimulates new business formations which, in turn, will improve the clusters' strength. These advantages to firms are mainly created by external economies of scale and spillover effects between companies due to the geographical proximity of firms. The lacking consensus on spillovers to have a significant positive effect is reflected in the variety of government's efforts to create clear, fully supported cluster policies (Ketels, 2009). The effect of clusters on FDI attraction is, however, said to be positive, as Ketels (2009) claims that clusters provide a good environment for attracting advanced foreign skills and for domestic firms to link up to foreign research hubs.

Alfaro & Chen (2010) subsequently examined the importance of clusters to MNEs' global location patterns and found that clusters play an important role internationally. The choice of location of MNEs is, besides so called first-nature motives, like market access and comparative advantage, significantly motivated by agglomeration effects (second-nature forces), such as knowledge spillovers, capital-market externalities, and vertical production linkages. Looking at their relative importance to MNEs, the first-nature forces are most important, followed by knowledge spillovers and capital-market externalities, whereas vertical production linkages are of lesser importance. Labour market pooling has an even weaker effect on MNEs' location decision. Also, Alfaro & Chen (2010) found that firms are likely to have a stronger motive to cluster specifically with their suppliers and customers in countries with poorer infrastructure. Clusters are important to a host economy as the firms in a cluster have a higher absorptive capacity than firms that are located dispersed (Gugler, 2007). Important to the resulting know-how and skills spillovers, however, are whether the MNE characteristics 'fits' the specific cluster. FDI attraction should therefore be both quality and quantity based (Gugler, 2007).

As relocation of MNE (R)HQs has been on the rise, Hoffman & Markusen (2008) claim that the trend of investment liberalization has been the cause of (R)HQs to move and also to increase in concentration. Companies choose large countries and countries that have a "skilled-labour-abundance" (Hoffman & Markusen, 2008). In research to the movement of HQs in the U.S., Strauss-Kahn & Vives (2005) found that HQs have a tendency to cluster in medium-sized service-oriented metropolitan areas. HQs and MNE subsidiaries make a distinction in their clustering pattern based on their roles, as HQs are influenced much by knowledge spillover effects and labour market externalities, subsidiaries choose to cluster more based on the availability of vertical production linkages (Alfaro & Chen, 2010).

Firms often choose a country they are already active in over other countries with investment opportunities. Davidson (1980) found a relationship between the length of a company's existence and the choice of location. Firms with more experience tend to have less preference for having their business in near, similar and familiar markets. *"As firms gain experience, the location of foreign investment activity will increasingly represent an efficient response to global economic opportunities and conditions"* (Davidson, 1980).

The exact decision on a location is eventually based on a multitude of factors and researched by Holt et al. (2006). Based on a variety of 39 different location decision factors, MNEs from all over the world gave their view on which they thought were most important for locating their RHQ. A location's attractiveness varied on factors drawn from a country's geography, population, infrastructure and government policies. The main conclusion in Holt et al. (2006) is that an MNE's location decision for its RHQs depends on the firm's "contextual conditions". Meaning, there are significant differences in the choice of location between firms working in different industries, firms with differences in country of origin and firms with different strategic purposes of their RHQ establishment. Also, Holt et al. (2006) recognize the importance to MNEs of setting-up RHQs to be a coordination mechanism to respond to impacts of globalization in a timely manner. The specific factors thought of being most and least important to MNEs in general and per MNE's contextual condition can be found in Appendix 1: 'Location decision factors important to MNE RHQs'.

### 3. Investment Promotion Agencies

As we have seen in chapter 2, FDI is overall perceived to have a positive influence on a host country by generating economic benefits in multiple ways. The changed perception of countries towards favouring inward FDI, over focusing on possible negative factors of FDI and trying to prevent foreign investors in their country, has brought an attitude in which countries actively promote (inward) investment. Foremost reason for attracting FDI is the cumulative effect it has on the attraction of future FDI. According to Rajan (2004) attracting FDI into a country will make the country more attractive to new investors. Even though the most important variables to determine a country's inward FDI flows still depend on the quality of the country's investment climate and on the market size, advocates of investment promotion claim that without investment promotion, gaps in perception remain on investment opportunities and the quality of a country's investment climate (Morisset & Andrews-Johnson, 2004). Investment promotion has been defined by Wells & Wint (2000) as "*activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for the prospective investors*".

#### 3.1 Literature review on IPAs

Countries all over the world choose to set-up agencies in charge of investment promotion, the so called Investment Promotion Agencies (IPAs). Justification for governments to do so can be retrieved from the definition above, because dissemination of information is considered to be a responsibility of the public sector. The private sector is not expected to hand out information to potential investors to optimize competition. Even the contrary might happen where firms already present in a country withhold information from potential investors (Morisset, 2003). Two decades ago no more than a handful of these agencies existed, while in February 2006, the World Association of Investment Promotion Agencies (WAIPA) counted 188 IPAs registered as a member (OECD, 2006). Even though the name suggests, correctly, that IPAs are involved in the promotion of investment to their country, there is more to the agencies than that. They play numerous roles, which can be separated in several ways. The World Bank (2004) claims IPAs have the following six functions:

- *Information dissemination.* Provide potential investors with information on the local economy.
- *Image building.* The IPA to promote the country as an attractive location decision for foreign investors.
- *Investment facilitation.* Help investors with administrative procedures needed prior to make an investment.
- *Investment generation.* IPAs can generate FDI inflows by identifying and targeting firms in specific sectors, attractive to their country, by presenting themselves by e.g. e-mail or telephone.
- *Investor monitoring and aftercare.* Firms that are already present in a country can be evaluated and assisted to make sure they continue and maybe expand their operations.
- *Policy advocacy.* To observe problems that exist or are perceived by investors and advocate policy by discussion to the government responsible.

In a survey on 58 countries, Morisset (2003) found a significant positive influence of investment promotion on the FDI flows from and to a country, so it is not just the country's market size and the available investment climate to be of influence. However, the effectiveness of the investment promotion does depend on the country's environment and the level of development. An IPA active in a country with a poor investment climate is less effective in attracting foreign investment (Morisset, 2003).



Of course, it is easy to assume that attracting potential investors to an attractive country is easier than to attract investors to a county with a poor investment climate. However, figure 3.1 shows what the consequences are of increasing the budgets of IPAs with 10% in different kinds of countries. To the left countries with different kinds of investment climate are shown and to the right the influence of a budget increase to the inflow of FDI is measured in countries with three different income levels. Both countries with a good and a bad environment benefit from investment promotion; only countries with a better environment are relatively more effective.

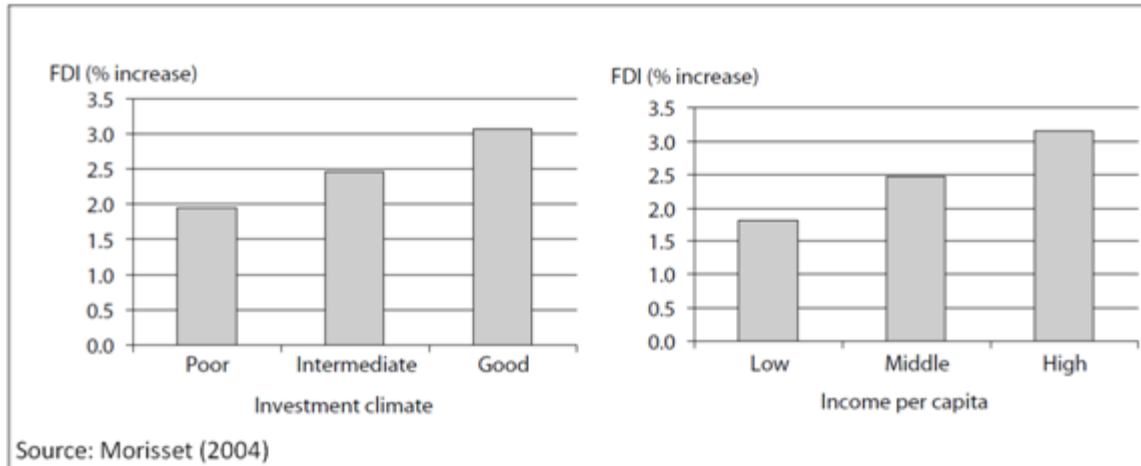


Figure 3.1: Impact of IPA's 10% budget increase on FDI inflow per type of country environment

Table 3.1 shows that there is a great variety in the budgets available to IPAs, not just between high and low income countries, but also between countries with similar income levels. Promotional efforts require a minimum level to be able to benefit from increasing returns and a higher budget usually means a higher inflow of FDI into a country (Morisset & Andrews-Johnson, 2004). This, however, only applies up to a certain budget as agencies can also become too big and can experience e.g. coordination problems. Up to a maximum level of around U.S.\$ 11 million increasing returns exist, after which there are decreasing economies of scale seem to appear (Morisset & Andrews-Johnson, 2004). Most IPAs receive the greater part of their budget from the government. The role IPAs play in information dissemination benefits the economy beyond the agency and the individual firm and should therefore be funded by the public sector. Private funding happens in small amounts, but the disadvantage for private firms to invest is that an IPA's activities are directed at a large number of potential investors without the targeting of companies directly benefiting the sponsoring firms (Morisset & Andrews-Johnson, 2004).

	Low income	Middle income	High income
Average budget	548,500	1,237,000	9,382,100
Minimum budget	28,404	33,300	283,155
Maximum budget	1,488,833	5,593,000	27,300,000
Median budget	287,421	569,574	9,316,800

Source: Morisset, 2004

Table 3.1: IPA budgets by income levels in \$U.S.

Another factor influencing an IPA's effectiveness is the kind of activities that are performed. Morisset's (2003) research proves that agencies that spend relatively more of their money and time on policy advocacy are more effective. Reason for this is that policy advocacy is directly related to positively influencing a country's investment climate, which, as shown before, was one of the most important determinants in attracting foreign investors. Also, policy advocacy affects both foreign investors as well as domestic investors. The IPA is the government agency to be most in touch with (potential) foreign investors and is therefore well placed to become a government's source of feedback to policy-makers (OECD, 2002b). On average, IPAs spend around 7% of their budgets on policy advocacy (World Bank, 2004).

