Attracting FDI and promoting Lisbon

Promoting Lisbon through an investment promotion agency

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Preface

In front of you lies the final work of a four year study period at the University of Groningen. The last three years of my study period I was living in probably the most beautiful student city in the Netherlands; Groningen.

The interest for foreign direct investment (FDI) and FDI promotion was already aroused during a study journey in the south of the United States of America. During that trip our study group visited the office of the Netherlands Foreign Investment Agency (NFIA) in Atlanta, we attended a lecture about FDI and FDI promotion. I always remembered this subject in the Economic Geography. One of my goals in the masterthesis was to get a little bit feeling with the "real work floor". In the Netherlands my subject was difficult to implement in an existing company. After discussing my options with Mr. van Steen a foreign study in Lisbon was a fantastic opportunity. The opportunity became even more interesting when InvestLisboa was willing to cooperate in my research. Together with InvestLisboa and Mr. van Steen I set up a research proposal. The finished product of that research proposal is this master thesis.

When conducting research to foreign direct investment and a nation and city brand it's essential to get help from third parties. That's why I would like to thank Diogo Ivo Cruz and Rui Ramos-Pinto Coelho of InvestLisboa and Bruno Mourão Martins of the Portuguese chamber of commerce and industry for their warm welcome, help and information provided. I really appreciated the openness and kindness with which I was received in the office and in Lisbon.

Also I would like to thank my first supervisor Paul van Steen for the help throughout the research process. Even with a busy agenda he was always willing to answer questions and was always trying to find the best solution for some problems that occurred. Also I would like to thank Pedro Cortesão Casimiro and Regina Salvador from Universidade Nova de Lisboa for their help in Lisbon. I would also like to thank Carlos Pacheco from the AICEP personally for his information and for the discussion we had on the image of Portugal and Lisbon.

I would also like to name Sandra van der Molen, Ruth Hiddink, Femke Hitzert and Karin Ronde, my fellow exchange students, for their motivational speeches and support throughout the thesis.

And last but not least all respondents to my survey, the professionals that cooperated in the interviews and family and friends

Groningen, 11 October 2012   Bas Heite

Abstract

In this time of financial and economical crisis the amount of foreign direct investment (FDI) falls. This makes multinational companies more cautious with their foreign investments. Countries worldwide are therefore trying to attract as much investment as they can. Countries are trying to become more competitive and create a good investment climate in order to attract the investment flows available. To help attract investment government agencies are established, the so called investment promotion agencies (IPA). IPAs try to create a positive image of the country and offer information, help and after-care to (possible) investors. In addition to the IPAs there are often multinational business consultants involved in the FDI diffusion process. The consultants act on behalf of the investor in order to find the most suitable place for the investment.

This research focuses on the role of the consultant and the image the consultant has of Portugal as a country and of Lisbon as the capital of that country. The image found is used to advise InvestLisboa, a Portuguese IPA from Lisbon. InvestLisboa promotes Lisbon to foreign investors. The role of the consultant is not straight forward, a lot of the multinational companies are keeping the site selection process in-house. If a consultant is involved they often work in teams of specialist, for example tax and law specialist. The image the consultants have of Lisbon is not positive, especially the government, export, economy and investment possibilities are perceived negative. The people and tourism in Portugal are perceived positive. Because of the negative image of Portugal as a country the image of Lisbon is contested. Lisbon is seen as a city with little innovative capacity and business opportunities. The quality of life, safety and the people in the city are perceived positive. It's difficult for a city to escape the country's image. The image of the country directly works on the image of the city.

The image of Lisbon compared with the current communication strategy shows that InvestLisboa is correctly communicating to consultants. InvestLisboa communicates the investment possibilities that Lisbon offers, these possibilities are apparently unknown to possible investors. Also the innovative capacity is addressed in the communication. A little undervalued is the function of Lisbon as home for the European maritime safety centre.

Keywords: foreign direct investment, investment promotion agency, nation branding, image, Portugal, Lisbon

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1.   Introduction and goal of the research project

In this chapter a general introduction is given to the subject. Foreign direct investment is introduced and defined, also an historical overview is given to place the current foreign direct investment flows into Portugal in time. Moreover the research problem, research goal and research questions are highlighted in this chapter. In the last sub-chapter the research structure is visualized in a conceptual framework, which addresses the main concepts, variables, factors and the relationship amongst them.

1.1   Introduction

The role of foreign direct investment (FDI) has historically been one that is contested. There are always stakeholders in favour of FDI and stakeholders against FDI. Some stakeholders argue that FDI contributes to economic growth and productivity increase of the whole economy, others argue that FDI negatively influences the local capabilities and is extracting natural resources without compensating the developing countries (Te Velde, 2006).

The OECD defines FDI as follows: *Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated* (OECD, 1996).

In the FDI-history there are several events that gave the FDI inflows a boost or put the flow in freefall. The last four decades the outward FDI rose relatively to the GDP for most developed countries. The FDI inflows in developing countries rose the first part of the century due to investments in the railroad building in these countries. In the second part of the 20th century the FDI shifted to a more efficiency and market seeking FDI. Much of the FDI potential was not used in the '60, '70 and '80's, many countries had a negative attitude towards FDI. But renewed confidence in the 1990's was making countries more open to FDI. Governments were liberalizing the FDI regimes as they associated FDI with economic growth (Te Velde, 2006).

Figure 1 shows the inflows of FDI in different types of economies. Points of interest are the fall of FDI in 2001 and in 2007. The fall in 2001 was due to a fall in mergers and acquisitions (M&A) among industrial countries. The trend in liberalization of the FDI regime by governments was reinforced by the drop. In 2007 the same drop happened again, due to the fall in M&A's the FDI collapsed (Bremer, 2011).
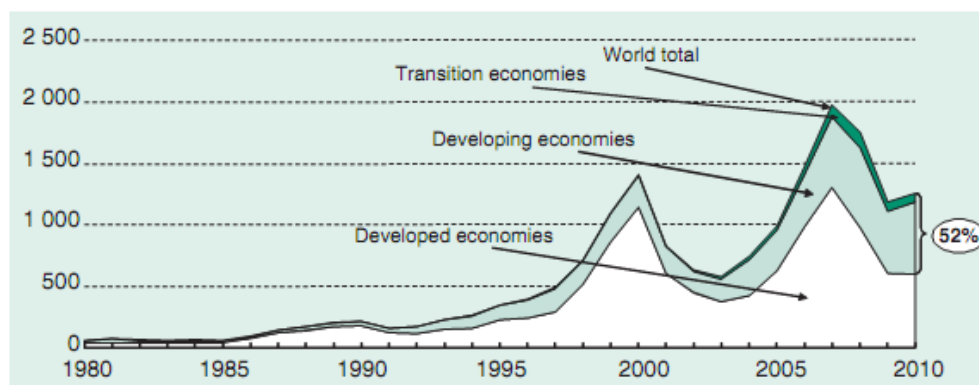

Fig. 1.1: Inflows of FDI in billions of USD, global and by groups of economy 1980- 2010 (time on x-axis, FDI in billion dollar on y-axis) (UNCTAD, 2011)

In 2010 the global FDI rose with 5% to $1.24 trillion. This is far below pre-crisis levels, while industrial output and world trade are already on pre-crisis levels. The FDI flows are still 15% under the pre-crisis levels, and nearly 37% under the 2007 peak levels. The UNCTAD predicts that the FDI will rise to $1.9 trillion, this rise is because of the record cash holdings of the transnational corporations (TNC's), corporate and industrial restructuring, rising stock market valuations and gradual exit by states from financial and non-financial firms' shareholdings build up as supporting measures during the crisis. These measures will give new opportunities to companies. However the contemporary situation is still uncertain, the crisis-climate may slow down these FDI-recovering activities.

Another remarkable thing happened in 2010, for the first time the FDI outflow to developing countries reached the high level of 52% (see fig. 1.1). Due to international production and more recently the consumption shift to developing and transition economies the flows to those economies became more important (UNCTAD, 2011).
Almost every country is actively trying to attract FDI to their country. The ongoing investment liberalization increased attention to FDI protection and FDI promotion. Countries actively try to attract FDI, through so called investment promotion agencies (IPA). Every country is different in terms of tax climate, the education of the workforce, the amount of innovation etc. Besides that there's also a geographical component in the distribution of FDI. Some countries or regions are closer to a booming economical zone. There are plenty of literature studies on the determinants for FDI, but every country remains a specific case. An IPA can be country or regional wide, an IPA helps to attract FDI to a country or region. It provides foreign companies with information and helps them to start up a business.

When a company thinks of investing in a foreign country the question often is: What is the best location to make the investment? The companies are often relying on external knowledge because this is not an everyday decision. Multinational business consultants play a major role in the distribution of FDI globally. They advise large multinational companies in what the best location for their investment is.

This research focuses on the relationship between foreign direct investors, multinational business consultants and the investment promotion agencies. The focus of the research is on an IPA in Lisbon, InvestLisboa. InvestLisboa is an IPA that promotes the Lisbon-region as an investment location for foreign companies.

1.2   Research problem
Investment promotion agencies like InvestLisboa are becoming more and more important in supplying information about a country and branding the country as a good location for foreign investment. The role of IPA's will become more important with the growing of developing markets and heavy competition for investors. A significant part of these investments is done through multinational consultants. Often multinational companies don't have the internal knowledge to make a good location decision, therefore they hire consultants with specific knowledge to give them advice on the location. According to InvestLisboa Lisbon offers solutions for investments, and has advantages over other locations. But are these advantages also recognized by multinational companies?
This research gives insight in the image of Lisbon as an investment location for multinational companies through the eyes of the multinational consultants. For InvestLisboa it's unclear what the image of Lisbon among multinational consultants is; the image that's found can be used to adapt the communication strategy of InvestLisboa to multinational consultants.

1.3   Research goal

The research goal is to find the image multinational consultants have of Lisbon. With the image that's found give an advice to InvestLisboa how to adapt their communication strategy towards multinational consultants.

1.4   Research questions

- What are, for foreign direct investors the most important factors in decision making on where to locate a company or where to make an investment?

- What is the role of multinational consultants in the diffusion of foreign direct investment globally?

- What is the perception that multinational consultants have of Portugal and Lisbon as a foreign direct investment destination?

- How can InvestLisboa as an investment promotion agency promote Lisbon to multinational consultants more effectively? What should the communication strategy be?

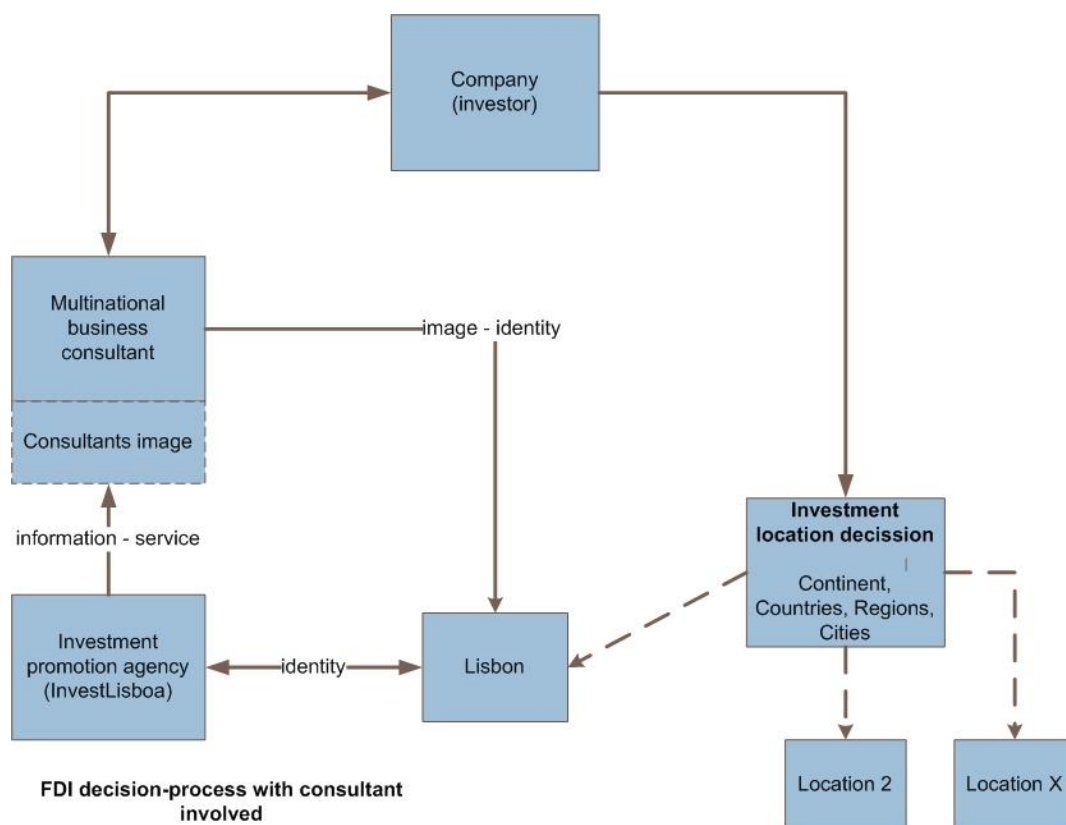*1.5   Conceptual framework*

Fig. 1.2: Conceptual framework

This framework is made for the FDI decision process with a multinational business consultant involved. This research focuses specifically on the role of the consultant and the image a consultant has of Lisbon as an investment location. In some cases the consultant is not hired because the company has enough specific knowledge in-house.