Finally, organizational characteristics of IPAs that can increase their effectiveness are agencies with a reporting mechanism to and the support from the highest government. Reporting to the highest level of policy makers reflects a government's overall commitment towards reforms (Morisset & Andrews-Johnson, 2004). Significant factors important to increase the effectiveness of IPAs are claimed to be that it should be an autonomous body or a joint private-public institution instead of part of a ministry. The effectiveness is also improved when whom the agency is reporting to includes representatives of the private sector. Support from both public and private sector is important as they contribute to the IPA's credibility and visibility in the country's economy (Morisset, 2003).

The effectiveness of an IPA to attract FDI is mostly measured by quantitative numbers of new foreign investments and the amount of money to be invested. Some countries, however, also try to improve the quality of the FDI attracted to the country, which can be measured by the total number of jobs an investment has created, exports or the transfer of new technologies into the country (Morisset & Andrews-Johnson, 2004).

To come in contact with new investors, IPAs try to build up a positive image of their country. Morisset & Andrews-Johnson (2004) found that spending the IPA's budget on usually expensive advertising campaigns does not significantly affect FDI inflows in a positive way, but they claim that concentrating on the more specific distribution of promotion materials along with public relations activities is much more effective. Following-up on initial contacts is thereby really important. Networking is thus viewed as one of the qualities an IPA must possess (Morisset & Andrews-Johnson, 2004). However, an IPA cannot be of service to every potential investor out there as they are faced with enormous pools of potential investing firms, but they only have limited resources (OECD, 2005). Investment generation is therefore an important role an agency has to play. Promotional efforts need to be focused on those firms that are most likely to invest in those industries most attractive to the country.

As soon as a firm has made the initial investment in a country, monitoring their activities and registering their possible needs in future activities becomes important as aftercare makes it possible to try to retain a company in a country and to support it when additional investments might be considered (World Bank, 2004). Not only is the monitoring of companies important to an IPA. Also, the monitoring and reflection of its own activities are important to be able to understand the agency's flaws and improve its services in the future (UNCTAD, 2008). Making the results of the IPA's evaluation public contributes, subsequently, to becoming more transparent. Making results public will keep the pressure on the IPA to meet the goals it has set (UNCTAD, 2008). Besides getting feedback from the agency's clients, it can be important to also receive non-client feedback as it might help to get an understanding of why some firms did not use the services offered by the IPA and what the agency can do to make firms want to use their services in the future (UNCTAD, 2008).

Even though assumed to make an impact, Morisset & Andrews-Johnson (2004) could not find a significant relationship between the FDI inflow and an agency's staff qualification, the number of overseas offices or whether an agency was specifically mandated with the function of foreign investment promoter (or whether it had a joint function, possibly including export promotion and domestic investment promotion). However, the reason not to have found a significant relationship can very well have been too little variation in the research questions, according to Morisset & Andrews-Johnson (2004).

In the first paragraph of this chapter was mentioned the effect a present stock of FDI can have on attracting new investors. The same effect of cumulative causation seems to apply to attracting MNE HQs. Birkinshaw et al. (2006) mention that if sufficient HQs move towards a country, there is a serious 'risk' that other professional service firms will follow such as banks, accountant- and lawyer firms. It is therefore important that IPAs and government policy makers understand the reasons why HQs move abroad, in order to attract them. Singapore is one of the countries to actively focus on attracting (R)HQs to their country (UNCTAD, 2004). Singapore's Economic Development Board (EDB) has set-up a Regional Headquarters award. Companies who set-up a (R)HQ in Singapore will enjoy a reduce in taxes of 15%, for a period of five years, if they meet the accompanying investment conditions and operational commitments (UNCTAD, 2004). According to the EDB, the HQ award has created 1600 highly skilled jobs and added a value of around \$600 million to the economy (UNCTAD, 2004).

This way in which tax breaks are handed out in order to attract certain companies to a country is referred to as FDI incentive policy. There are several incentive-based policies which can be implemented by governments to attract FDI, like tax incentives, financial subsidies and regulatory exemptions. According to OECD (2003) they should however in no case be used as a substitute for policies to improve a country's investment climate. They can be used on top of an already attractive investment climate or as a compensation for market imperfection which cannot be fixed in another way at the time (OECD, 2003). It is up to the authorities in charge to make sure that incentive policy measures are relevant, appropriate and that the economic benefit (in the short and long run) exceeds the costs. Incentive policies are hardly ever the best strategy to attract FDI at first, as the investment climate of a country is still the most important tool for attracting FDI. That is why it should be used only to push investors towards one country over other countries with similar environments (OECD, 2003). Incentive policies are discriminative as they only accrue to certain foreign companies and transparency should be safeguarded as to why the incentive measures are important and what their purpose is (OECD, 2003).

The aim of all policies for attracting FDI is to offer potential investors a healthy business climate in which they can compete without running unnecessary risks (OECD, 2003). Both an investment climate, that can be reshaped by policy, and country's geographical component are of influence to investors. This thesis is a study to the effectiveness of IPAs which is done by conducting a case study research focused on Sweden. Therefore the next chapter will examine both Sweden's particular investment climate as well as its economic geographical features.

### 3.2 Recapitulation / statement generation

In the chapters 2 and 3, so far, the literature is examined on how globalization, FDI and MNEs have created a world market where both private and public sectors have their specific interests. Governments worldwide have established IPAs to try to attract FDI to their respective country and thereby pursue economic growth. Derived from the literature discussed in these two chapters are statements. These statements recapitulate what is claimed in the literature on how IPAs can attract FDI in the most

effective way. These statements, which will be tested in the case-study research done on Invest Sweden in chapter 6, are the following:

- An IPA has to report directly to the highest level of government to maximize its political visibility (Morisset & Andrews-Johnson, 2004).
- Support from the private sector should be secured as it improves an IPA's visibility and credibility in the country's economy (Morisset & Andrews-Johnson, 2004).
- Policy advocacy should be a highly regarded role of an IPA, because the IPA is the agency most in touch with the foreign investor and the results of policy advocacy affect both domestic as well as foreign investors (OECD, 2002b; World Bank, 2004).
- If a, for FDI competing country has a similar business environment, incentives should be used to gain an advantage over the competitor (OECD, 2003).
- A large IPA, as expressed by a budget over 11 million \$U.S., runs a risk of diseconomies of scale (Morisset & Andrews-Johnson, 2004).
- An IPA to engage in personal contacts with potential investors is more effective than agencies to focus on non-personal methods of promotion (UNCTAD, 2001).
- The more sophisticated IPAs target specific firms that seem most likely to invest over just any potential investor and hereby focus on attracting high quality investments, besides attracting a high quantity of investments (OECD, 2005; Morisset & Andrews-Johnson, 2004).
- Cluster creation and promotion can help attract FDI to a country as clusters provide a good environment for foreign MNEs to locate (Ketels, 2009).
- IPAs should focus on attracting Headquarters, because a world market for Headquarter operations is emerging and by attracting Headquarters, other (foreign) investments will follow (UNCTAD, 2003; Birkinshaw et al., 2006).
- IPAs should acquire non-client feedback, because it provides them with an important understanding why certain firms did not make use of the IPA's services (UNCTAD, 2008).
- Transparency of an IPA's activities is important to keep the IPA pressured on meeting its goals in relation to the investors and the country (UNCTAD, 2008).
- To be effective as an IPA it is important to have a well developed performance evaluation system (UNCTAD, 2008).

## 4. Sweden

Before examining specifically the Investment Promotion Agency of Sweden, this chapter will first focus on the country Sweden and its economy. Background research provides an important framework on where to place Sweden's IPA. First, the country's specific economic geographical characteristics will be discussed after which Sweden's investment climate, available to both domestic and foreign investors, will be examined.

### 4.1 Economic geography

Sweden is a country located in northern Europe, enclosed by Norway and Finland on the main land and to be reached by bridge from Denmark on the south. Different definitions exist as to which encapsulating region Sweden belongs to. First of all, Sweden forms part of the European Union since 1995. It does not have the Euro currency, but the Swedish Krona (SEK). Also, Sweden forms part of the Nordic countries and its formal Nordic cooperation, which consists of Norway, Sweden, Denmark, Iceland, Finland as well as the three autonomous areas, the Faroe Islands, Greenland and the Åland Islands (Norden, 2011).

The economic geography of a country is explained by the distribution of its economic activity across space (Brakman et al., 2001). Economic geography is characterized by aspects such as industry and business activities, the location patterns of businesses, (inter-) national trade flows and the history of how the economy has changed over time. This paragraph focuses on Sweden's industry and business activities with the accent on FDI inflows.

Sweden has a total population of around 9.3 million people of which around 1.3 million people live in its largest city, which is also the capital city, Stockholm (World Bank, 2011). With a GDP per capita of 43.654 U.S. Dollar in 2009, Sweden belongs to the high income OECD countries (World Bank, 2011). In Sweden's total economy, 71.8% of the GDP comes from the services industry and 26.6% of the GDP comes from the (manufacturing) industry (U.S. dept. of state, 2011). The most important types of services to Sweden are telecommunications, computer equipment and biotech and for the industry Sweden's focus is on machinery/metal products (iron and steel), electrical equipment, aircrafts, paper products, precision equipment (bearings, radio and telephone parts, armaments), processed foods, wood pulp and paper products (U.S. dept. of state, 2011). Sweden is divided into 21 counties. Capital city Stockholm is part of the Stockholm County, which is responsible for creating 27% of the national GDP and is thereby economically by far the most important county (Statistics Sweden, 2011). Second is the Västra Götaland County, which is second biggest in population and includes Sweden's second largest city, Göteborg. Västra Götaland County is responsible for creating 14% of the country's GDP (Statistics Sweden, 2011).

Sweden comes in 5<sup>th</sup> in Ernst & Young's (2010) globalization index and 2<sup>nd</sup> as the country that is globalizing quickest. The globalization index is based on indicators regarding openness to trade, capital movements, exchange of technology and ideas, labour movements and cultural integration and measures the relative globalization of a country to its GDP (EY, 2010). The outcome states how much a country depends on international integration relative to depending on their domestic market. This means that Sweden very much depends on international integration and not so much on its market, which is small relative to the biggest markets in the world (Sweden ranks 90<sup>th</sup> in having the largest population (CIA, 2011)). Sweden does, however, have the biggest market of all of the Nordic countries.

In figure 4.1 can be seen that basically the same spikes and falls accrue to the level of FDI inflows into Sweden as to the world total (see figure 2.1). Companies investing in Sweden seem to mostly come from Europe, as the turnover created by companies from Europe account for 67% of the total turnover created by investing companies (OECD, 2008). The countries Denmark, Finland, Norway, Germany, the Netherlands and the U.K. were the largest investing European countries, together responsible for 80% of Europe's total turnover. 22% of the total turnover was created by investing companies from the U.S.

The percentages are based on OECD's (2008) report with estimates over the year 2004. Because the numbers in the report are somewhat out-dated, percentages are used instead of numbers assuming the relative importance of the different sectors has stayed the same over the last couple of years.



Figure 4.1: Foreign Direct Investment Sweden, net inflows (in billion U.S.\$)

Of all the foreign investing companies in Sweden, 78% were active in the service industry and 54% of the employees, working for the investing companies, work in the service industry (OECD, 2008). Almost 18% of the inward investing companies are active in the manufacturing industry, which employs around 40% of the people working for investing companies. Foreign companies in the service sector accounted for 54% of the foreign total turnover and the manufacturing industry added another 38% to the total turnover created by foreign investors. Total added value is with 47% and 45% for respectively the service industry and the manufacturing industry quite even. This research points out that the manufacturing industry brings with it more employees and turnover per investing company than does the service industry. Finally, what shows from the OECD (2008) report is that the manufacturing industry spends much more on R&D than does the service industry. Foreign investors in the manufacturing industry are responsible for almost 93% of the amount invested in R&D by foreign affiliates over 7% invested by the service industry.

#### 4.2 Investment climate

The definition of a country's investment climate, given by the former Chief Economist of the World Bank, Nicholas Stern (2002), is the *"policy, institutional and behavioural environment, both present and expected, that influences the returns and risks associated with investment"*. Important to a high quality investment climate are low risks and low transaction costs in investing in a business and in operating a business. Factors to determine such quality are the *"legal and regulatory framework, barriers to entry and exit and conditions in markets for labour, finance, information, infrastructure services and other productive inputs"* (World Bank, 2007).

To prevent companies from running any unnecessary risks, a good legal and regulatory framework is necessary. This will in turn also prevent corruption from influencing a country's business environment, which is important as this would significantly reduce inflows of FDI (World Bank, 2006). Also, the number of barriers should be reduced to a minimum, because proven is that in countries where entry and exit are relatively easy, new, more productive companies will emerge (World Bank, 2006).

The book *Doing Business 2010: Understanding Regulation* by the World Bank (2010) describes how some countries regulate business in a more efficient manner than do others. In New Zealand, for example, it takes one day to start-up a business while in Haiti it takes 195 days and in Surinam it takes a record of 694 days (World Bank, 2010). Sweden is ranked 18<sup>th</sup> in the World Bank's (2010) overall 'ease of doing business' index, which is measured across 183 economies. Indicators of a country's level of 'ease of doing business' that were measured apply to both domestic as well as foreign investors and include 'starting a business', 'dealing with construction permits', 'employing workers', 'registering property', 'getting credit', 'protecting investors', 'paying taxes', 'trading across borders', 'enforcing contracts' and 'closing a business' (table 4.1) (World Bank, 2010).

<b>SWEDEN</b>		OECD high income	GNI per capita (US\$)	50,943	
Ease of doing business (rank)	18	High income	Population (m)	9.2	
<b>Starting a business</b> (rank)	43	<b>Registering property</b> (rank)	20	<b>Trading across borders</b> (rank)	7
Procedures (number)	3	Procedures (number)	2	Documents to export (number)	4
Time (days)	15	Time (days)	15	Time to export (days)	8
Cost (% of income per capita)	0.6	Cost (% of property value)	3.0	Cost to export (US\$ per container)	697
Minimum capital (% of income per capita)	28.5	<b>Getting credit</b> (rank)	71	Documents to import (number)	3
<b>Dealing with construction permits</b> (rank)	19	Strength of legal rights index (0-10)	5	Time to import (days)	6
Procedures (number)	8	Depth of credit information index (0-6)	4	Cost to import (US\$ per container)	735
Time (days)	116	Public registry coverage (% of adults)	0.0	<b>Enforcing contracts</b> (rank)	51
Cost (% of income per capita)	103.3	Private bureau coverage (% of adults)	100.0	Procedures (number)	30
<b>Employing workers</b> (rank)	117	<b>Protecting investors</b> (rank)	57	Time (days)	508
Difficulty of hiring index (0-100)	33	Extent of disclosure index (0-10)	6	Cost (% of claim)	31.2
Rigidity of hours index (0-100)	40	Extent of director liability index (0-10)	4	<b>Closing a business</b> (rank)	18
Difficulty of redundancy index (0-100)	40	Ease of shareholder suits index (0-10)	7	Time (years)	2.0
Rigidity of employment index (0-100)	38	Strength of investor protection index (0-10)	5.7	Cost (% of estate)	9
Redundancy cost (weeks of salary)	26	<b>Paying taxes</b> (rank)	42	Recovery rate (cents on the dollar)	75.1
		Payments (number per year)	2		
		Time (hours per year)	122		
		Total tax rate (% of profit)	54.6		

Table 4.1: Ease of doing business in Sweden (World Bank, 2010)

The 'total tax rate' of 54.6% in Sweden is slightly higher than in its surrounding countries as well as the overall rank of 42 on paying taxes. The 'total tax rate' is a measure designed to comprehend all taxes a business has to pay, wrapped in one figure. The taxes borne by companies are divided into 5 categories and include profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel taxes) (World bank, 2010). Denmark is ranked 13<sup>th</sup> on 'paying taxes' and holds a 'total tax rate' level of 29.2% and Norway is ranked 17<sup>th</sup> and 'total tax rate' comes down to 41.6%. Finland, on the other hand, is ranked lower holding the 71<sup>st</sup> place, but still has a lower / more attractive 'total tax rate' of 47.7%. 'Paying taxes' is just one of the indicators deciding on whether a country is attractive to do business in. The overall rank includes the before mentioned ten indicators and leaves Sweden in the 18<sup>th</sup> position. The overall rank of Denmark is 6<sup>th</sup>, Norway holds the 10<sup>th</sup> spot and Finland comes in 16<sup>th</sup> (World Bank, 2010). Being ranked 18<sup>th</sup> is good relative to the other countries included in the report. However, based on these ten indicators, Sweden's neighbouring countries perform better overall.

According to the U.S. Department of State (2011), Sweden has a well-educated labour force and offers “an extremely competitive, largely corruption-free economy with access to new products and technologies, skills and innovations”. Following the Lisbon criteria, Sweden even holds the number one position when it comes to having the most competitive economy in the European Union; followed by respectively Finland and Denmark (WEF, 2010a). Globally, Sweden comes in second on the global competitiveness index, just behind Switzerland (WEF, 2010b). Indicators of a country’s competitiveness are eightfold; creation of an information society, developing innovation and R&D, increase liberalization, building network industries, creating efficient and integrated financial services, improving the enterprise environment, increasing social inclusion and enhancing sustainable development (WEF, 2010a). In order to attract FDI it is important to have a competitive economy. As shown in chapter 2, a highly liberalized market improves the attraction of FDI to a country. This improves competition and thus the competitiveness of a country. Also, to enjoy the benefits of FDI to a maximum, a high absorptive capacity is needed in a country and includes, among other things, having a well-educated workforce and having a positive business climate where innovation is encouraged.

According to Schumpeter, innovation is important as it will create profits and growth (Cantwell, 2000). Being innovative is important as it gives market power to companies. The creation of a new idea gives a firm a temporary monopoly on the market. Monopolies through innovation can be achieved in either the product that is created or by innovation in the process (Cantwell, 2000). Schumpeter popularized the term ‘creative destruction’, which means that the continuous creation of new, innovative ideas by firms destroys stagnant firms in competition (Acs et al., 1997). This process is believed to be fundamental to the success of a modern, capitalist society (Acs et al., 1997). In striving to achieve long-term economic growth, countries will encourage innovation by trying to attract and preserve innovative firms to their country. Sweden has a highly innovative business climate and is named one of the innovation leaders. Sweden even comes in first place in being Europe’s most innovative country according to the Innovation Union Scoreboard 2010, followed by Denmark, Germany and Finland (European Commission, 2011). With an average annual growth in innovation performance of around 0.8%, Sweden does however belong to the ‘slow growers’ with the 5<sup>th</sup> slowest growth rate of the 27 countries included.

In Sweden, innovation is fostered by the government agency VINNOVA. VINNOVA is the Swedish government agency for innovation systems with the task to increase the country’s competitiveness (VINNOVA, 2011). Yearly 440 million Euro is invested in new and on-going projects. To achieve innovation, VINNOVA runs the Vinnväxt programme since 2001. The Vinnväxt programme is an attempt to Swedish cluster policy (Ketels, 2009). “Internationally competitive research and innovation milieus within specific growth areas” are supported with the programme and it has so far helped funding twelve clusters in Sweden (Andersson et al., 2010). However, despite these efforts, there is no full consensus in Sweden on how to apply cluster policy in the most effective way and the visibility of the efforts is limited, even though the importance of clusters in modern economies is recognized (Ketels, 2009). There seems to be some improvement as Sweden’s rank on the ‘state of cluster development’ has gone up, improving their status from having a ‘competitive disadvantage’ (WEF, 2008) to having a ‘competitive advantage’ (WEF, 2010b) relative to the other 138 countries measured. Ketels’ (2009) report on clusters and Sweden’s competitiveness finds that clusters should not be made artificially, but that it is better to enhance cluster dynamics and collaboration in existing agglomerations. Also, acclaimed is that cluster creation can help improve the level of entrepreneurship, which is low in Sweden, by trying to foster spin-outs (Ketels, 2009). Ketels (2009) further stresses the importance clusters can play in keeping up the level of innovation. As mentioned before, Sweden has the most innovative economy in Europe, but



growth levels are low. To keep growing, clusters can create higher incentives for R&D expenditure, which in turn should increase currently receding patenting rates (Ketels, 2009).

## 5. Case-study research methodology

Previous chapters discussed secondary data available on globalization, FDI and MNE (R)HQs. Also the reasoning and the efforts undertaken by governments to attract such processes and economic activity to their country were considered. In the following part of the thesis, primary research will be done to examine the effectiveness of Sweden's agency to promote inward foreign investment. The agency is called Invest Sweden (IS). Sweden was singled out to perform a case-study research on, to be able to evaluate an IPA's best practice in a developed economy (in (Northern) Europe). This chapter will define how the research was undertaken and explain why choices were made.

Decided was to organize in-depth interviews at Invest Sweden to get an integral understanding of the actions undertaken and the services delivered by IS. What is done effectively and where changes might be in place would first of all be examined by what the secondary literature states on IPAs methods for best practices. Two consecutive interviews were held.