The role of the consultant has never been researched thoroughly before, in this research the role of the consultant is researched as well as the image the consultant has of Lisbon as an investment location.

The framework visualizes the main concepts, variables, factors and the relationship among them to be studied in this research. At the start the investor or the multinational company is looking for a new investment location. The consultant is hired to research several investment options for the company and to advise the company on the best location. Besides the key location factors that are given by the company to the consultant, the image of a country is also important to take into account when deciding on where to invest. In today's globalizing world countries are competing for FDI-flows and they try to highlight their strong points by marketing; also called nation branding. Nation branding is applied to promote the identity of a country to the outside world. But to what degree is the image a consultant has in line with the actual identity of a country?

So an investor hires a consultant to research the ideal location for his investment. The consultant researches different locations using the key locations factors he agreed on with the investor. The image or previous experience influences the consultant in-directly. Multinational business consults use information generated by various sources, one of them being the so-called investment promotion agencies (IPA's) that can be found on the level of countries, regions or sometimes even cities. IPA's try to promote their country (region) by nation (region) branding.

1.6   Data and methodology

The first part of this thesis starts with a literature review, on the role of the consultant and nation branding. Especially data on the role of the consultant is hard to find because this subject isn't that intensively researched. Apart from the secondary data, this research will collect primary data. This primary data will consist of surveys and interviews. The survey will be a survey among internationally operating consultants, asking them about the image of Portugal and the image of Lisbon as an investment location. The interviews will be an addition to the survey, in order to further clarify the role of the consultant in the location decision process.

2.   FDI: what and why?
Why does FDI exist? Where does it comes from? These are questions answered in this chapter, the different types of foreign direct investors are addressed as well as Dunnings OLI-paradigm. The OLI-paradigm is one of the basic assumptions in explaining the origin of FDI. In the second part of the chapter the determinants of FDI are explained in two ways, the Keynesian way and the neo-classical way. Because this research is a study of the image of the Lisbon-area, FDI in Portugal is also highlighted. This chapter gives a clear insight in why FDI exists and what factors attract FDI.

2.1   Types of FDI-investors
According to Dunning (1996a) there are four general reasons for a firm to go multinational. These four reasons generally lead to four different types of investors:

- Natural resource seekers
- Market seekers
- Efficiency seekers
- Strategic asset or capability seekers

The reason why companies engage in FDI is mostly a combination of different reasons. Multinational companies that are natural resource seekers, are investing in foreign countries to obtain cheap access to resources. The goal of resource seekers is to obtain an improved market position in their home market by offering cheaper products due to cheaper inputs. The resources can be divided into three categories; companies that search for cheap natural resources like raw materials, minerals or agricultural products (physical resources). The second category are companies that are looking for motivated and cheap labour sources, this source of FDI is mainly used in the industrial and service sector. An example is the massive move of the clothing industry to Asia. The third category resource seekers are companies that are looking for technology, management, marketing and/or organizational experience (Dunning, 1996a).

Market seekers are companies that invest in a foreign company to supply a new market. Often the companies were exporting companies in their home country and invested in a foreign country and moved the exporting branch to the foreign country. There are a number of reasons for a company to become a market seeker. First there are companies that want to protect their market because other competing companies also expanded into new markets. The second reason for market seekers can also be companies that want to adapt their products to a local market, when a company is active in the foreign market the products can be adapted to the foreign market more easily. Because companies can improve their cultural awareness, the knowledge of the local market and the wishes of the local customer. The third reason for market seekers is the closeness to the market. Being more close to the market means lower transaction and transportation costs, this strongly differs within industrial sectors. The fourth reason for market seekers are government policies. Governments can support or discourage FDI by using import tariffs or limits or tax benefits. Governments can also support foreign companies by giving subsidies. Companies can avoid or benefit from these government tools by locating in a country that has the best support to foreign companies (Dunning, 1996a).

Efficiency seekers aim to improve the company structure, when companies have a common policy for geographically dispersed locations they create an advantage. These companies take advantage of the different market specific knowledge of the different locations. There are mainly two forms of efficiency seeking FDI, the first type of companies invest in different countries to use the different factor endowments as their advantage. For example companies that locate their capital, technological and information assets in a developed country and locate their labour and resource intensive activities in developing countries. The second type of efficiency seeking FDI takes place in foreign countries with the similar governmental and economical structure, this form is more aimed at the availability and quality of supporting industries, local competitors, the structure of customer demand and the governmental policies (Dunning, 1996b).

The strategic or capability seekers obtain ownership of foreign companies in order to promote their own strategy. The motivation for strategic FDI is the acquisition of assets that are valuable for sustaining or improving the competitive position of the company. Investments that are pure strategic are rare. The main reason to engage in strategic expansion is to protect or improve the company's long-term competitive position (Dunning, 1996b).

The types of investors mentioned above are the most common, still there are some other types of investors. These kinds of investors can't be categorized easily; escape investment, support investment and passive investment.

Escape investment is investment that is made to escape restrictive legislation or macro-organizational policies by home governments. For example, the 'round-tripping' of investments between China and Hong Kong to exploit the incentives that are given by the government to foreign companies. Or the relocation of economic sensitive activities, like the leather tanning industries from Western Europe to Eastern Europe and developing countries.

Support investment is investment that supports activities of core of the company. These affiliates are rarely profit-centres to a company but have great benefits to the rest of the multi-national enterprise (MNE). Examples of activities are the promoting and facilitating of export and services from the investing company (or other companies) and to assist in the purchasing of foreign produced goods or services from investment companies (or other companies).

Passive investment is investment where the MNE doesn't play an active role in the management of the foreign investment. The definition that is used throughout the thesis implies that direct investment has an active role in the management of the foreign investment. Passive investment is on the border of the direct investment category, it's close to the so called portfolio investment.

2.2   OLI paradigm

The OLI paradigm of Dunning is an important framework in understanding international FDI flows. Especially the why-part of going multinational. With the OLI-framework, Dunning was one of the first to describe why firms expand into other countries. The framework consist of Ownership advantages (or firm specific advantages), Location advantages (or country specific advantages) and Internalization advantages (Dunning, 2001).

Ownership advantage: this advantage is most easily transferable within the company, examples are brand name, technology, economies of scale or tacit knowledge. Companies with a firm specific advantage can obtain lower input cost, or higher output income. These companies can successfully expand into a foreign country because they have a product or service that is unique. The cost of going abroad will be acceptable concerning the potential profit (Dunning, 2001).

Location advantage: The location advantage has to be explained in two ways, in case of horizontal FDI the advantage is the avoidance of trade barriers and export cost. In case of vertical FDI the company focuses on the home market, the cheaper inputs are the advantage. (Dunning, 2001)

Horizontal FDI occurs when a firm locates a plant abroad simply to improve its market access to foreign consumers. The purest form of horizontal FDI is when a company simply replicates its domestic production facilities at a foreign location. Vertical FDI is not primarily or necessarily aimed at production for sale in the foreign market, but rather seeks to avail of lower production costs there. Vertical FDI means a fragmentation of the production process over multiple countries and is unlike horizontal FDI aimed at lowering production costs (Neary, 2007) (Dunning, 2001).

Internalization advantages: If a company has both ownership advantage and a location advantage it can still choose to hire a foreign company do the production instead of setting up an own firm. In the long-run the foreign company can choose to start for itself, if the company keeps the knowledge in-house this problem is solved. The decision here is basically one between foreign direct investment and offshoring. Should a company make a foreign investment that has control over the whole process or should a company involve a third party. In the last case the costs are lower but coordination and control problems may arise (Dunning, 2001) (Bremer, 2011).

	Location	
	Home	Abroad
Internal	Integrated National Firm	FDI
External	Outsourcing	Offshoring

Fig. 2.1: Taxonomy of Location-internalization modes (Neary, 2007)

In figure 2.1 the different modes of location-internationalization are captured. As can be seen, FDI happens when firms keep the process within the company, the company stays in control (internal) and is making the investment abroad. Offshoring implies involving a third party in the process of investing abroad.

2.3   FDI Determinants

FDI is important in the economic development of a country. To have a better understanding of the spatial distribution of FDI it's important to know what attracts FDI. One way to look at FDI determinants is to examine how the decisions about investing abroad are made. This decision process will be highlighted later. Kunčič and Svetličič (2011) state that:

Countries have to improve economic fundamentals, general investment climate, and infrastructure, including educational system, because countries are in fact competing against one another in offering friendly conditions to firms. Good national macro conditions, market size, geography, and language are the basic preconditions for attracting any FDI.

So in order to attract FDI flows a country has to be competitive. Kunčič and Svetličič (2011) make a distinction between two economic theories, the Keynesian and the neo-classical theory.

Basic requirements
- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education

Efficiency enhancers
- Higher education and training
- Goods market efficiency
- Labor market efficiency
- Financial market development
- Technological readiness
- Market size

Innovation and sophistication factors
- Business sophistication
- Innovation

Fig. 2.2: The 12 pillars (World Economic Forum, 2011)

The way to approach FDI determinants by neo-classical theory is to have good general economic fundamentals and local measures like information, infrastructure and personnel.
The World Economic Forum (2011) defined the principals for a competitive position of a country. These are basically the FDI determinants for a neo-classical point of view. The competitive landscape is made out of 12 pillars (see fig. 2.2). These pillars are the requirements for different kind of economic situations. The basic requirements are conditions for factor-driven economies. Factor driven economies are completely based on their factor endowments, cheap labour and natural resources are drivers of these economies. As countries become more competitive due to good management of the basic pillars they become efficiency enhancers.

Because of the raised wages the countries have to increase product quality and develop a more efficient production process in order to stay competitive. After that the company becomes innovative-driven, in this stage countries have to compete with new and unique products in order to maintain the high wages. Companies have to compete using the most sophisticated production processes and innovating new ones. The 12 pillars can be seen as the determinants for FDI according to neo-classical theory.

The 12 pillars briefly explained
Factor driven economies:

- Institutions; having a fair and sound institutional environment is important for every economy, especially for recovering economies. Stability is an important factor in the investment decision. It also plays a key role in the ways the society distributes the benefits and bears the costs of the development strategy
- Infrastructure; extensive and efficient infrastructure is critical for the well functioning of an economy.
- Macroeconomic environment; stability is needed for the functioning of a company, macroeconomics cannot raise the productivity alone. But for example, a company cannot function efficiently when inflation rates are out of hand.
- Health and primary education; a healthy workforce is vital to the competeiveness and productivity. Workers who are ill cannot function, poor health leads to costs for business.

Efficiency driven economies:

- High education and training; is crucial for companies who are willing to move up the value chain beyond simple products and production processes. Especially in today's globalizing economy.
- Goods market efficiency; countries with an efficient goods market are well positioned to produce the right mix of products and services given their particular supply and demand conditions, as well as to ensure that these goods can be most effectively traded in the economy
- Labour market efficiency; the efficiency and flexibility of the labour market is critical for the right allocation of workers. The workers have to be in the place where they are the most efficient in order to give their best efforts.
- Financial market development; the recent economic crisis highlighted the need for a well functioning of the financial market. A good financial market allocates the resources saved by the country as well as the resources entering from abroad in their most effective use.
- Technological readiness; this pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries.
- Market size; the size of the market effects productivity because large firms are able to exploit economies of scale. A big market has a bigger demand.

Innovation driven economies:

- Business sophistication; concerns two elements, first the overall quality of a country's business network, and second the quality of individual company's strategy and operations. In this stage clustering of companies is an important phenomenon to increase efficiency.
- Innovation; Innovation is important for factors in this stage of economic development, while a lot of pillars have diminishing returns. In the long run standards of living can only be improved by technological innovations. Adapting existing technologies isn't an option, firms in this stage must develop new technologies in order to stay competitive (World Economic Forum, 2011).