First, the vice-president of strategy and research was asked a variety of questions on IS' practices. The questions asked resulted from a secondary literature review on Sweden and on IPAs best practices and the goal was twofold; one, to get a concise view of the specific efforts and two, to critically evaluate IS.

Second, a follow-up interview was held with the investment advisor responsible for handling IS's evaluations. This offered me the chance to be informed on my unanswered, leftover questions and also to go more in-depth on the method of evaluation employed by IS. Importance to go in-depth on this is, first, again to be able to say something about IS's services, this time the method of evaluation and, second, to be able to use a random sample of the evaluations done by IS to evaluate IS's effectiveness in practice. This forms part of the latter part of the primary research.

That is, after evaluating IS on what the literature suggests as best practice, IS is being evaluated on what practice shows is important for an IPA to attract FDI. A random sample of three recently helped MNEs was taken and used to evaluate IS's services. As it were IS's evaluation forms, no influence from my side has been on the development of the evaluation forms. The objectiveness of the sample is, however, guaranteed as I could randomly pick evaluation forms from IS's database. Company names could not be given due to privacy reasons, as was decided by IS.

Then, to complete the case-study research, evaluations on the opinion of companies about IPAs in general and IS more specific were held among MNE RHQs in Sweden in the form of interviews. Goal was to get an unbiased view of RHQs in Sweden their opinion about an IPA's (or IS's) services. Added value of these evaluations, over the previous evaluations done by IS, is that the companies included in the sample can be companies that did not use IS while investing. Their opinion on the importance of an IPA's services in general can then be asked for. Also, a specific focus in these evaluations was on MNE RHQs, where IS' evaluations focused solely on MNEs. This might add to the knowledge on RHQ specific wishes.

To do research, the Öresundsinstitute in Malmö provided me with a list of 26 MNE RHQs in Sweden. Contact information on these companies can be found in appendix 2. Contact was instigated by telephone in order to acquire the name of the person with knowledge about, or in charge of, the establishment of the company's RHQ in Sweden. After several follow-up attempts by both e-mail and telephone, a total of 5 interviews were held with representatives of the respective RHQ. The option was given to hold the interview over the phone, by e-mail or in person. Four interviews were eventually held

over the phone and one was done by e-mail. As expected and seen in previous research, by e.g. Holt et al. (2006), the willingness to provide information by RHQs was low and therefore the response rate of around 18% is modest.

The questionnaire consisted of two parts. Depending on whether the RHQ had received help from Invest Sweden in the past or not, the questions were directed. To improve the participation rate only a small number of questions was asked (max. 8 questions). The interview would take around ten minutes. A total of 5 companies were interviewed. These companies were:

- Mitsubishi Electric Europe B.V., Interviewee is the President of Mitsubishi Scandinavia
- Schneider Electric Sweden AB, Interviewee is the Country Marketing Manager
- Sigma-Aldrich Sweden AB, Interviewee is the Regional Director
- TDK Electronics Nordic, Interviewee is the Managing Director
- Wacker-Chemie Nordic, Interviewee is the Assistant Managing Director

The interviewed companies seemed to be more informative on the basic information about their company and their thoughts of Sweden's investment climate than they were keen on giving away information about their thoughts on, and possible need for, IPAs services. The questionnaire by Sigma-Aldrich was filled in by e-mail and came out to be more brief in the information provision.

## 6. Case-study research

Before the Swedish IPA even existed, policy makers were already occupied with pursuing market liberalization and FDI policies to attract foreign investment to Sweden (OECD, 1993). Since 1995, the Swedish IPA became operative under the name Invest Sweden. Invest Sweden has offices in China, Japan, the US, India and Brazil (covering, among others, the BRIC countries, with the exception of Russia). IS covers Europe from the office in Stockholm. The organization consists of six Business Units; life sciences, ICT, material sciences, automotive, clean-tech and the services industry. Within the services industries IS focuses on retail, tourism, contact centres and logistics.

The following chapter will first examine the main outcomes of the two interviews that were held at Invest Sweden. They will give an overview on IS's services by giving their point of view on the statements of chapter 3.2. Chapter 6.2 will compare what the literature suggests to Invest Sweden's views and the level of correspondence will be evaluated. In chapter 6.3, the different evaluations held in practice will evaluate IS's activities. The original interview questions, including the literature the questions are derived from, can be found in Appendix 3. The entire interviews held, written down on paper can be found in Appendix 4.

### 6.1 Invest Sweden's view on the from literature derived statements

***An IPA has to report directly to the highest level of government to maximize its political visibility.***

Invest Sweden does report directly to the highest level of government. It is the foreign minister / department of foreign ministry Invest Sweden falls to (Anna Hammarberg, 2011).

***Support from the private sector should be secured as it improves an IPA's visibility and credibility in the country's economy.***

Invest Sweden's aim is very much to match Swedish companies with foreign companies by creating a business opportunity. IS sets up meetings for example and tries to help in the creation of partnerships, which is all part of the network economy. IS's work is much about helping Swedish companies find foreign partners to help them expand their business, know-how and ideas etc. So yes, IS does include the private sector and thinks it is important to have their support. The client, formally, is still the foreign investor. We help the foreign investor to profit or to benefit from a business opportunity (Magnus Runnbeck, 2011).

***Policy advocacy should be a highly regarded role of an IPA, because the IPA is the agency most in touch with the foreign investor and the results of policy advocacy affect both domestic as well as foreign investors.***

Invest Sweden does communicate the investor's feedback on the quality of the investment climate to the policy makers, but this happens on an ad-hoc basis. IS knows the investor's needs, but IS does not issue formal reports any longer with what are the barriers to investment and what needs to change etc. IS used to draw up a very extensive yearly report, but got discouraged, as being just one agency among a lot of others. 'Coming in from the side' to central government policy making is proven not to be very successful. And IS admits that they were quite shallow in their analysis. IS can live with the fact that there are many concerns the government has to take into account; not just the foreign investor who

wants lower corporate taxes. IS has little mandate. IS is called an agency, but does not have any formal authoritative agency functions like handing out permits or so. IS is solely an operative business intelligence organization aimed at facilitating foreign investment (Magnus Runnbeck, 2011).

***If a, for FDI competing country has a similar business environment, incentives should be used to gain an advantage over the competitor.***

IS does not use any form of incentives to attract FDI. This might be called a disadvantage, but IS does not believe so much in incentives. IS takes a quite dogmatic view on this point about Sweden and believes very few countries in Europe can afford incentives in the future anyway (Magnus Runnbeck, 2011).

***A large IPA, as expressed by a budget over 11 million \$U.S., runs a risk of diseconomies of scale.***

IS has a budget of some 90 million SEK (14.13 million \$U.S.). Say 60 million comes directly from the government, 20 million indirect and 10 million from structural funding. IS does not receive any direct private funding. IS has the opinion that finances are scarce. "We need more money as I think we are sub optimized in terms of financing". Also, IS would like to see a more stable solution with more direct financing coming from the government and not so much money coming from the side. This would be more straightforward and stable. Revision of the budget happens every year, but the budget will probably stay the same. Neither expansion nor downsizing is expected (Magnus Runnbeck, 2011).

***An IPA to engage in personal contacts with potential investors is more effective than agencies to focus on non-personal methods of promotion.***

IS does not have any non-personal promotion activities. Although starting off very much as a promotion agency, what is done now is more about very concrete offers in specific sectors. Of course, basic promotion material about Sweden is handed out on request, but no marketing programme exists nor is any money spent on marketing activities. The promotion activities are done pro-actively and focus therefore on specific clients within IS's Business Units. The budget does not allow IS to have large scale promotional activities (Magnus Runnbeck, 2011).

The technique is usually that the Business Unit manager at IS will have a lot of knowledge of the business sector that he/she operates in. The head of the Business Unit will know his/her client base in Sweden very well. He will know which companies are looking for partners and he will know their needs/what they are looking for. The Swedish companies are logged into the database of interested companies (Magnus Runnbeck, 2011).

Cold acquisition (i.e. acquisition of potential, but yet unknown investors) of new investing companies hardly ever happens anymore, according to IS. IS has realized over the years that even though this is the traditional way of attracting FDI, the situation of attracting FDI has changed. To make somebody attracted to Sweden you need very concrete business opportunities. It is not so much e.g. the Netherlands or Sweden that a company chooses, but more what is specifically interesting to the company. And companies are very well aware of what would complement their portfolio in terms of know-how or an expansion possibility. Companies in the more far away markets and the less experienced foreign investors will be more open to propositions of cold acquisition. In Europe and the U.S. companies very much know the market and the competitors. They are very straight forward in what they need (Magnus Runnbeck, 2011).

***The more sophisticated IPAs target specific firms that seem most likely to invest over just any potential investor and hereby focus on attracting high quality investments, besides attracting a high quantity of investments.***

With a new method of Monitoring and Evaluation (M&E), the goal is to get a certain percentage of high quality investment and a certain percentage of medium quality investment to Sweden. For low quality investments a certain percentage is accepted. There are goals set per Business Unit to reach high quality investments, but they differ per Business Unit, because they reach their goals in different ways in different sectors. In the services industry, for example, expected is the creation of a lot of jobs while in the life sciences industry high investments in R&D might be more important. This method allows IS to prioritize investments. It is a simple, but very thorough system IS is quite proud of. Transparency of IS's efforts is extremely important. The system might be wrong in some way, but at least IS knows the reasoning from the beginning until finalizing the investment (Magnus Runnbeck, 2011).

No specific industries or countries are favoured over others in attracting FDI. It is based on the individual investment value and what appears to be interesting in the M&E system as can be seen easily. IS favours per company, which should make it a very client oriented agency (Magnus Runnbeck, 2011).

***Cluster creation and promotion can help attract FDI to a country as clusters provide a good environment for foreign MNEs to locate.***

IS co-operates with government agencies who focus on cluster creation and promotion, like VINNOVA, but IS does not take a cluster perspective in their activities. IS recognizes that clusters exist, but focuses more on individual performers. It is hard to trace spillovers, according to IS, and therefore IS takes a very practical approach in assisting companies in their specific needs. If an ICT company wants to invest, IS identifies ICT conglomerations in Kista and the Malmö area for example. "So in the end, we know clusters are around, but we don't think so much about this and think more about Sweden's strengths in certain areas. All in all, we do co-operate with VINNOVA, but we don't work with cluster initiatives, because this is very extensive work and not really part of our core business." (Magnus Runnbeck, 2011).