Neither existing theory nor empirical evidence clearly indicates which determinants are critical to attract FDI. A mix of relevant policies seems to be needed, and the most effective policy varies from country to country and also over-time, depending on country development and other characteristics. That's why the neo-classical theory gives a good general image of which factors to improve. The neo classical framework is a wide framework, and it deals with the stage of a country's economy. Especially the more developed countries use a neo-classical framework to approach FDI (Kunčič and Svetličič, 2011).

In contrast to the neo-classical determinant Keynesian theorists think that financial measures are more important. Financial measures can be for example subsidies or fiscal incentives. Sustainable FDI flows can be achieved by specialized fiscal and other incentives.
De Groot (2011) defined some Keynesian determinants in his thesis-research. For example the degree of openness, the openness of a country is decided by the amount of trade barriers, taxes and regulations that exist in a country. A country with less regulations etc. is considered to be more open. Horizontal FDI may avoid some regulations by opening a plant in the foreign country so vertical FDI is more restricted than horizontal FDI.

Other determinants that De Groot (2012) distinguished are currency exchange rate, institutional quality, market size and population, labour cost and productivity, physical distance and culture and language.
Currency exchange rate is important because when an appreciation of the currency rate occurs it temporarily makes the company wealthier. This capital can be used to invest, which gives the company more capital to invest with than the companies in the foreign country with a devaluation of their currency. But in the case of constant currency depreciation, the country is at risk. The country is perceived to have a high risk factor because of the reduced purchasing power of people.
Institutional quality was also one of the pillars in the neo-classical framework and was explained there. Market size and population was also addressed as one of the determinants. Countries with a large home market and a large population are perceived more attractive for FDI, because companies can enter the market and sell their products. With a large market and a large population more products can be sold. Also countries with low labour cost and a high productivity are more interesting for FDI, low labour cost and high productivity in order to lower the input costs.
Physical distance is also found to be a relevant factor in FDI distribution, the distance is often measured in the distance between the two capital cities of the two countries involved. There is a negative relationship between FDI and distance; greater distance implies smaller FDI flows. The last determinant De Groot (2012) identified is culture and language; a common language can reduce transaction costs and the information asymmetry that exist between the countries.

2.4   Investment promotion agencies

To create employment opportunities and accelerate economic growth in their countries many governments have strategies to attract FDI. An important element of attracting FDI is providing information about the economy and other factors about the country that make the location a good place for investment.

Providing this information is one of the key components of the investment promotion agency (IPA). Particularly in developing countries it's important to have one place where up-to-date, reliable and detailed information is easy accessible. By providing this information to possible investors, the IPA can minimize inaccuracies and present the location advantages in the best possible way (World bank group, 2006).

The World bank defines six possible functions of an IPA:

- Information dissemination: provide potential investors with information on the local economy.
- Image building: the IPA aims to promote the country as an attractive location decision for foreign investors.
- Investment facilitation: helps 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 (World bank, 2004).

An IPA doesn't have to promote a whole country, for example in Portugal the countrywide IPA is AICEP. But if looked at a more regional scale we also find smaller IPA's, InvestLisboa is an IPA that attracts FDI to the Lisbon region. InvestLisboa is a partnership between the Lisbon municipality, the Portuguese chamber of commerce and industry and the Portuguese business development agency.

InvestLisboa offers solutions for investments in Lisbon:

- InvestLisboa identifies business opportunities, partners and locations;
- InvestLisboa supports investors throughout the decision-making process, providing information and contacts in local and national institutions;
- InvestLisboa contributes for the simplification of administrative proceedings;
- Invest Lisboa mobilizes partners around the design, development and implementation of projects that guarantee the best investments for Lisbon;
- InvestLisboa organizes visits to suitable premises for the location of companies;
- InvestLisboa offers a service that is personalized, confidential, and free of charge (InvestLisboa, 2012).

2.5   FDI in Portugal

Having failed a successful industrialization in the days most of the European countries industrialized, Portugal was and still is one of the poorer countries in Europe. Even in the second part of the second world war, Portugal didn't have electricity, paved roads or running water. Portugal didn't participate in that war. The first real industrialization started somewhere in the 1960's, this was mostly due to the declining influence of Salazar and his corporatism. That declining influence was good for the development of the economy, between 1960 and 1973 the Portuguese GDP per capita grew from one third to half that of the more developed countries in the Europe. Before this Portugal was nationalistic, seen as an authentic country by its leaders. The industry was aimed at agriculture and

manufacturing. After the Salazar-era the policy took an u-turn according to inward FDI, Portugal joined the EFTA (on British behalf) and a year later the GATT. With the adaptation of a new policy towards FDI, Portugal finally opened up a little more. Some sectors that are considered sensitive by the Portuguese are protected for the foreign influences. The result of the change of policies was that FDI increased forty-fold on the 1950 rates.

Castro (2004) plotted the inward FDI as a percentage of the GDP. In the beginning the rate seems rather modest (below 1%) this is partly due to the investment in the diversification and development of new and local
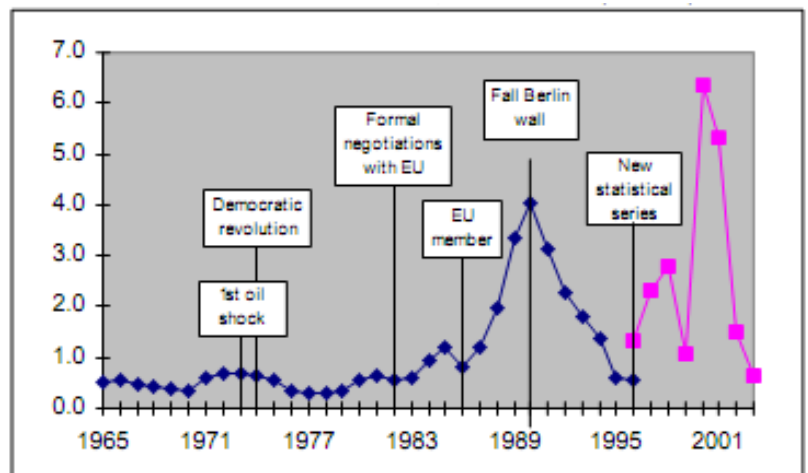
Fig. 2.3: Inward FDI-flows, 1965-2003 (%GDP) (Castro, 2004)

industries. The demographic revolution of 1974 didn't directly affect the FDI flows but the political, economical and social climate was not in favour of FDI. The stabilization and the prospect of a EEC membership painted a different picture after 1980. Portugal formally joined the EEC (EU) on 1 January 1986, the same day Spain joined the EEC. The stabilization of the governments since 1983 and the EEC membership in 1986 were critical moments for Portugal. It meant free access to a consolidated single market from a low labour cost platform and reassurance of economic and political stability. It also triggered economic integration with Spain, the relationship with Spain was always pretty limited. The FDI inflows were especially high between 1988-1993. The most known reasons for this peak are the privatization program by the Portuguese government, better infrastructure and European sponsored incentives to new projects in manufacturing, tourism and agriculture. After 1991 this trend already declined, the new investment possibilities that the single market and EU entrance gave were fully exploited. The privatization program necessarily slowed down after the main companies were sold. At the same time the European economy went in recession and the fall of the communist countries in the central and eastern part of Europe changed the position of Portugal on Europe's geopolitical map (Castro, 2004).

Since 2007 the FDI inflows show a positive increase (in gross terms), but the last two years the FDI stagnated. The gross investment stagnated, the curious thing is that the net investments (saldo investments - disinvestments) grew with 272,5%, this is due to an external financial intervention which led to the privatization of state owned companies. At the same time the outward FDI increased from €9790 million in 2010 to €15592 million in 2011, a possible explanation for this is the decreasing trust of Portuguese multinationals in the Portuguese economy, maybe it was more attractive to do business somewhere else. This can also explain the massive increase of 455% in outward FDI to the Netherlands which has a profitable and stable tax legislation. The investments are mostly to innovative and technical sectors.

Fig 2.4 shows recent trends in FDI inflows, the suppliers of FDI are mostly within the EU27, the Netherlands, Spain, France and the United Kingdom are the biggest suppliers of FDI in Portugal. (AICEP, 2011).
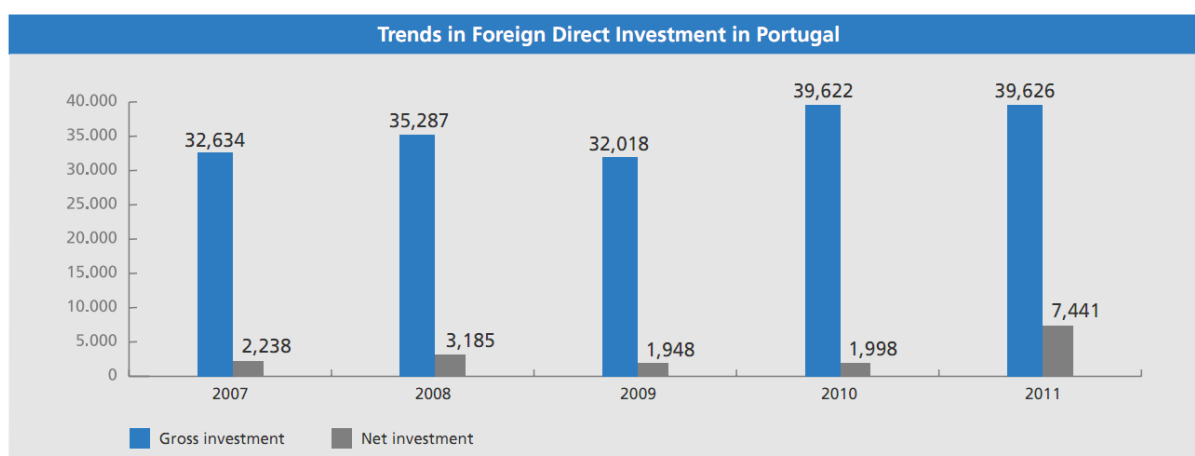

Fig. 2.4: Trends in FDI in Portugal, units in millions EUR (AICEP Portugal basic data).

The UNCTAD has a FDI ranking, the FDI inflows are rising but in global perspective Portugal is not a leader in attracting FDI flows. In the ranking of the UNCTAD Portugal is in 123rd position in 2010.

Country rankings by Inward FDI performance Index and Inward FDI Potential Index, 2007–2009

Economy	Inward FDI Performance			Economy	Inward FDI Potential Index		
	2008	2009	2010		2008	2009	2010
Rwanda	101	76	118	Belarus	50	44	..
Greece	120	122	119	Brunei Darussalam	53	45	..
Ethiopia	129	121	120	Hungary	46	46	..
Bahrain	30	103	121	Cyprus	54	47	..
Korea, Republic of	123	118	122	Venezuela	42	48	..
Portugal	**108**	**109**	**123**	**Portugal**	**52**	**49**	..
Slovakia	58	138	124	Ukraine	49	50	..
Taiwan Province of China	118	124	125	Chile	55	51	..
Italy	140	115	126	Azerbaijan	61	52	..
Burkina Faso	112	80	127	Iran, Islamic Republic of	51	53	..
South Africa	81	85	128	Kazakhstan	44	54	..

table 2.1: UNCTAD FDI performance index 2007-2009 (UNCTAD, 2011, Country fact sheet)

In the World Economic Forum competitive report 2011 Portugal ends up on rank 45 of 142 competing countries. Just in front of Indonesia and just after Italy and Lithuania. Portugal was scaled in the innovative driven economies, as explained before Portugal improved its competitive position slightly, mainly because of the positive improvements in ICT use throughout the economy and the improvements in infrastructure (roads). But still Portugal is one the least competitive economies in the European region, in addition to a national savings rate below 10% Portugal has a high deficit, high public debt that hinders the financial resources of local companies. Portugal also suffers from an inflexible labour market and a disconnection between salaries and productivity, that have hampered Portugal to be competitive internationally. Portugal also maintains a flexible tax system, every year the tax-rates can change so a company is never sure about next year's tax-rates. And the classical lag of R&D activities in companies prevented Portugal to move to higher value added activities so it suffers from fierce competition of cheaper production sites (countries that are in a different development stage) like China and Eastern Europe (World Economic Forum, 2011).

According to De Groot (2011) the factors that make Portugal a competitive location for FDI are the low wage rate of the Portuguese workforce, the economical and political stability (due to the EU-membership) and the access to the local market. The Portuguese investment promotion agency AICEP distinguishes a number of strong points of Portugal as an investment location:

"To choose Portugal is to choose an exciting country, in the west coast of Europe, to invest and buy high quality services and products. It is also the choice for a privileged, geographically strategic location, ideal for those seeking to supply the European market or expand their businesses to other parts of the world."

Like other countries in the world Portugal is attracting FDI through FDI-promotion agencies. The AICEP is founded in 2007, its major task is to encourage the best foreign companies to invest in Portugal and support Portuguese foreign companies in their internationalization process .

The AICEP (2012) addresses the following strong points of Portugal:

- Great logistic and communication system, good infrastructure
- Good quality of human resources
- Innovative country with friendly economic environment
- Desirable place to live

Because the AICEP is a governmental organisation that has as major task to attract investment, they attract investment with the positive arguments mentioned. One of the tasks of AICEP and InvestLisboa is to attract business to Portugal and Lisbon, some of the strong points are addressed but what are the weak points or threats for attracting FDI to Portugal?

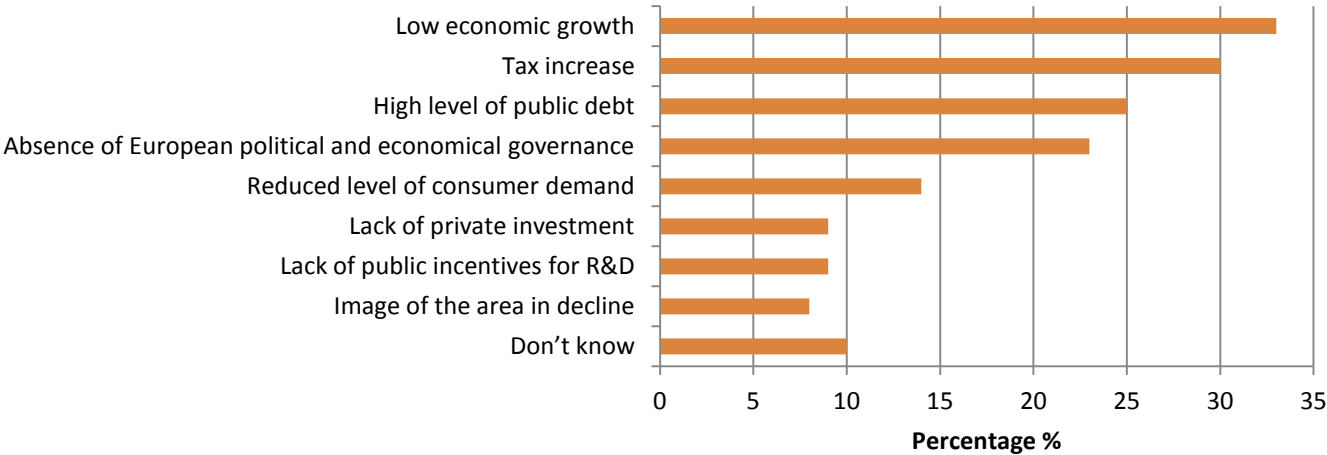## What are the main threats for attracting FDI in Portugal?

Fig 2.5: What are the main threats for attracting FDI in Portugal? (Ernst & Young, 2011 - translated)

According to a study from Ernst and Young (2011) among 812 investors the following weak points for Portugal were found. The 3 leading push factors are characteristic for the current macro-economic instability in Portugal (and in Europe), 33% of the questioned investors think that the low economic growth in Portugal is the biggest threat in Portugal. Followed by 30% of the respondents that thought tax increase was the biggest threat. Third most mentioned threat was the high level of public debt. A high public debt indicates a badly governed country indicating how good an economy is controlled.

A consequence of a high level of public debt is tax increase in order to pay for the interest, this discourages investors. A point addressed in the interviews was not only the tax increase but also the unstable character of the tax legislation. Luis Leon Sanchez, associate partner at Deloitte Lisbon addresses the unstable character of the legislation (Pacheco, 2012) (Ernst & Young, 2011).

The following quote indicates the importance of a stable tax system:
We had a presentation from Deloitte Netherlands, we had a couple of clients looking at the holding system in the Netherlands, how it works, how it could be attractive etc. And there was a first sentence on the slide, that actually killed any presentation that you'll give about Portugal. That sentence was: "No surprises". I could never say that about a country like Portugal, because in Portugal I don't know what the taxlaw will do in the coming six months so how can I guarantee that it will not change in the next ten years. The Dutch tax institutions will apply the taxlaw as it is, in Portugal they apply the taxlaw as they think it should be, instead of what it is, this does a lot more in killing FDI than a promotion agency can do (Interview,06-06-2012).

2.6   Conclusions
Where does FDI come from? And what are determinants that attract FDI? As we have seen FDI is explained by the OLI-paradigm by Dunning. When a company obtains an ownership, location and internalization advantage, it can choose to go abroad in order to maximize profit. FDI attraction isn't something that can be caught in a number of determinants, it differs over time, space and sector.

The different types of investors addressed in this chapter each have different determinants to invest in a certain country. For example the market seeker needs a country with a big population and a big home market in order to sell its product. The natural resources seekers looks for cheap natural resources or cheap labour sources, low wages can be a determinant in this case.
Over time it differs according to the economic situation of the world in a specific time and place. Like mentioned in the introduction first FDI was more aimed at investments in infrastructure and resources. Over time this evolved more to a market orientation. But not only the investors image changes overtime also the determinants addressed in this chapter are flexible. The determinant government for example is highly flexible, it strongly changes overtime.
Over sectors the determinants also differ, the manufacturing sector is probably more affected by strict export regulations than the service and tourism sector. So the major determinants depend on the time, space and sector the stakeholders of the FDI process are operating in.

But as a general rule the determinants for FDI are best described by the neo-classical and Keynesian theory. The best attractor for FDI is a well functioning national economy. Good economic fundamentals are critical for a country that is willing to attract FDI. The pillar model consists of 3 economical phases a country can be in, phase 1; the basic requirements, phase 2; efficiency enhancers and phase 3; innovation and sophistication enhancers. Every stage has specific determinants that bring the country to a higher economical level, the higher the economical level of a country in the pillar model the more attractive a country is to attract FDI. A situation where a country's stability and economical level promotes the country is ideal, only a few countries in Western-Europe enjoy a position like this. Countries that aren't in a comfortable economic position need to apply Keynesian measures, these measures are more aimed at giving one time incentives or special advantages for a single company. This can be tax-wise but also a discount on the purchasing of a factory, building lot or less strict regulations. A lot of less developed countries in Western-Europe rely on these incentives, in Europe especially the European Union finances these incentives in order to develop less developed parts of Europe.

Most of the countries use IPA's to promote their country, the role of an IPA is actually a small one in the whole process. The IPA is mainly a guide for the foreign company, the IPA knows the regulations and traps of a country's administrative system and helps investors with the process. We also have to make a distinction between large multinationals and small and medium large multinationals, the large multinationals will not use the IPA at all times.

The FDI history in Portugal is not a big story, radical events in history increased or decreased FDI in Portugal. Closed periods were followed by periods of openness, depending on the regime that was in charge in Portugal. The heritage of those regimes is still present in the current Portuguese culture, especially in the public sector. This leads to a bureaucratic and inefficient working style which is hard to tackle. Besides that Portugal is also hit by the global crisis, that prevents companies investing in more risky places, the safer option is the best at the moment. The effects of the financial crisis are the top reasons not to invest in Portugal.

3.   Multinational consultants
Multinational consultants are often not taken into account in FDI-research, but they play an important role in the distribution of FDI around the globe. The consultants have the specific knowledge needed to give strategic location advice. This chapter looks at the role multinational consultants play in the worldwide distribution of FDI, it takes a look at how the process works and how the consultant processes his information. It should give a clear image of the work of the consultant and the role the consultant plays in the whole process.

3.1   Tasks of the consultant
Business location decisions are often made by a small group of executive directors, these decisions are motivated by tactical considerations such as capacity constraints and strategy drivers (market access and penetration). The group of executives consists of people with different specializations, human resources, real estate, legal, tax and government relations. Each member has a unique perspective and this is often the first time they work together on a site selection project. This requires a well balanced team for a good strategic vision of the site selection process.
These are the internal players in the process, they have the biggest impact in the process. Because the location process is a long term process. For rare decisions the board often relies on external consultants. The role of the consultant depends on the type of location project the company deals with. There are in general four types of location investment projects:

- Strategic studies – linking corporate and location strategies
- Feasibility studies – studies that address whether or not to relocate
- Location selection studies – studies that focus on where to locate
- Labour market studies – examining a specific market's ability to supply high quality of labour at affordable wages in sufficient amounts (Shapiro, 2011).

The strategic study is the earliest point a client has contact with a consultant. Typically the client wants a better understanding of location and broader corporate objectives. For example; how can the choice of location help a company to become the lowest cost provider in his industry?
A feasibility study usually evolves from a strategic study, but can also be done independent. Feasibility studies attempt to answer whether it makes sense to relocate, expand or consolidate operations. The consultant works with the client to develop several scenarios and then estimates the onetime cost for relocation or redeployment that should be earned back within a reasonable time period via recurring cost savings in for example labour, occupancy, taxes and other operating expenses.

Location selection studies are the main activities for a consultant specialized in site selection. The difficult part is to translate the strategic view of a company into a specific location choice and a specific action. These studies usually evolve from the feasibility study but can also be done independent. The process is often a two phase process; first the screening process and after that the in-market due diligence (fieldwork). If the location selection process evolved from a feasibility study the locations (scenarios) are often used as good location candidates. If the location selection process just started the analysis of operating benefits and drawbacks should help to generate location criteria needed to drive the candidate screening process.
Labour market studies by the consultant are trying to determine if enough qualified workers live or work near to the perceived investment location to sustain the company now and in the future. The consultant combines an in-market investigation (interviews with other companies, workers, educators, recruiters and other knowledge parties) with demographic data and GIS-analysis to create a regional profile (Shapiro, 2011).

3.2   Role of the consultant

The role of the multinational consultant that is responsible for site selection is thus a very diversified role. Based on the different types of investment projects the consultant has different roles. The most common roles of the consultant are:

- Facilitator/mediator
- Advisor/analyst
- Counsellor/strategist
- Change manager

The facilitator/mediator role for a consultant is one that follows a classic decision-making technique.

- Identify concerns and issues that inspired the location engagement
- Set priorities that can be addressed via location/space
- Identify and order resources and stakeholders to achieve results (Shapiro, 2011).

The skilful consultant listens to and confirms the client's needs. The real decision on the where-question shouldn't be made until everybody involved understands why the decision is made. Often the company is familiar with the location, the client already has facilities in the perceived location or has specific demands. The consultant may restrict the starting set of countries or time zones. Or he may suggest searching metro areas above a certain population size, unemployment rate etc. depending on different determinants. Although senior managers have less time to devote to specialized projects like location choice the consultant has a critical role what is possible, and what is not possible within the project deadlines (Shapiro, 2011).

As the process evolves the consultant becomes an analyst, the consultants helps to manage contact with internal and external experts (real estate advisors, public relations firms and legal counsel). This is often done in groups of consultants with specializations in law, tax, etc. However the primary role is to manage the vast amounts of data. The overall goal is to come to a list of final destinations that best meets the perceived goal (Shapiro, 2011).

When the company identifies a preferred location (and a back-up location), the project reaches an important milestone. Normally in this phase the work of the consultant is done, but in some cases the consultant has to act as a counsellor or strategist. In some other cases the consultant stays in control throughout the negotiation, documentation and compliance stage. When a consultant stays on the project his goal is to secure an incentives package that offers the company maximum value with maximum flexibility.

After the company invested in the location the consultant still can have a role. Namely the role of change manager, monitoring the process and helping out with problems like staff attrition (Shapiro, 2011).

Figure 3.1 shows the investors process of selecting a FDI project location according to the World Bank (2006). Stage 1 consists of the decision of the investor, which is mostly a multinational company. A multinational will define its strategic objectives and define factors on which the location choice will be based. This is the so called list of "key location factors" (KLF) (World Bank Group, 2006).
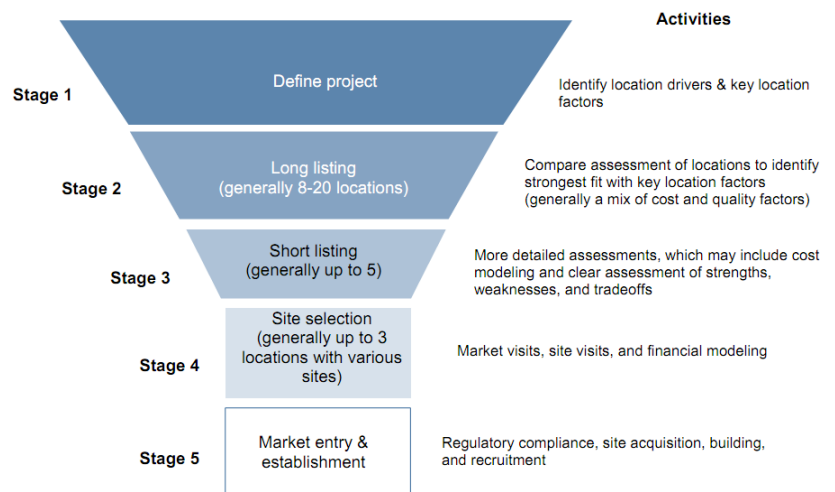

Fig. 3.1: Investors process of selecting a FDI project location (World Bank Group, 2006)

In stage 2 the company or a multinational business consultant which is hired by the company makes a long list (about 8-20 locations) with possible locations. In this phase more general comparisons between countries are made to exclude sub-optimal locations. The company or the consultants research the different locations through in-house data-bases and information found on the internet. The adequate and up-to-date information from the IPA is especially important in this phase. In the short listing phase the research is done more deeply. The company or consultant will run different financial models and define the strengths, weaknesses, opportunities and threats of a location. The IPA is often contacted in this phase by the investing company or consultant. The different locations on the list may be visited during this phase. In the fourth stage, the third stage is done again more deeply. Different locations will be visited, markets will be inspected and a choice for a location is made. In stage five the market is entered, within the country the locations are compared and a definite location is chosen (World Bank Group, 2006).