***IPAs should focus on attracting Headquarters, because a world market for Headquarter operations is emerging and by attracting Headquarters, other (foreign) investments will follow.***

IS does not have a special focus on attracting Regional Headquarters. It just happens that MNE (R)HQs want to come to Sweden. If IS finds out that the occasion is there that an MNE is looking for a location for a new Regional HQ, then it will definitely try to grab the opportunity by explaining the advantages of Sweden. There is a HQs project, but that is pretty much on the occasion and is not so much worked with pro-actively. IS does not visit companies to ask them to change location. IS is only of help if something is going to happen anyway. IS does see many extra advantages of having an MNE's Regional Headquarter in Sweden. With an HQ comes the (regional) management and around this management team and these management functions a lot of interesting things come along like legal services, financial services, auditing, sales and distributing function and R&D. These are the some more advanced services that either the company provides itself or an external company provides (Magnus Runnbeck, 2011).

***IPAs should acquire non-client feedback, because it provides them with an important understanding why certain firms did not make use of the IPA's services.***

IS would like to get feedback from companies that decided not to invest, but does not have the budget for this activity, which is also very hard to organize. According to IS, companies are often not so interested in giving feedback when they decided not to invest, because everybody wants to be on good terms with everybody so it is difficult to get this information. Companies will not say it is because of IS they will not invest in Sweden. Maybe in the future IS will find the opportunity to measure non-client feedback (Magnus Runnbeck, 2011).

***Transparency of an IPA's activities is important to keep the IPA pressured on meeting its goals in relation to the investors and the country.***

The individual evaluations are not publicly accessible to just anyone, on the website for example. IS does try to operate as transparent as possible so evaluations would be accessible on request, but the names of the companies are then left out due to privacy reasons. As a government agency, IS's annual report is totally public (the report is in Swedish). The results of IS's FDI attraction efforts can be found in this annual report along with the results coming in from the evaluations IS keeps (Anna Hammarberg, 2011).

***To be effective as an IPA it is important to have a well developed performance evaluation system.***

Two years ago a new, improved monitoring and evaluation (M&E) method came in place, which measured both IS's quantitative as well as its qualitative contribution. IS introduced a web-based Customer Relationship Management (CRM)-system where all information about all the enquiries it gets and all the projects IS is working on are filled in. The new system of M&E consists of four pillars that are measured (Anna Hammarberg, 2011):

1. Strategy alignment: measured by whether an investing company belongs to one of the six BU's, with which IS works pro-actively, and whether the investing company is seen as a key customer to Sweden, an important customer or not such an important customer.
2. Quality assessment of all investments: Every investment is evaluated in terms of quality and gets a quality statement of 'Low', 'Medium' or 'High' on four indicators measuring investment size, immediate gains, investor quality and future gains.
3. Customer satisfaction survey: For the customer satisfaction survey companies receive a questionnaire. It only has a few questions, but IS can get an index out of it. Companies are often reluctant to fill in large evaluative questionnaires.
4. Estimate of economic effects: growth in jobs and productivity due to investments attracted by IS: This pillar measures the contribution of IS to Sweden in terms of 'growth in jobs' and 'growth in productivity'.

The main goal is to deliver value to both Sweden and to IS's customers. Based on measuring the above four pillars, targets are set per business unit. A more extensive explanation of the M&E method was given by Anna Hammarberg and can be found in appendix 4.

## 6.2 Literature compared with Invest Sweden's services

Chapter 6.1 has given an insight in the operations of Invest Sweden. Whether IS's activities and their view on what is best practice for an IPA corresponds to what the literature suggests as best practice will be examined in this chapter. The check list of subjects to compare IS to is derived from the literature discussed in previous chapters. In the fourth column a value judgment is given on how much the literature and Invest Sweden's practice correspond. The findings are noted by a '-', meaning Invest Sweden does not handle according to what the literature suggests, a '+-', meaning there is some correspondence between IS and what the literature suggests as best practice and a '+', meaning that Invest Sweden is doing very well on the subject according to the literature. When one of the boxes is left blank (...), it means that no value judgment could be given. An explanation of the value judgment that is given can be found after the following table, at the end of chapter 6.2.

<u>Subject</u>	<u>Literature suggests</u>	<u>Invest Sweden</u>	<u>Correspondence</u>
<i>Reporting Mechanism</i>	Political visibility is best attained when the agency reports to the highest government officials (Morisset & Andrews-Johnson, 2004).	Reports to the central government's foreign minister / department of foreign ministry.	+
<i>Support from the private sector</i>	Beneficial to FDI inflows that an IPA has support from the private sector. Private sector involvement can be secured through the sector's participation in the board that supervises the agency (Morisset & Andrews-Johnson, 2004).	There is close co-operation and focus on match-making between foreign and domestic companies, which thus involves the private sector. IS does not have a supervisory board with private sector participation.	+ -
<i>Communicate investor's feedback on investment quality to policy makers</i>	As the government agency most in touch with the foreign investor, the IPA is well placed to be the main source of feedback to government policy-makers (OECD, 2002b).	Feedback on an ad-hoc basis. No longer by formal reports as the results were futile.	+ -
<i>Use of incentives to attract FDI</i>	May serve either as a supplement to an already attractive enabling environment for investment or as a compensation for proven market imperfections that cannot be otherwise addressed (OECD, 2003).	No. IS takes a quite dogmatic view here in Sweden and IS believes very few countries here in Europe can afford incentives in the future anyway.	+
<i>Budget</i>	A certain point of decreasing economies of scale exists for budgets above around 11 million \$U.S. (Morisset & Andrews-Johnson, 2004).	14.13 million \$U.S.	+ -



<i>Policy advocacy as a share of the budget</i>	Agencies that spend relatively more of their money and time on policy advocacy are more effective. On average, IPAs spend around 7% of their budgets on policy advocacy (World Bank, 2004).	Information on the share of the budget IS spends on policy advocacy is unknown.	...
<i>Number of professionals employed in FDI promotion</i>	Several IPAs with multi-million dollar budgets have hundreds of employees (UNCTAD, 2001). On average, however, a high-income country employs 18 staff members (Morisset & Andrews-Johnson, 2004).	80	...
<i>Activities</i>	Investment promotion is increasingly seen to be client-oriented. A commonly held view among IPAs is that personal contacts with investors are preferable to non-personal methods of promotion (UNCTAD, 2001).	IS does not spend money on advertisement. The focus is on the match-making process between domestic and foreign companies and meetings are therefore tried to be arranged.	+
<i>Targeting of companies</i>	IPAs are more and more focusing on targeting of specific firms most likely to invest (OECD, 2005). Sophisticated IPAs focus on and measure both quantity and quality of new investors (Morisset & Andrews-Johnson, 2004).	Pro-actively target high-quality firms in IS's specific field of knowledge, namely the areas covered by the six Business Units.	+
<i>Favouring of specific industries</i>	Manufacturing industry brings much more turnover, employees, R&D expenditure and added value with it per investing company than does the service sector (OECD, 2008).	No, IS builds on Sweden's strengths and attracts interesting companies over companies in specific industries.	+ -
<i>Cluster focus</i>	Clusters provide a good environment for attracting advanced foreign skills and for domestic firms to link up to foreign research hubs (Ketels, 2009).	Co-operation with VINNOVA and acknowledgement of cluster existence / agglomerations, but doubts on spillover effects. No cluster initiatives, but focus on facilitating co-operations.	+ -
<i>Attraction of MNE (R)HQs</i>	Relocation of (R)HQs is on the rise and their attraction goes along with other (foreign) investments (UNCTAD, 2003; Birkinshaw et al., 2006).	The importance of having (R)HQs is recognized by IS, but pro-actively no efforts are made to attract them in specific.	-

<i>Staff qualification</i>	Does not seem to influence the IPA's performance. However, Morisset & Andrews-Johnson's (2004) research could also have too little variation in the factors to identify the staff's eventual impact on the effectiveness of IPAs.	IS feels that they add value, because all employees come from the corporate sector and are industry experts.	+
<i>Acquiring non-client feedback</i>	Important for understanding why some firms did not use the IPA and what the IPA should do to make the firms want to use it (UNCTAD, 2008).	No. The budget doesn't allow it and it is hard to organize as companies are reluctant to help. Maybe in the future.	-
<i>Transparency of operations</i>	Making evaluation results public is a big step towards transparency. Publicity keeps pressure on the IPA to meet its mission in relation to investors and the country (UNCTAD, 2008).	IS is for total transparency. As a government agency the annual report is made public. Results of IS's FDI attraction efforts can be found in the annual report along with the results coming in from the evaluations IS keeps.	+
<i>Evaluation efforts and development of performance evaluation systems</i>	There is evidence to suggest that the growth in the number of- and resources employed by IPAs has not been matched by a corresponding emphasis on evaluation of performance and development of performance evaluation systems (UNCTAD, 2008).	IS has a new, web-based CRM (Customer Relationship Management) system for extensive monitoring and evaluation of its efforts.	+

The extent to which the literature and IS's activities correspond is given in the fourth column. What follows is a short explanation of the chosen character (-, +- or +), which will try to clarify what is done accordingly and where contradictions exist between the literature and IS's activities.

#### *Support from the private sector (+-)*

Invest Sweden does not report to a board of members including the private sector, but reporting takes place to the foreign minister. Private sector involvement is, thus, not secured through their formal participation and influence. However, the close co-operation and the focus on the match-making process by Invest Sweden involve a high level of private sector participation. The activities of IS in which the domestic private sector in Sweden is assisted should vouch for their support.

#### *Communicate investor's feedback on investment quality to policy makers (+-)*

Literature suggests that an IPA is well placed to be an important intermediary to give feedback on the investor's experience on the investment climate in a country. Invest Sweden, however, was discouraged by writing formal reports on Sweden's investment climate, because the results of this were futile. IS claims to be more effective by providing government policy-makers with investor's feedback on an ad-hoc basis. An advantage is that this method takes less time and resources. Disadvantage is that feedback is given in a less structured and perhaps too informal way.

#### *Use of incentives to attract FDI (+)*

Even though IS does not use any incentives to attract FDI, a '+' is still given for IS's point of view. The literature is very cautious in their claims to promote FDI incentive policy. Because incentive policies are costly and discriminative it is difficult to make sure that measures are relevant, appropriate and that the economic benefit (in the short and long run) exceeds the costs. Incentive policies are hardly ever the best strategy to attract FDI and should only be used to give investors the 'final push' to choose to invest in a certain country over another country with a similar environment. IS prefers to build on the strengths of Sweden and takes a dogmatic view, which seems admirable.