As seen IPAs play an important role in making information accessible and easy to find and in the aftercare process, the specific role of the IPA depends on the project. The role of the business consultant depends on the knowledge the multinational company has in-house. If the company hasn't got specific knowledge on selecting project locations an external consultant is hired. Multinational business consultants have specific knowledge and skills that help companies find the ideal location for their business. As mentioned the data the consultants use is mostly in-house data and information the investment promotion agencies publish on the internet. But also their own general image, country stereotypes, former research has influence on the image consultants have of an investment location.

3.3   Conclusion
Throughout the process of site selection an investor can decide to hire a consultant, it is not straightforward that the consultant is involved from the start on. The consultant can be hired in every phase of the process. During the different phases of the process the role and the task of the consultant changes. The real site selection is just a small part of the work of the consultant, the strategy part is also a major part of the work of a consultant. The World Bank Group (2006) states that the investor defines the key location factors but that's also a phase a consultant can be involved. Once a consultant enters, the steps of the process are pretty schematic. It's also good to take into account that a consultant doesn't always work along on a project, they often work in groups of specialized consultants. The data they use originates from a worldwide network, major consultancy firms are multinationals with settlements all over the world. This worldwide network gathers information and shares it within the network. So if somewhere in the world for example the tax policy is drastically changed, this is internally communicated.

4.   Nation branding

Nation branding doesn't differ much from ordinary product branding. In marketing terms nation branding is about giving the country a clear image and building that image on the identity of the country. It's about how to sell the country to the outside world. This chapter is about the how and why of nation branding and how to measure a nation's brand. Besides the general theory about nation branding, the brand Portugal is analyzed.

4.1   Definitions

Due to the increasing competition for FDI, countries are more and more branding their country. Country branding as a marketing strategy, positions the country and creates a good image of the country among its internal and external stakeholders. Mugobo (2011) uses the following definition of country branding; *"...the systematic process of aligning the actions, behaviours, investments, innovations and communications of a country around a clear strategy for achieving a strengthened competitive identity." Effective, efficient and consistent country branding can help countries attract foreign investment, promote tourism and trade and increase exports"* (Mugobo, 2011).

Branding according to Kotler and Keller (2006) is *"...a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors"*. So branding is used to identify the product of a firm and differentiate them from competitors, and create a long term mutual relationship with their customers. With increasing globalization and countries competing for markets and resources branding has gained visibility among academics, business leaders, economists and politicians. Countries are competing with each other for inward investment, exports, skilled labour and tourists (Mugobo, 2011).

A research by Temporal (2001) finds the positive outcomes of country branding namely: increases currency stability, restores international credibility and investor confidence, reverses international ratings downgrades, increases international political influence, leads to export growth of branded products and services, increases inbound tourism and investment, stimulates stronger international partnerships, enhances nation building, reverses negative thoughts about environmental and human rights issues, helps diffuse allegations of corruption and cronyism, brings greater access to global markets, leads to an improvement in the ability to win against regional and global business competitors, and the ability of the country to defend its own markets (Mugobo, 2011).

4.2   Measuring nation brands

There are different ways of measuring the nation brand, but the most widely used and the most known is the Anholt-GfK Roper Nation Brands Index. The index is developed by Simon Anholt in 2005 as a tool to measure the strength and quality of each country's brand image. The index also gives insight in the changing positions of countries overtime.

Anholt developed a hexagon on which the following 6 criteria are measured:

Tourism measures the interest of visiting a country and the wealth of tourist attractions and natural resources. The questions asked in this hexagon point are directed to the tourist interest of the respondent. The first focus is on whether or not a person wants to go to the country if he didn't have a budget constraint. The other questions focus on the most important qualities for tourists in a destination (natural beauty, historic buildings and monuments and a vibrant city life/urban attractions).

Fig. 4.1: The nation brand hexagon (Belosso, 2010)

Exports determines the public image of goods and services in a country and in how far customers seek or avoid products or services from a country. The export criteria measures the innovative capacity of a country, as innovation is an important aspect of the country's economic power. Also the change in value that's associated with a product or service that comes from a certain country. The countries that score good often have a high quality export product. The third factor measured is the 'cutting edge' factor, this factor measures the potential for economic success in the future. Countries that score well on the cutting edge factor are perceived to be dynamic and forward thinking places where creativity is stimulated.

Government measures the public opinion on the degree of competence and honesty of the national government with a description of individual beliefs as well as its commitment to global matters (democracy, justice, poverty and environment). There are three factors measured, two questions have a focus on the nation's domestic governance. The second factor has a focus on whether or not a government is providing the basic right of a free society to its citizens. The last factor focuses on whether or not a government is behaving responsibly, protecting the environment and helps to reduce poverty.

Investment and migration stands for the ability of a country to attract residents, workers and students, it shows how people see the economic and social situation. This hexagon axis measures the potential of a country as a place to live, work, study and invest in.

Culture and heritage; this shows the global perception of historical culture and heritage as well as contemporary culture (cinema, art, music, sports and literature). Three factors are addressed here, the first one is sports. Sports is a good factor to measure, often countries that excel at sports in Olympic Games and international tournaments score high on this factor. Sport is a widely recognized factor of a modern culture. The second factor is cultural heritage, it focuses on the richness of the history of a country. Countries with older civilizations score better on this factor. The last factor is contemporary culture, the focus is on mass media and 'high culture'.

Citizenship addresses three concepts, the first is how open and friendly the people of the country are. The second focuses on people, humour and loyalty, and shared interest. Mostly the things we want to see in our best friends. The last factor focuses on whether or not people from a country would be valuable assets as employees. Here the focus is on preconceived notions of intelligence, competence and work ethics (Anholt, 2009) (Belhosso, 2010).

Each axis in the hexagon indicates a certain score, the mean of this score is the NBI (nation brand index). Each criteria has between 3 and 5 rating questions, the ratings are between 1 and 7 (7 being the highest/best and 1 being the lowest/worst). Each hexagon point also has a word association, here the respondent is asked to link the hexagon axis with a word (Anholt, 2009).
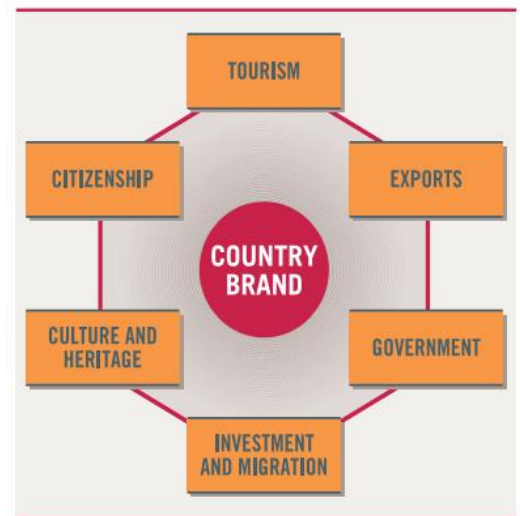
4.3   City branding

The aim of this research was partly to research the image Lisbon has among multinational business consultants. But the city brand differs from the nation brand, a city is different. It's hard to generalize over a whole country because there can be big differences in climate, culture, people, infrastructure in a country. But a city has a more specific identity, people think of cost of living, pollution, sport facilities, landmarks and culture. Therefore Anholt (2006) developed a different hexagon to measure city brands. The citybrand hexagon contains:

- Presence about the city's international status and standing
- Potential considers the economic and educational opportunities that a city has to offer to visitors, businesses and immigrants.
- The place explores peoples perceptions of the physical aspects of the city

Fig. 4.2: The city brand hexagon (GFK Roper ,2012)

- The pulse explores if the city has a vibrant lifestyle, how exciting is the city?
- The people's hexagon researches the people that live in the city, are they warm and friendly or cold and prejucided to outsiders?
- The prerequisites investigates the basic qualities of the city, what would it like to be to live in this city – affordable accomodation, general standards of public amendities (GFK Roper, 2012).

4.4   The hexagon model and Portugal

The hexagon model for nation branding can be applied to Portugal as a country. In this thesis the adapted hexagon-model by Pacheco (2012) will be used. In the original model there was little attention for the macro-economic environment of a country. Especially in times of global financial and economical crisis the macro-economic environment is an important aspect of the nation brand of a country. An example of the importance of the economic aspect of a country as seen in media is

the strong image of almost all the G8 countries (United States, Japan, Germany, United Kingdom, France, Italy, Canada and Russia). Another example of a strong economical image, especially in the '80's, are the Asian tigers (Hong Kong, South-Korea, Taiwan and Singapore). If we look at the image of Portugal in an economical sense it's not a very strong image, Portugal is seen as a part of the PIIGS-countries. The PIIGS consist of Portugal, Ireland, Italy, Greece and Spain. This adapted model implements the economy as a part of the hexagon, it measures the importance of macroeconomic indicators like GDP, deficit, debt, unemployment etc. The culture and heritage is replaced by the economy, because the culture and heritage aspects of the model are placed under tourism. These two different parts of the hexagon are strongly related. Culture and heritage is a factor that is often used to attract tourism and is used by tourist offices. The rest of the hexagon stays the way Anholt meant it and as explained in section 4.2 (Pacheco, 2012).
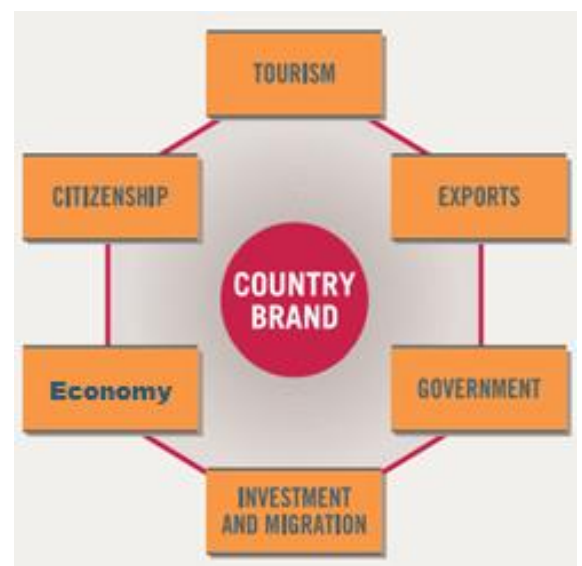

Fig. 4.3: The adapted nation brand hexagon (original Belosso, 2010)

Anholt measures a nation brand by analysing surveys that are filled in by an international panel of random people. In this thesis such an extensive research is unfortunately not possible. Based on (statistical) data the six factors are analysed.

The export part of the hexagon measures the image that a person has of the products produced in that country. Schooler (1965) first addressed this country of origin effect as the effect that consumers product evaluations and purchases are influenced by the country of origin of a product. Kotler et al. (1993) also addresses the relationship between the country of origin and the assumptions people make. The image a country has is helpful for companies in that country, for example Germany is associated with the reliability and robustness of its car brands, Paris – France and Milan – Italy are associated with fashion and Japan and China are associated with innovative technology. A good image helps improve the export of brands, products and services from a country to another country.

Pacheco (2012) indicates that the political instability and macroeconomic policy are not of a negative influence on the image of Portuguese export. In a research that has been done among 372 Portuguese companies, 56% of that companies indicate that they are not harmed by the current political instability in Portugal. Portugal is mainly seen as a country of tourism, the image of an innovator is not linked to Portugal. Some sectors are positively exporting the Portuguese image, the textile sector as well as the Portuguese information technology are considered the best in the world. Foreign companies like Volkswagen also use Portugal as a place to assemble and develop their cars. (Pacheco, 2012).

The touristic sector in Portugal is traditionally strong, in 2011 the total amounts of stays of foreigners in Portuguese hotels was 26 million nights, that's an increase of 10,4% compared to 2010. The amount of passengers handled on the national airports also increased with 6.5% to 14,7 million passengers. The total turnover of the whole sector was €8.1 million, that's an increase of 7.2%. There was a noticeable increase in passengers from Britain and Brazil, most of the British people fly to Faro to visit the Algarve. The Brazilian market is a growth market, there are chances for the touristic sector to attract new customers. The tourist increase is partly due to the decrease in tourist in the Arabic countries because the unstable and dangerous situation in countries like Egypt and Tunisia. Tourism in Portugal is important for the general economy.

According to Kotler tourism is important in four ways; for creating jobs, money spent by tourists that circulates in the economy, it creates tax-income and it promotes exports . Especially these factors are strenghtend by the importance of the tourism sector in Portugal. The total sector represents €25.7 bilion of the total GDP of Portugal, that's 14.7% of the GDP acording to the 2011 report of the World travel & tourism council (IPDT2011)

In a research of the IPDT, 80 people in 32 countries were asked whether the current crises is a threat to Portugal as a touristic location. 57% of the people didn't think the crisis was a problem, but still 43% thinks the crisis is a problem. Portugal needs to use the negative media attention and turn it into positive attention and attract tourists. Positive points in the IPDT research were that people associate Portugal with hospitality, history, cooking, Port, tradition, relaxing, landslides, architecture, nature, fish, soccer, Algarve, castels, sun, lifely and colourful, charming and creative (IPDT, 2011) (Pacheco, 2012).

The investment part of the hexagon aims at analysing the potential of a country as a place to live, work, study and invest in. The investment part of the hexagon is already discussed for Portugal in section 2.5, this will not be discussed again.

Citizenship or the people side of the hexagon is important in the development of an image. This part of the hexagon evaluates the skills, qualifications and inter-personal communication of the Portugese people as part of the projection and image of Portugal. The human factor is becoming more important in the development of an image, the image people have of a country is partly built on the perception these people have. The people aspect is becoming, according to some researchers, so important that they call it a cornerstone in the building of strong brands. An example of this is the additional fifth P(eople) in the expanded marketing mix model by McEwen (2005). In addition to the orginal 4 p's (product, price, promotion and place) 3 more p's are added (people, physical evidence and process). A second example is the people factor in the model by Newlin (2009) where people are seen as one of the 7 accelerators for building a strong brand. In this model people have to be passionate about their work in order to be good ambassadors.

Hospitality is a factor that has a connection with the tourism part of the hexagon, hospitality is a factor that is taken into account by potential tourists for visiting a country. Also the level of education and productivity is important for businesses that would like to invest in a country. Having a highly educated workforce is critical for a stable economical development. The higher the general level of education the better the workforce is able to adapt to new technologies and increase productivity. The education is also an important pillar in the Cohesion report of the OECD (2010) *,, To become more productive, the EU needs more innovation (in a broad sense) and more investment in education, training and life-long learning. Europe 2020 emphasises the need for more innovation"*. Education in Portugal is a growing market in the last decade, but it is still under the EU-average. Looking to the statistics Portugal is in the low performers in the euro zone, high rates of early school leavers and low percentage of highly educated people aged 30-34. The most recent PISA report (2006) showed that Portugal has improved its position in the ranking but that the score is still under the OECD average (Pacheco, 2012), McEwen (2005), Newlin (2009), OECD (2010), GIP (2010).

The unemployment rate in the first quarter of 2012 was according to the Instituto National de Estatística 14.9%.

The people part of the hexagon paradoxically suffers and gains from this rate. The negative side is the brain drain, the emigration of high skilled labour. The positive side of that is that the Portuguese human capital in foreign countries is improving the image of Portugal. The traditional image of a low skilled country is tackled, especially in Germany there is a need for Portuguese doctors and engineers. Also in Brazil, Portuguese engineers are more than welcome, they are highly recognised for their skills. The Portuguese education system is on its way back, a new generation of high educated young professionals is on its way. But still for the time being the level is still below average and has a low productivity. The people axis in the hexagon is important, especially related to the tourism axis. A country that has a strong tourism axis needs a strong people axis. The tourism sector requires people with great inter-personal skills. The Brit Barry Hatton wrote a book over the Portuguese people called: ,,The Portuguese'', in this book he describes Portuguese people as courageous, flexible and resilient. He describes the Portuguese as easy to get along with and amiable (Pacheco, 2012).

The added economic sector is especially in these times increasingly important. In the original Anholt-Gfk-Roper nation brand index the economic side of a country isn't part of the hexagon. Investments, tourism and export are all related to the economy, but due to the impact of the whole economy this variable is analysed on its own. Portugal is historically known as a mighty country in the Age of discoverers. When Portugal entered the European Union they passed all the criteria without doubt, Portugal is known as a good student within Europe. The last 50 years Portugal economically preformed well, the GDP grew faster than the European average and the productivity also grew. But the last 10,5 years were the worst years for Portugal. Nowadays Portugal has an economy on its knees, a huge public debt, an external debt that lasts due to growing impoverishment, historically high unemployment rates, an useless justice system due to its slowness, schools without present or future, and corruption due to lack of political power and emigration.

This results in negative records, the worst economical growth since the first world war, the highest external debt since 120 years and the largest public debt since 160 years, high emigration, highest unemployment since 80 years, low birth-rate, high deficit, productivity and potential GDP growth is positive but only slightly higher than 0% and a low savings rate. In the Portuguese case, the government had to ask for outside help. International media picked this up and suddenly Portugal is not that small country close to Spain anymore but that incompetent country next to Spain.

The last part of the hexagon is the government, the political stability in a country is often used to give the country a rating. Large rating offices like Standards & Poor rate a country by its risk. The rating used is from CMA vision, a well-known analyser of financial situation in countries.

Top 10 Most Risky Sovereign Credits

Position Q1	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	Cyprus	63.7%	CMA_cc+	1159.1	New Entry
2	Portugal	60.5%	CMA_ccc-	1135.8	2 (No change)
3	Pakistan	46.4%	CMA_ccc+	829.6	3 (No Change)
4	Argentina	45.9%	CMA_ccc+	812.1	5 (Down 1)
5	Ukraine	45.6%	CMA_ccc+	855.2	7 (Down 2)
6	Venezuela	41.5%	CMA_ccc+	715.6	4 (Up 2)
7	Ireland	39.5%	CMA_b-	579.2	6 (Up 1)
8	Egypt	32.8%	CMA_b	552.0	8 (No change)
9	Hungary	32.2%	CMA_b	544.3	9 (No change)
10	Spain	32.1%	CMA_b	430.9	New Entry

Note: CPD is a function of the recovery level which varies according the several factors and distance to default, e.g. emerging markets assume 25%. Note that CMA historical data for Cyprus starts on 16th March 2012.

Fig. 4.4: Top 10 Most risky sovereign credits (CMA, 2012)

The sovereign credit rating is the credit rating of a sovereign entity (like a nation), the sovereign credit rating indicates the risk level of the investment climate of a country. This rating also takes political risk into account. Portugal is placed second in this rating, CPD quantifies the probability of a country being unable to honour its debt obligations over a given time period. For sovereign CDS, this typically includes the probability of a restructuring of debt.
Greece isn't in this top 10 anymore (like the last quarter of 2011) because Greece managed to restructure its debt, however the sovereign remains risky (CMA, 2012) (Pacheco, 2012).
The fact that Portugal relies on international funding indicates that it lost control over the macro-economic indicators. The fact that the rest of the European Union supports Portugal confirms that Portugal needed that help.

The government axis in the hexagon is connected to the economy, due to bad economical management and macro-economic factors that went out of control a lot of political governments and leaders fell. Some examples; Papandreou and Draghi in Greece, Berlusconi pressed out by the crisis, Zapatero in Spain and Jose Socrates in Portugal, but also in perceived stable countries like the Netherlands governmental problems occurred. Poor economic performance creates a poor external perception, the governments are held responsible for the poor performance which strengthens the external perception of a country. The Economist Intelligence Unit (2011) publishes every year a democracy index, this index provides a snapshot of the state of the democracy worldwide. The index is based on five categories namely: electoral process and pluralism, civil liberties, the functioning of government, political participation and political culture. Portugal dropped one place in 2011. They dropped from the 26th place to the 27th place, Portugal was categorized in 2010 as a full democracy.

In 2011 Portugal was categorized as a flawed democracy, the main reason for this drop is the erosion in sovereignty and democratic accountability associated with the effects of and responses to the crisis in the Euro zone. The performance of a nations government can also be measured by the social indicators of a country. The social indicators are measured in the UN's Human Development Index (2011). In 2011 Portugal was in the 41st place, that's a drop of one place compared to 2010. According to the UN report Portugal is the country in Europe with the most inequalities (UN, 2011) (Economist Intelligence Unit, 2011) (Pacheco, 2012).

As expected the external image of Portugal is not that good. Due to the crisis and direct and indirect effects on the different parts of the hexagon the image is deteriorated. The continuous news about the countries that are under bailout helps to form a negative image of Portugal as part of the PIIGS. The government of Portugal is held responsible for bad economic performance. Bad economic performance has a relationship with governance, change in governance or the sacking of a government is often due to economical difficulties. The country is experiencing a period of uncertainty, incoming investments are cancelled and the capital that is in the country partly leaves. Not only investments leave but also high educated people within Portugal emigrate to countries with better job opportunities. The search for new markets forced the export sector in Portugal to externalize and sell their products outside Portugal at a lower price. The export sector rose because they had to look for new opportunities and be more efficient. The tourism sector traditionally is strong within Portugal, maybe because of Portugal being in the news (negatively) the tourism sector flourished. Or maybe the Arab spring made the middle-east and Africa too unsafe to travel and Portugal attracts those tourists. The image of Portugal isn't the one it aims at but the position the country is in offers new opportunities.

4.5   Conclusion
This chapter nation branding is introduced as an important phenomenon in the current financial situation. Countries are competing over FDI and are building on a good image for attracting FDI. The image of a country can be analysed with the nation branding hexagon, this hexagon is developed by Simon Anholt. Anholt also developed a city brand hexagon, this hexagon measures the image of cities. The nation branding hexagon studies different aspects of the nation, in this thesis the original hexagon is slightly adapted. The economic aspect is added, the economic situation is an important factor for a country. The macro-economic situation is the base for all the other aspects. Portugal as a country is analysed with the branding hexagon, the brand Portugal has some strong points but is suffering from the financial situation and the negative media attention that comes with that. There are only two aspects in the hexagon that are performing as they should, the export and the tourism axis. Export is growing, the export sector is looking for new opportunities as the national market is not supporting enough. The export sector is forced to produce more efficient and be more competitive. The other sector that is the tourism sector, this is traditionally a strong sector in Portugal. Increasing flights to Portuguese airports and more hotels with more rooms booked, the situation in the Arabian countries seems to help this trend. People are looking for more safe, attractive locations. The people axis has positive and negative sides, the image of the inter-personal skills of the Portuguese people is good. Portuguese people are seen as open and friendly people, this is necessary in order to maintain the positive image on the tourism axis. The negative side is the braindrain, high educated people leave Portugal for countries where the salary and work environment is better. The positive side of this emigration wave is that these people represent Portugal in a positive way in a foreign country. The negative axis are the government, economy and the investment axis. These axis are all related, bad governance and a difficult economic and financial situation influence the investments and basic economic indicators.

5.   The Lisbon-image

The final chapter of this thesis presents and analyses the results of the survey held among 25 multinational consultants from 13 different countries worldwide. In the previous chapter Portugal was analysed with the nation brand model and by existing statistics. In this chapter the image of Portugal and Lisbon is analysed from the viewpoint of consultants. Also the identity of Lisbon is analysed briefly by studying two city monitors.