#### *Budget (+-)*

IS's budget exceeds what is known to be the point of decreasing returns of scale. This point of decreasing returns, which is set by Morisset & Andrews-Johnson (2004), is an approximate figure and because IS's budget only slightly exceeds this figure, no problems are expected in the co-ordination of IS's activities. However, a '+-' is given, because the perception exists at IS that funding is scarce and more money is needed to optimize its performance. IS needs to be careful when trying to increase its budget, because according to the literature co-ordination and control problems might occur when the budget largely exceeds 11 million \$U.S.

#### *Policy advocacy as a share of the budget (...)*

Claimed by the literature is the importance of an IPA to focus on their task of policy advocacy. More than 7% of an IPA's budget, that is spend on average on policy advocacy (World Bank, 2004), should be spend on policy advocacy to further increase an IPA's effectiveness. No judgment value can be given on where IS stands on this as the necessary information on this subject was not obtained in the interviews.

#### *Number of professionals employed in FDI promotion (...)*

IS employs a total of 80 staff members for its operations. The literature suggests that the number of professionals employed in FDI promotion varies largely across countries. An average number of 18 staff members for high-income countries does not automatically mean that IS is overstaffed. Therefore, no value judgment is made in the fourth column.

#### *Activities (+)*

According to the literature, more and more IPAs seem to be focusing on specific client needs. Personal contacts with potential investors are increasingly seen as preferable to non-personal methods of promotion. IS seems to be leading when it comes to this method of work, as they already do not spend any money on advertisement and focuses solely on making direct contact with its clients to instigate a match-making process.

#### *Targeting of companies (+)*

According to the literature, IS belongs to the more sophisticated IPAs, because a distinct focus is on measuring and attracting high quality investments, instead of solely measuring quantitative aspects of new investments. This process of increasing focus on quality was improved with the new monitoring and evaluation-system. IS also focuses on targeting companies who are most likely to invest. Targeting of these companies is done pro-actively within IS's six Business Units.

#### *Favouring of specific industries (+-)*

Even though the manufacturing industry seems more interesting to attract, it is difficult to say that IS's focus should be increased in the manufacturing industry. Sweden is a country where services account for almost 72% of the GDP. Services are therefore very important to the country's economy. So even

though one investing company in the manufacturing industry brings with it more turnover, employees, R&D expenditure and added value, I think the division of IS's focus in six areas (including both the services and manufacturing industry), in which they think Sweden excels, is a smart choice.

#### *Cluster focus (+-)*

IS is a very operative agency and mainly focuses on attracting foreign investors to Sweden by facilitating co-operation between foreign investors and Sweden's domestic firms. The literature suggests that cluster creation can help attract foreign skills and link domestic firms to foreign research hubs. It is, however, not within IS's field of work to create and maintain such clusters. Co-operation with cluster initiatives and cluster focused organizations might therefore help IS to become more effective. IS does co-operate with such agencies, like VINNOVA, but no strong formal links exist.

#### *Attraction of MNE (R)HQs (-)*

Literature suggests that the attraction of (R)HQs goes along with other (foreign) investments in a country. Invest Sweden also recognizes the importance of having (R)HQs. A HQ-project is set-up by Invest Sweden when the opportunity arises of attracting a (R)HQ to Sweden. However, unlike with MNEs operating within the six Business Units, pro-active efforts to specifically target (R)HQs and try to attract them to Sweden are not undertaken.

#### *Staff qualification (+)*

Staff qualification does not seem to have a significant influence on the effectiveness of an IPA, yet. This might be because of too little variation in Morisset & Andrews-Johnson's (2004) research, which leaves the possibility that staff qualification does in reality influence an IPA's effectiveness. If so, IS scores a '+' on this, because everyone working for Invest Sweden comes from the corporate sector. IS does not just employ random government employees. Per Business Unit IS has industry experts. IS knows the market and can match investors, because knowledge on companies in Sweden is available. IS is able to help investors more advanced like a consultancy, making them deliver a services of a high level.

#### *Acquiring non-client feedback (-)*

In an IPA's efforts to get valuable feedback on its operations, non-client feedback can be crucial to shape the image that exists among potential investing companies on IS's services. IS does not have the means to gather such information (yet). Future collection of non-client feedback is recommended, according to the literature, and strived for by IS.

#### *Evaluation efforts and development of performance evaluation systems (+)*

IS seems to be ahead of many of its competitors when it comes to evaluating their own performances. The literature claims that many IPAs fail to recognize the importance of evaluating performances. IS has a very extensive method of evaluation supported by the new, web-based, Customer Relationship Management system.

### 6.3 Evaluating IS / IPAs in practice

In chapter 6.3 an overview will be given of the findings of the evaluations on IPAs / IS held in practice. Chapter 6.3.1 will discuss the evaluation forms handed out by IS to their investors in order to get feedback on the services they delivered. Chapter 6.3.2 will give an overview of the interviews kept among MNE RHQs in Sweden and their opinion on the need for IPA services when establishing in Sweden.

#### 6.3.1 Evaluation of IS's services by MNEs; following questionnaires held by IS

The random sample seems to confirm what was already claimed by Anna Hammarberg; the evaluations filled in by MNEs are merely positive in their feedback on IS's services. The questionnaire consists of only ten questions. Most of these questions to be filled in concern yes/no answering or gives the investor the option to rank IS from 1 to 10. Only the last 'question', or comment box, leaves room for the investor to give more in-to-depth feedback on IS's services.

The overall impression from both Anna Hammarberg as from the evaluation forms is that IS is perceived, by its clientele, to be very professional. Competence and know-how is available by IS's professionals and also a good attitude and efficiency in IS's services is present. IS, by these evaluation forms, seems to meet expectations and overall satisfaction is high. The way in which contact is originated can differ from IS making the initial contact to the company contacting IS. Also, IS's overall contribution to the actual investment in Sweden can be different per company, ranging from no contribution at all to a substantial contribution to the firm's investment. E.g. even though a company can value IS's services highly, the perceived contribution of IS to the actual investment can be very low. The following comment on an evaluation form was accompanied by the lowest score on IS's contribution to the investment of the company in Sweden:

*"During our relations thus, our entire USA HR department- including, our Vice President and Director of HR have experienced nothing short of the absolute best in customer service, professionalism and guidance. Maja and Klas have on several occasions demonstrated A1 knowledge, superior research and referrals. The guidance and service is simply phenomenal and [we] continue to be amazed at the level of commitment, service and knowledge exhibited by Maja [last name] and Klas [last name]."*

Other questions that IS would like to get an answer on concern the total capital to be invested in Sweden by the foreign investing company and the number of jobs to be created. This information is used in IS's CRM quality assessment system to value the importance of the investor. The complete evaluation forms can be found in Appendix 6 in three slightly different formats as the evaluations were submitted in various ways, on the web or by e-mail.

### 6.3.2 Evaluation of an IPA's (or IS's) services by MNE RHQs in Sweden; personal interviews conducted

An overview of the results from the interviews held at MNE RHQs in Sweden is given in table 6.1 on the following pages. The first questions in the interview focused on the establishment of the (interviewed) companies in Sweden. The year and form of establishment were asked for and also their respective choice for Sweden was discussed. Then, the view on Sweden's investment climate was asked for and recommendations on where to improve the investment climate were attained.

As none of the interviewed companies received any government / IPA help while investing, the latter half of the interview focused on the reasoning behind this decision and on the companies' (current) appreciation of IPAs. Government help was not needed while investing in Sweden, because of the interviewed companies' abundance of experience of doing business in Sweden or because of the size of the company. The companies the RHQ was set-up for were then so large that market-research was preferred to be done internally, without any external help. Also years after the initial investment of setting-up a RHQ in Sweden, no IPA services were regarded as being helpful and the establishment of a RHQ now would be done in the same manner as it was done originally. The year of establishment and whether the RHQ was a new establishment or an expansion of existing operation did, in this survey, not have any influence on the outcome of the company's need for IS's services.

Barriers to investing in Sweden that were mentioned included low flexibility on the labour market, high taxes, high personnel costs and insecurity due to constantly changing rules and costs to investing. The entire interviews can be found on paper in Appendix 7.

Table 6.1					
<b>Question</b>	<b>Mitsubishi</b>	<b>Schneider Electric</b>	<b>Sigma-Aldrich</b>	<b>TDK Electronics</b>	<b>Wacker-Kemi</b>
<i>Year of establishing in Sweden</i>	1983	2003	1994	1960's	1940's
<i>RHQ in Sweden was a new establishment or an expansion</i>	New establishment	New establishment of Schneider but part of an acquisition	New establishment	Expansion	Expansion
<i>Why did company choose Sweden (a) to invest initially and (b) as a location for its Headquarters?</i>	Business opportunity in a new market	Sweden had a good organization of R&D in play already. Also the labour force is less expensive than in the United States.	(a) Acquisition (b) Largest market in Nordic region	Because of Ericsson. Ericsson is Swedish and was based here and is one of our customers. Also TDK already had office space here in Sweden.	(b) It was a trend among companies in the industry to close down offices in some countries and set-up RHQs. We do have sales managers in Denmark and Finland.
<i>Main barriers, if any, to investing in Sweden? Where do you think Sweden's investment climate can be improved?</i>	Need for more stable rules in both the area of tax and environment for example. Improvement/lowering of taxes is always good, but, crucial to investing is that after the investment is made, you can rely that costs stay the same.	Area of improvement could be the flexibility on labour market, which is low. People are afraid to get tired. In the future we will have a challenge to get employees, with the ageing society.	Tax and employee cost structure could improve.	To us there were no real barriers to investing in Sweden. It was fairly easy, also because we don't have any production here.	We are 100% owned by Wacker-Chemie in Germany and the decision to invest in Sweden is made a long time ago, so I don't know what Wacker considers to be barriers to investing.
<i>Did your company receive help from an IPA or any other organization to invest in Sweden?</i>	No, (we handle the investment by ourselves)	No, (it was an equity company which sold TAC to Schneider. No government organization came in)	No	No	No

<b>Question</b>	<b>Mitsubishi</b>	<b>Schneider Electric</b>	<b>Sigma-Aldrich</b>	<b>TDK Electronics</b>	<b>Wacker-Kemi</b>
<i>We did not use help from any organization or agency before investing in Sweden, because:</i>	Mitsubishi is a large corporation. We are well capitalized and do not feel the need of a government agency to help us invest. Contacts we make directly ourselves.	Schneider is operating in I believe 199 countries and is a really large company. It does not make use of a government agency before investing or acquiring in this case. It makes its decisions based on market conditions.	-	The only government help we needed was for registration. It was a simple process moving to Sweden because we already had an office and a partner here.	With some 70 years experience in having its product on the Swedish market no help was needed. Wacker-Kemi Nordic region is operated by a family who are agents of the Wacker product in Sweden for a lot of years now.
<i>Do you feel there are services delivered by an Investment Promotion Agency that could have been useful to your company? (five options were given)</i>	No, we already knew what location was best for us keeping in mind the presence of an airport and the market etc.	No	N/A	No, not necessary	No
<i>If you would invest in Sweden again now, would you do it differently? If yes, how?</i>	No, I think we would have done it the same way. We make very little use of Swedish government. We do it ourselves.	No	Probably not	No I don't think so. Production is very expensive in Europe so we will not consider opening up any production chain, but for a sales office it is different. It was a pretty straightforward operation to invest in Sweden.	By the time of investing, Sweden was already a well known market and I don't think Wacker would have done anything differently.