5.1   Target groups and survey

The target group of this survey are (multinational) consultants. The target group of consultants is a broad but hard to reach target group. The survey is built upon the survey used in the Anholt-Gfk Roper Nation Brand index and the City Brand index. The methodology and survey questions are published in The Anholt-GfK Roper Nation Brands IndexSM Methodology and Quality Control for the 2009 NBI Study (Anholt, 2009). The survey consist of two sections, one that asks questions about the Portuguese brand as a whole and one that ask about the specific image Lisbon has. The questions are inspired by the nation and city brand surveys. The image of a city as an investment location isn't only determined by the image of the city, it's also determined by the image of the country the city is in. The combined nation and city brand hexagons result in the following hexagon to measure the image of Lisbon. The influences from the nation also influence Lisbon as a city, the city on the other hand has own characteristics that attract FDI. This combination is visually charted in fig. 5.1. Here the nation brand hexagon is combined with the city brand hexagon, the city brand hexagon is placed in the centre. This way the influences of the country are included in the model, the city's own characteristics are in the centre of the model. For example the people axis in the outer ring of the model represents the image respondents have of the Portuguese people in Portugal and the people axis in the Lisbon circle represents the image respondents have of the people in the city of Lisbon .
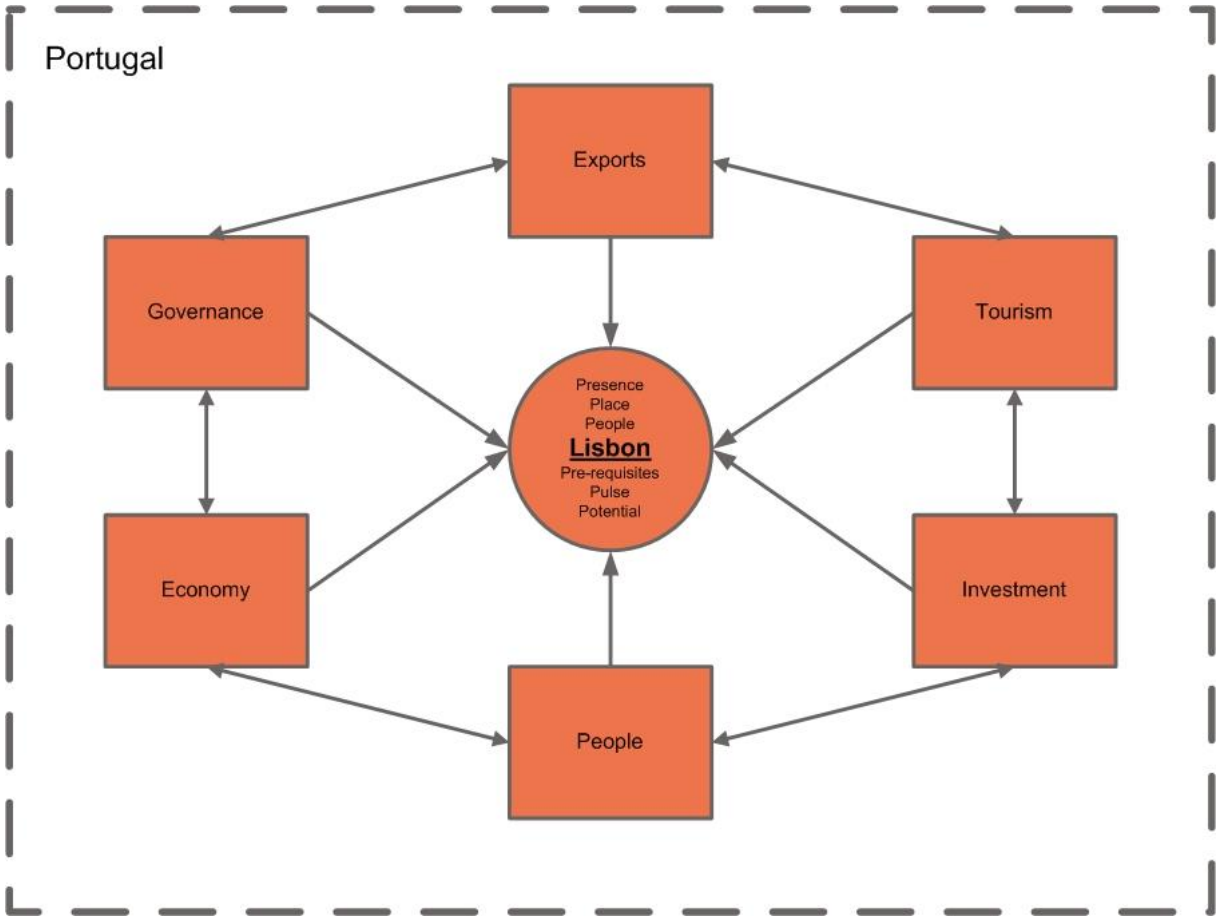

Fig. 5.1: The Lisbon Hexagon

The 25 consultants approached are divided over 13 countries worldwide, the respondents are working within a consulting agency either as consultant or in a management role. The amount of surveys is insufficient to make a representative reflection of the target group. Nevertheless these results are used in trying to recognise the underlying stereotypes and lines. The geographical dispersion of the consultants is visually mapped in the fig. 5.2 and fig 5.3.
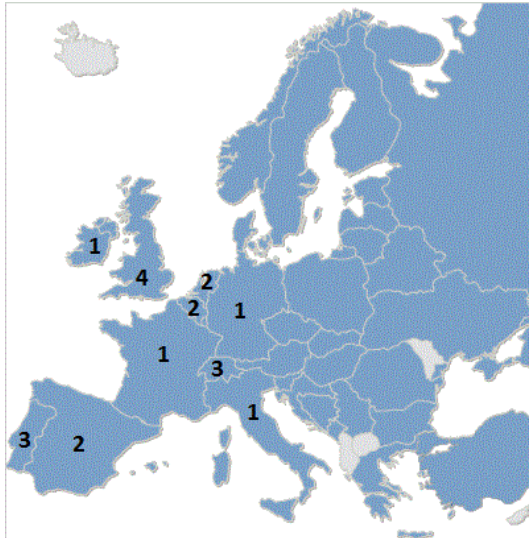

Fig. 5.2: Geographical dispersion of respondents: Europe

Fig. 5.3: Geographical dispersion of respondents: Worldwide

The respondents are clustered in West-Europe, with the highest response rate in England. In order to keep the results as objective as possible the results are analysed with and without the Portuguese respondents. If big differences occur in the results this will be presented in the thesis.

5.2   The Portugal image according to consultants
In the survey the respondents answered different questions, the survey consist of 41 questions that were answered on a four point scale. This answers are on a four point scale because I expect the respondent to have a opinion on the topics asked, as the questions asked are in their daily work routine. Either a respondent totally agrees, agrees, disagrees or totally disagrees. The graphs represent the questions asked in the survey. First the questions asked are shown, the number of the question corresponds with the number of the graph. For example Statement 1 correspondents with the bar Statement 1 in the graph.

Export axis of the nation branding hexagon:
The image of the export in Portugal is measured by three statements. These three statements aim to measure the innovative capacity, the quality of the export product and the potential of future economic activities. In the following graph the Portuguese consultants are not in the results, in total 3 consultants are banned from the results. The following statements are presented:

Statement 1   Portugal contributes to innovation in science and technology
Statement 2   Portugal is a creative place with cutting-edge ideas and new ways of thinking
Statement 3   If you notice a product is made in Portugal, would you feel better about buying products
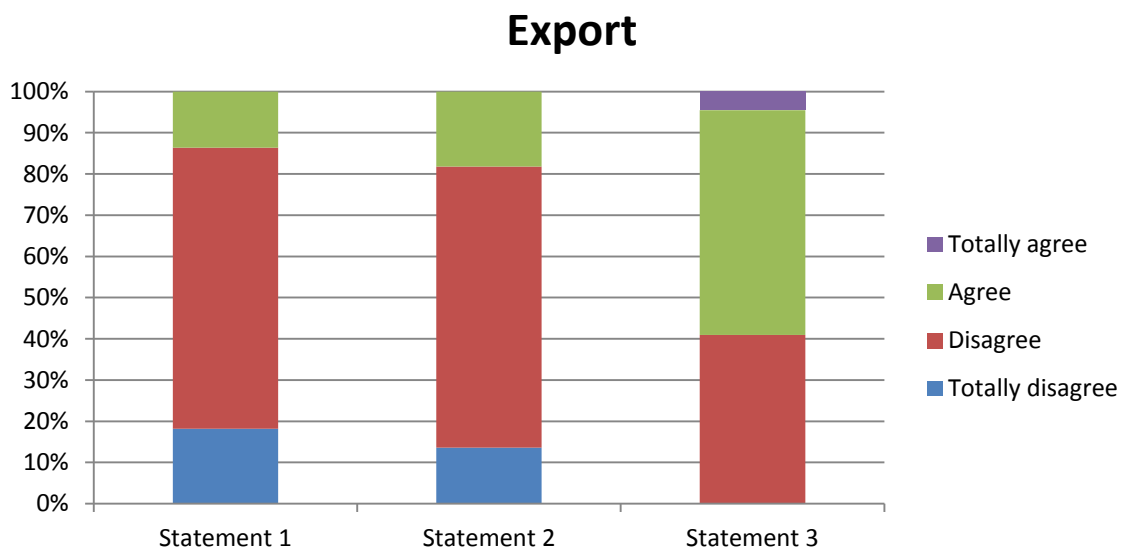

Fig. 5.4: Export axis of the hexagon (N=22)

About the first two statements the consultants are not the positive, 68,2% of the respondents disagrees with the statement that Portugal contributes to innovation in science and technology. This image found correspondents with the image found by the World Economic Forum competitive report (2011). Also Portugal isn't seen as a creative place with competitive ideas 68,2,% of the foreign consultants disagrees with this statements, 13,6% totally disagrees with this statement. Clearly Portugal hasn't got the image of an innovator within Europe. As said in section 4.4 the image of the Portuguese export product is mainly the touristic sector. The first two statements have similar results in the theory found and in the survey. The third statement evaluates the quality of the export product, the consultants are divided. The bigger part thinks Portugal has good quality export products, so the work that the people in Portugal do is of good quality. The smaller 40,9% disagrees with the statement, this can be due to bad experience or no experience at all. Especially consultants from the USA, the Netherlands and Switzerland don't agree with this statement.

Government axis of the nation branding hexagon:
The government sector is measured by the following statements.

Statement 1   Portugal is competently and honestly governed
Statement 2   Portugal respects the rights of its citizens and treats them with fairness
Statement 3   Portugal behaves responsibly in the areas of international peace and security
Statement 4   Portugal behaves responsibly to protect the environment
Statement 5   Portugal behaves responsibly to help reduce world poverty
Statement 6   Portugal has a stable government situation
Statement 7   Portugal has a positive investment climate for foreign investors (tax
               climate, business incentives etc.)
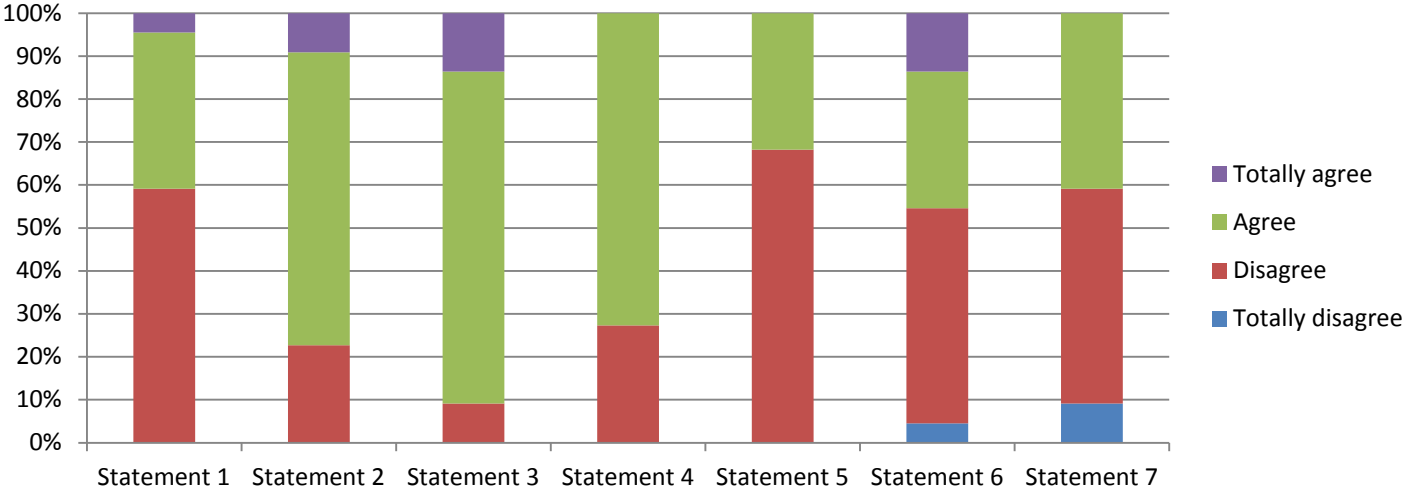
Government

Fig. 5.5: Government axis of the hexagon (N=22)

As seen in the previous chapter, the government axis measures the public opinion on the degree of competence and honesty of the national government. The first two questions are aimed at the national governance, Portugal respects the rights of its citizens but it's not completely competent and honestly governed according to the respondents. Interviews with different Portuguese consultants confirmed this image. Several people indicated some traces of corruption and incompetent governance. An example of incompetent government is behaviour towards public spending, the government easily spends money on projects that are not necessary or have no value added (Pacheco, 2012). The image of the consultants also correspondents with the theoretical image found in section 4.4, the fact that Portugal relies on international funding may indicate that it lost control over the macro-economic indicators. The international image the Portuguese government has is pretty good. Only in fighting poverty Portugal has a negative image, this is not surprising due to the current situation Portugal is in. In terms of investment incentives and government situation Portugal also has a negative image according to foreign consultants. This image can be the result of a lack of knowledge of the consultants.