## 7. Conclusion and recommendations

The content of the thesis has given an overview of how developments in the global economy led to the rise of FDI worldwide and how governments try to benefit from FDI by attracting investments to their country. FDI, or Foreign Direct Investment, occurs when a company makes an investment in another country than its home country, with the aim of obtaining a lasting interest. Besides increasing international trade, global communications and immigration it are financial flows, of which FDI is the most important component, that have driven the process of globalization. Multinationals (MNEs) are the companies that manage production or offer their services in a foreign country. Because FDI is considered to have a positive effect on the economy as it causes economic growth (by providing direct employment and capital financing, but also generates positive externalities through foreign technologies and know-how), governments try to attract and preserve FDI to their country. Investment Promotion Agencies (IPAs) are set-up by governments to be in charge of this. They have certain roles to play, amongst which are information dissemination, image building, investment facilitation, investment generation, investor monitoring & aftercare and policy advocacy. Depending on the mandate given to the IPA by the central government of a country, incentives like tax deductions, financial subsidies and regulatory exemptions can sometimes be offered to foreign investors. Part of the literature review examined Sweden's specific business environment. Sweden is found to have a quite favourable investment climate and the country depends on international integration very much, relative to depending on its domestic market. The literature review was done as a basis for the undertaken case-study research, which extensively examined the Swedish IPA, Invest Sweden (IS).

Considering that IS's specific method of work is used as an example in the literature on IPAs (UNCTAD, 2008) and that IS is considered among the six (out of 181) IPAs offering best practice services by FIAS' (2009) benchmarking survey, the insights given in this case-study research could be valuable to IPAs around the world striving to effectively attract FDI to their country. A constant distinction is made in the literature between high-, medium- and low income countries and countries with good and bad investment climates. This distinction considers the different opportunities an IPA has in their strive for FDI attraction and concerns factors like an IPA's budget and the business environment of a country. Keeping this in mind, the findings acquired in this thesis will be most valuable to IPAs in other high income countries with a favourable investment climate. Besides other IPAs using the insights given in the thesis as a reference for improving their activities, the main goal of the thesis is to evaluate IS's services and recommend changes where needed to optimize effectiveness of the Swedish IPA.

Chapter 6.2 has given an overview on the similarities and differences between IS's activities and what the literature suggests as best practice. According to this chapter, IS seems to act quite congruent to what the literature suggests. Also, in the review on how IS's services are perceived in practice of chapter 6.3, IS's activities seem to satisfy its customers. What follows here are a few concluding notes and several recommendations to IS for future operations:

- According to the literature (Morisset & Andrews-Johnson, 2004), only the most advanced IPAs measure and focus on attracting high quality investments in specific, besides just measuring quantitative attraction of FDI to the country. IS seems to be quite advanced when it comes to attracting not only quantity, but also high qualitative investments. The newly implemented M&E system has been a major factor in gathering the necessary information on whether a potential investment is of high quality. The focus in IS is very much on quality improvement of the investments over quantity as the yearly targets for high quality investments are raised, while the

target for the total number of investments to be attracted are even lower than IS's current achievement. Even though the indicators are self made up and don't follow any academic research on what is considered high quality investment, the system is consistent and transparent, which makes it suitable for future review and adjustment.

- IS's budget exceeds what is claimed to be increasing the returns on investment. In other words, IS's budget is too large according to Morisset & Andrews-Johnson (2004) and decreasing returns on investment might appear. This does not match the statement of Magnus Runnbeck that the budget is too small and more funds would be helpful. It is most probable that IS can achieve more FDI attraction with a larger budget. More companies can be approached for example, but as the literature claims (UNCTAD, 2008), spending more money does not simply mean an increasing return on investment. So maybe more funds will increase FDI attracting activities, the point of best return of investment is somewhere around 11 million \$U.S. It seems important for IS to put the funds and resources available to its best use and not enlarge its budget as coordination problems might then occur. According to UNCTAD (2008), successful evaluation will enable the IPA to identify the best use of the resources at its disposal and IS can benefit from its very elaborate method of evaluation.
- It is difficult to say how MNE RHQs view IS as this case-study research only discussed the opinions of five MNE RHQs in Sweden and neither of them had received any IPA services while setting-up their RHQ. Non-client feedback received by these interviews can be important for understanding why some firms did not use the IPA (UNCTAD, 2008). From the answers given in the interviews it seems that the more years a company has experience in doing business (in a certain country), the less help is needed when setting up a RHQ. Also, it appears that a company's size can influence the need for IPA help, as some companies said that due to their large size they did not need any help. More resources are then available to the company to do market-research internally.
- The current form of evaluating IS's services among its clientele is, as claimed by IS, to get an index of its performance. Only ten questions are asked and most of these questions concern a yes/no answer or an answer which ranks IS on a scale from 1 to 10. An index can be attained from this, but no in-depth information is given by the investor, with the exception of the comment box at the end of the questionnaire. Asking investors some open questions regarding IS's services might give more specific feedback. Also, no consistent way exists in receiving feedback on Sweden's investment climate. Even though the influence of IS on central government policy making is (perceived to be) limited, it can still be recommendable to acquire regular feedback of investors on where to improve the investment climate. As suggested by Morisset & Andrews-Johnson (2004), too little IPAs' focus is on policy advocacy even though this is one of their most influential activities in attracting and retaining FDI to a country.
- Claimed by IS and backed by research of the Öresunds institute, Sweden is the preferred choice of location for MNE RHQs in the Nordic region. However, Invest Sweden does not pro-actively attract HQs in specific, but only acts when the situation of a company wanting to set-up an HQ arises. According to UNCTAD (2003), a world market for headquarter operations is emerging. Birkinshaw et al. (2006) claim that if sufficient HQs move towards a country, there is a serious 'risk' that other professional service firms will follow, such as banks, accountant- and lawyer firms. Birkinshaw et al. (2006) also state that for a country like Sweden in particular, it is very important for its public policy makers and the country's IPA to focus on attracting (R)HQs as they represent a major source of high value-added jobs in the country. It is therefore recommended that IS increases its focus on attracting MNE (R)HQs to the country on a pro-active basis as is already done with companies that

fall to one of the Business Units IS is working with. This might further improve Sweden's leading position in accommodating RHQs and it might attract MNE HQs, which has the accumulative effect of other investors to follow (R)HQ investments.

- The literature states that more and more IPAs focus their targeting on firms that seem most likely to invest. Invest Sweden does so as well, only their targeting focuses even more specifically in their specific field of knowledge. Invest Sweden pro-actively targets firms, likely to invest, within their Business Units. These Business Units are formed as Invest Sweden claims these areas represent the strengths of Sweden. Targeting in these specific areas should put Invest Sweden's resources to its best use.
- Finally, a change in the investment climate that might help IS in attracting FDI is the government's lowering of the corporate tax rate. As can be read in chapter 4, the total tax rate in Sweden, compared to its neighbouring countries, is not very favourable and tax deductions are not distributed to foreign investors. The government's plans to lower corporate taxes, and thereby the total tax rate, will improve Sweden's investment climate and thus Sweden's competitiveness.

## References

### **Books and Articles:**

Acs, Z.J., Randall, M, Shaver, J.M. & Yeung, B. (1997), *The Internationalization of Small and Medium-Sized Enterprises: A Policy Perspective*. Small Business Economics Journal, vol. 2, pp. 7-20.

Alfaro, L., Chanda, A., Kalemli-Ozcan, S. & Sayek, S. (2006), *How Does Foreign Direct Investment Promote Economic Growth? Exploring the Effects of Financial Markets on Linkages*. Harvard Business School, Boston.

Alfaro, L. & Chen, M. (2010), *The Global Agglomeration of Multinational Firms*. Harvard Business School Working Paper no. 10-043, Cambridge.

Andersson, G., Larsen, K. & Sandström, A. (2010), *VINNVÄXT at the halfway mark: Experiences and Lessons Learned*. VINNOVA Publishing.

Baldwin, R.E. & Martin, P. (1999), *Two Waves of Globalization : Superficial Similarities, Fundamental Differences*. National Bureau of Economic Research, Cambridge.

Birkinshaw, J. Braunerhjelm, P., Holm, U. & Terjesen, S. (2006), *Why Do Some Multinational Corporations Relocate Their Headquarters Overseas?* Strategic Management Journal 27, pp. 681-700.

Brakman, S., Garretsen, H. & Van Marrewijk, C. (2001), *An introduction to geographical economics*. Cambridge University Press, Cambridge.

Brakman, S. & Garretsen, H. (2008), *Foreign Direct Investment and the Multinational Enterprise*. The MIT Press, Cambridge.

Cantwell (2000), *Innovation, Profits and Growth: Schumpeter and Penrose*. Department of Economics, Reading.

Chesnais, F., Ietto-Gillies, G. & Simonetti, R. (2000), *European Integration and Global Corporate Strategies*. Routledge, London.

Collis, D., Young, D. & Goold, M. (2008), *International Differences in the Size and Roles of Corporate Headquarters: An Empirical Examination*. Harvard Business School Working Paper no. 10-044, Cambridge.

Crafts, N. & Venables, A.J.(2003), *Globalization in History; A Geographical Perspective*. University of Chicago Press.

Davidson, W.H. (1980), *The Location of Foreign Direct Investment Activity: Country Characteristics and Experience Effects*. *Journal of International Business Studies*, vol. 11, no. 2, pp. 9-22.

Davies, R.B. (2003), *Fragmentation of Headquarter Services and FDI*. University of Oregon, Eugene.

Duce, M. (2003), *Definitions of Foreign Direct Investment (FDI): a methodological note*.

- Ernst & Young (EY) (2010), *Redrawing the Map: Globalization and the Changing World of Business*.
- European Commission (2011), *Innovation Union Scoreboard 2010; The Innovation Union's performance scoreboard for Research and Innovation*.
- FIAS (2009), *Global Investment Promotion Benchmarking 2009: Summary Report*. World Bank Publishing, Washington.
- Friedman, T.L. (1999), *The Lexus and the Olive Tree*. Farrar, Straus Giroux, New York.
- Gooderham, P. & Nordhaug, O. (2003), *International Management: Cross- Boundary Challenges*. Blackwell Publishing.
- Görg, H. & Greenaway, D. (2004), *Much Ado about Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment?* The World Bank Research Observer, vol. 19, no. 2.
- Hjälmsroth, C. & Westerberg, S. (2009), *The contribution of trade to a new EU growth strategy Ideas for a more open European economy; Pt. 1 - A common investment policy for the EU*. National Board of Trade, Sweden.
- Hoffman, A.N. & Markusen, J.R. (2008), *Investment Liberalization and the Geography of Firm Location*, in Steven Brakman and Harry Garretsen, editors, *Foreign Direct Investment and the Multinational Enterprise*, Cambridge: the MIT Press, Chapter 3, 39-66.
- Holt, J., Purcell, W.R., Gray, S.J. & Pedersen, T. (2006), *Decision Factors Influencing MNEs Regional Headquarters Location Selection Strategies*. Center for Strategic Management and Globalization, Copenhagen.
- IMF (2003), *Foreign Direct Investment Trends and Statistics*. Statistics Department.
- IMF (2008), *Globalization: A Brief Overview*. International Monetary Fund Issues Brief, issue 02/08.
- Jacks, D.S., Meissner, C.M. & Novy, D. (2009), *Trade Costs in the First Wave of Globalization*. *Explorations in Economic History* 47 (2010), pp. 127–141.
- Javorcik, B.S. (2004), *Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers Through Backward Linkages*. *The American Economic Review*, vol. 94, no. 3, pp. 605-627.
- Ketels, C. (2009), *Clusters, Cluster Policy, and Swedish Competitiveness in the Global Economy*. Expert report no. 30 to Sweden's Globalisation Council.
- Kokko, A. (2006), *The Home Country Effects of FDI in Developed Economies*. The European Institute of Japanese Studies, Stockholm.
- Konings, J. (2003), *The effects of foreign direct investment on domestic firms*. *Economics of Transition*, vol. 9, no. 3, pp. 619-633.

- Lee, M. (2006), *Managing a Joint Venture: A Case Study of Participants' Roles and Conflicts*. Journal of Media Business Studies, vol. 3, no. 2, pp. 63-78.
- Lipsey (2002), *Home and Host Country Effects of FDI*. National Bureau of Economic Research, Cambridge.
- Mori, T. (2002), *The Role and Function of European Regional Headquarters in Japanese MNCs*. European Institute of Japanese Studies, Stockholm.
- Morisset, J. (2003), *Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries*. FIAS Policy Research Working Paper no. 3028, Washington.
- Morisset, J. & Andrews-Johnson, K. (2004), *The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment*. FIAS occasional paper no. 16, Washington.
- Müller, T. (2006), *Analyzing Modes of Foreign Entry: Greenfield Investment versus Acquisition*. Review of International Economics, vol. 15, no. 1, pp. 93-111.
- Neary, J.P. (2007), *Foreign Direct Investment: The OLI Framework*. University of Oxford, U.K.
- OECD (2002a), *Foreign Direct Investment for Development; Maximising Benefits, Minimising costs*.
- OECD (2002b), *South East Europe Compact for Reform, Investment, Integrity and Growth; Strategic Investment Promotion Successful Practice in Building Competitive Strategies*.
- OECD (2003), *Checklist for Foreign Direct Investment Incentive Policies*. Paris.
- OECD (2005), *A Policy Framework for Investment: Investment Promotion and Facilitation*. Rio de Janeiro.
- OECD (2006), *Policy Framework for Investment; A Review of Good Practices*.
- OECD (2008), *Measuring Globalisation; Activities of Multinationals 2008, Volume II, Services, 2000-2004*.
- Penalver, M. (2002), *Globalization, FDI and Growth: A Regional and Country Perspective*. Georgetown University.
- Porter, M.E. (1998), *The Global Agglomeration of Multinational Firms*. Harvard Business Review, Boston.
- Porter, M.E. (2000), *Location, Competition, and Economic Development: Local Clusters in a Global Economy*. Economic Development Quarterly, vol. 14 no. 1, pp. 15-34.
- Pothukuchi, V., Damanpour, F., Choi, J., Chen, C & Park, S.H. (2002), *National and Organizational Culture Differences and International Joint Venture Performance*. Journal of International Business Studies, vol. 33, no. 2, pp. 243-265.
- Raff, H., Ryan, M. & Stähler, F. (2007), *The Choice of Market Entry Mode: Greenfield Investment, M&A and Joint Venture*. CA University, Kiel.

- Rajan, R.S. (2004), *Measures to Attract FDI; Investment Promotion, Incentives and Policy Intervention*. Economic and Political Weekly, vol. 39, no. 1, pp. 12-16.
- Schoors, K. & Van der Tol, B. (2002), Foreign direct investment spillovers within and between sectors: Evidence from Hungarian data. Ghent University, Belgium.
- Strauss-Kahn, V. & Vives, X. (2005), *Why and Where Do Headquarters Move?* Centre for Economic Policy Research, London.
- Stern, N. (2002), *A Strategy For Development*. World Bank Publications, pp. 144.
- Tan, A.H.H. (1999), *Official Efforts To Attract FDI: Case Of Singapore's EDB*. National University of Singapore.
- Therborn, G. (2000), *Globalizations; Dimensions, Historical Waves, Regional Effects, Normative Governance*. International Sociology, vol. 15 no. 2, pp. 151-179.
- UNCTAD (1983), *Draft United Nations Code of Conduct on Transnational Corporations*. New York.
- UNCTAD (2001), *The World Of Investment Promotion At A Glance: A Survey of Investment Promotion Practices*. New York.
- UNCTAD (2003), *World Investment Report 2003; FDI Policies for Development: National and International Perspectives*. United Nations Publication, New York.
- UNCTAD (2004), *World Investment Report 2004; The Shift Towards Services*. United Nations Publication, New York.
- UNCTAD (2008), *Evaluating Investment Promotion Agencies*. United Nations Publication, New York.
- UNCTAD (2010), *World Investment Report 2010; Investing in a low-carbon economy*. United Nations Publication, New York.
- Watanabe, O. (2003), *Efforts to Attract Foreign Direct Investment in Japan*.
- Wells, L.T. & Wint, A.G. (2000), *Marketing a Country; Promotion as a Tool for Attracting Foreign Investment*. FIAS occasional paper no. 13, Washington.
- World Economic Forum (WEF) (2008), *The Global Competitiveness Report 2008/2009*. Geneva.
- World Economic Forum (WEF) (2010a), *The Lisbon Review 2010: Towards a More Competitive Europe?* Geneva.
- World Economic Forum (WEF) (2010b), *The Global Competitiveness Report 2010–2011*. Geneva.
- World Bank (2004), *World Development Report 2005: A Better Investment Climate for Everyone*. The World Bank and Oxford University Press, Washington.

World Bank (2010), *Doing Business 2010: Reforming through Difficult Times*. The World Bank, IFC and Palgrave MacMillan, Washington.

### **Websites:**

Central Intelligence Agency (CIA) (2011), *The World Factbook: Sweden*. Visited: June 14th, 2011.  
<https://www.cia.gov/library/publications/the-world-factbook/geos/sw.html>

Levin Institute, State University of New York (2011), *What is Globalization?* Visited: May 31<sup>st</sup>, 2011.  
[http://www.globalization101.org/What\\_is\\_Globalization.html](http://www.globalization101.org/What_is_Globalization.html)

Norden (2011), *Nordic Co-operation*. Visited: June 13<sup>th</sup>, 2011.  
<http://www.norden.org/en/about-nordic-co-operation/nordic-co-operation>

Statistics Sweden (2011), *Regional Gross Domestic Product (GDP) by county*. Visited: June 14<sup>th</sup>, 2011.  
[http://www.scb.se/Pages/TableAndChart\\_44785.aspx](http://www.scb.se/Pages/TableAndChart_44785.aspx)

U.S. Department of State (2011), *Background note: Sweden*. Visited: June 14th, 2011.  
<http://www.state.gov/r/pa/ei/bgn/2880.htm>

VINNOVA (2011). Visited: June 15<sup>th</sup>, 2011.  
<http://www.vinnova.se/en/>

World Bank (2006), *Why the Investment Climate Matters?* Visited: June 14<sup>th</sup>, 2011.  
<http://info.worldbank.org/etools/docs/library/218134/Why%20the%20investment%20climate%20matters.pdf>

World Bank (2007), *Improving Investment Climates: An Evaluation of World Bank Group Assistance*. Visited: June 14<sup>th</sup>, 2011.  
[http://www.worldbank.org/ieg/investment\\_climates/](http://www.worldbank.org/ieg/investment_climates/)

World Bank (2011), Visited: June 13<sup>th</sup>, 2011.  
<http://data.worldbank.org/country/sweden>

### **Interviews:**

#### Invest Sweden:

- Magnus Runnbeck, Vice President: Strategy & Research. April 18<sup>th</sup>, 2011.
- Anna Hammarberg, Investment Advisor. May 25<sup>th</sup>, 2011.

#### MNE RHQs

- Johan Braun, President of Mitsubishi Scandinavia, Mitsubishi Electric Europe B.V. May 11<sup>th</sup>, 2011.
- , Country Marketing Manager, Schneider Electric Sweden AB. May 11<sup>th</sup>, 2011.
- Lars Ohrberg, Regional Director, Sigma-Aldrich Sweden AB. May 17<sup>th</sup>, 2011.
- Daniel Nakkell, Managing Director, TDK Electronics Nordic. May 17<sup>th</sup>, 2011.
- Marie-Louise Karvedal, Assistant Managing Director, Wacker-Chemie Nordic. May 18<sup>th</sup>, 2011.