In the next figure a small sample from the total group of respondents is evaluated. The graph represents the respondents who indicated that their awareness of Portugal was four or higher on a five point scale. This in order to get a better understanding of the image of the Portuguese government among consultants with a high awareness of Portugal. The respondents that indicate that their awareness is four or five on a five points scale supposedly have more knowledge of the Portuguese government. Awareness indicates the consciousness a person has with the current situation in a country, respondents with a high awareness are familiar with the current situation in Portugal and know more about the country than people with low awareness. People who indicated that their awareness was 4 or 5 have a good image of the current situation in Portugal and have a higher standard of general knowledge of the country.
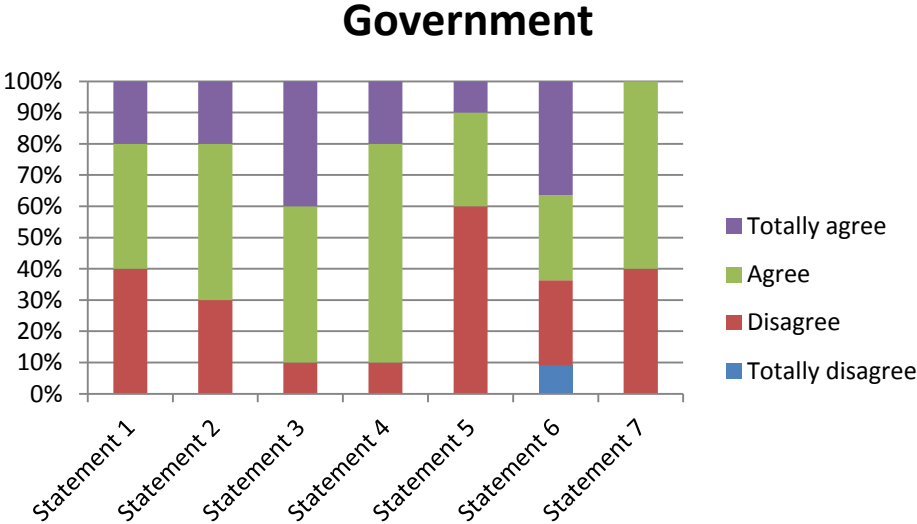
Government

Fig. 5.6: Government axis of the hexagon; selected awareness Portugal =>4 (N=10)

The respondents with a higher awareness of Portugal are supposed to have more knowledge of the current political situation in Portugal. The respondents with a high awareness are more positive about the investment possibilities in Portugal and the way Portugal is controlled. The respondents with a higher awareness are living and working in Portugal and are more informed about the investment possibilities in Portugal. This possibly means that consultants outside of Portugal don't have a good image because of a lack of knowledge. Especially the Portuguese consultants are not that negative about the government situation in the country.

In the survey there was also a word question, the consultants were asked to give the word that most accurately describes the Portuguese government. The following wordcloud can be formed from the words given. The words are randomly placed, at a random size and form. Some words may occur more than one time, larger or more prominent, this does not indicate that this word is mentioned more often.

Fig. 5.7: Wordcloud Portuguese government (N=25)

The consultants that participated in the survey have a slightly negative image of the Portuguese government. But some consultants address the positive points of the government. They are hard-working to help the country in these times of crisis. This is confirmed by the Troika commission (EU, IMF and ECB), Portugal is following the plan and is sticking to the appointments.
So far all the Troika checkups are approved and are positive. In the left of the word cloud the word austerity appears, this describes the political viewpoint the government is following through the Troika regulation. Austerity policy refers to a policy aimed at deficit cutting by lowering government spending by cutting on public services and the benefits. Tax increase is also a well known measure in the Austerity policy. Examples in the Portuguese system are the cutting on the vacation and Christmas bonus of public workers and the increase in VAT in Portugal. Other words are crisis related; struggling, pressurised, confused. But also the structural governmental problems are addressed. The word bureaucracy appears in two forms; bureaucracy and bureaucratic. The inefficient system that is badly managed was discussed in the previous chapter (Portugal daily review, 2012).

Tourism axis of the nation branding hexagon

Tourism is historically an important factor in Portugal, a lot of the Portuguese national income depends on the tourism sector.

Statement 1   Portugal is an interesting and exciting place for contemporary culture such as music, films, art and literature
Statement 2   I would like to visit Portugal if money was no object
Statement 3   Portugal is rich in historic buildings and monuments
Statement 4   The country is rich in natural beauty
Statement 5   Portugal excels at sports
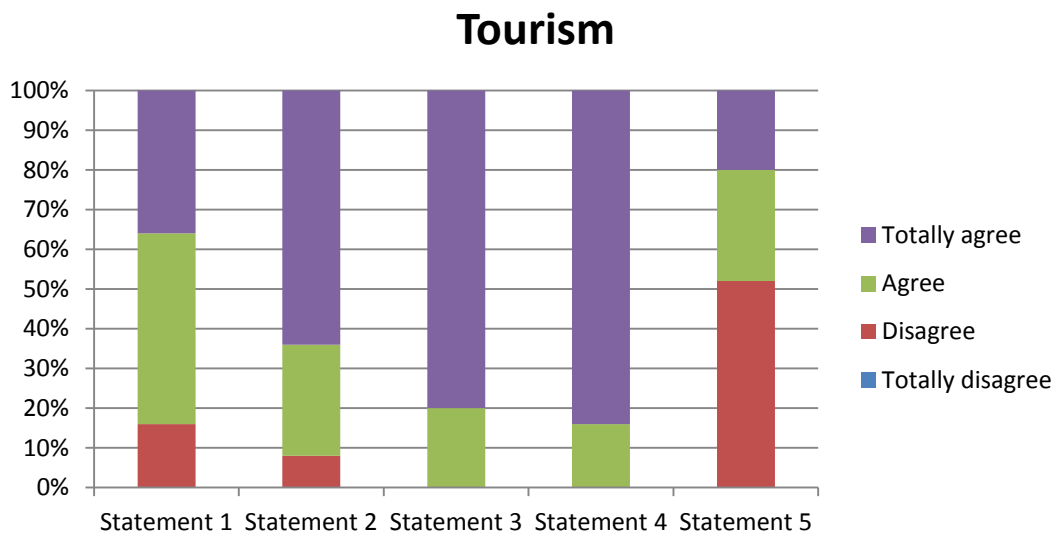
Tourism

Fig. 5.8: Tourism axis of the hexagon (N=25)

Tourism is a traditional strong and healthy sector in Portugal, the strong image has been built over the years and is shown by the graphs. People recognize the culture, lifestyle and weather and the touristic image of the country. This sector scored good in the previous chapter as well as in the survey analysis. A remarkable fact in the survey results is that the consultants have lower score on statements 1 and 4, these statements measure the richness of the contemporary culture. Also the fact if a country excels at sports is a good criterion to measure the contemporary culture in a country.

People axis of the nation branding hexagon

The same thing is true for the people axis of the hexagon, in the previous chapter the results were positive.

Statement 1   If I visited Portugal, the people would make me feel welcome
Statement 2   I would like to have a person from Portugal as a close friend
Statement 3   A well-qualified person from Portugal would be a valuable employee

Fig. 5.9: People axis of the hexagon (N=25)

In the different interviews the people factor (citizenship factor) is also a well-known positive factor of Portugal. The value of a Portuguese employee is also recognized. With 44% of the consultants totally agreeing this confirms the value of a Portuguese employee in Portugal but also the image of the Portuguese employee in a foreign country.

Economy axis of the nation branding hexagon:

Statement 1   Portugal has a stable macro-economic environment
Statement 2   Portugal has an extensive and efficient infrastructure
Statement 3   Portugal has a good public health
Statement 4   Portugal has a flexible labour market
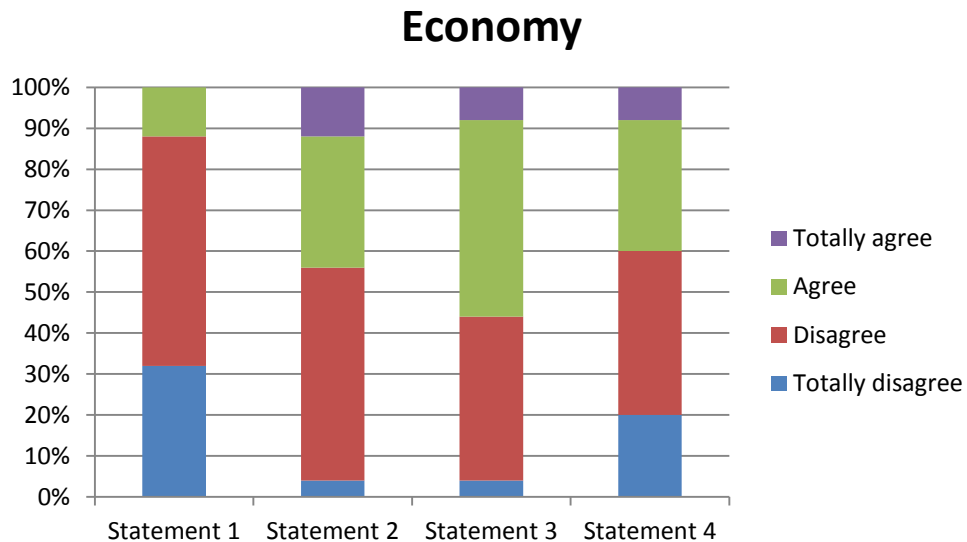
Economy

Fig. 5.10: Economy axis of the hexagon (N=25)

The economy consists of a big number of variables, only four questions are not enough to measure the image of the economy in detail. The macro-economic environment can be divided in a number of questions, the general image of the macro-economic environment (statement 1) is unstable. This is a logical consequence of the crisis and the image of Portugal that the media is building. The other factors are almost 50/50, if we look at respondents with a good awareness of Portugal it shows that even more people agree with the unstable macro-economic environment. If we take a look at the graph with the respondents with an awareness of 4 or higher 90% believes the macro-economic situation is unstable. The respondents with high awareness have a more positive image of the infrastructure, public health and the labour market.

Investment axis of the nation branding hexagon:

The investment and immigration axis of the hexagon is tested with six statements.

Statement 1   Portugal has an attractive tax climate for foreign investors
Statement 2   Portugal offers interesting business incentives for foreign investors
Statement 3   Portugal is a good place to study for educational qualifications
Statement 4   Portugal has a good quality of life
Statement 5   I'm willing to live and work for a substantial period in Portugal
Statement 6   Portugal has businesses I'd like to invest in
Statement 7   Portugal offers equal opportunities for everyone

Investment
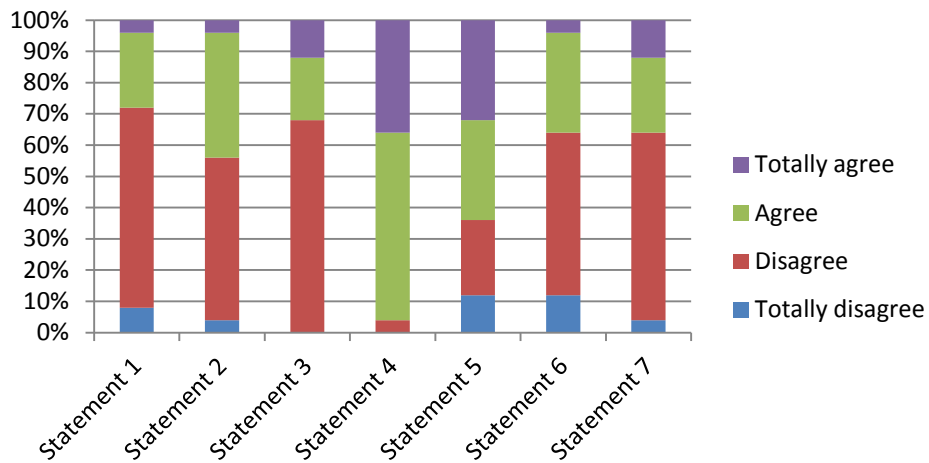
Fig. 5.11: Investment axis of the hexagon (N=25)

Investment (Awareness 4+)
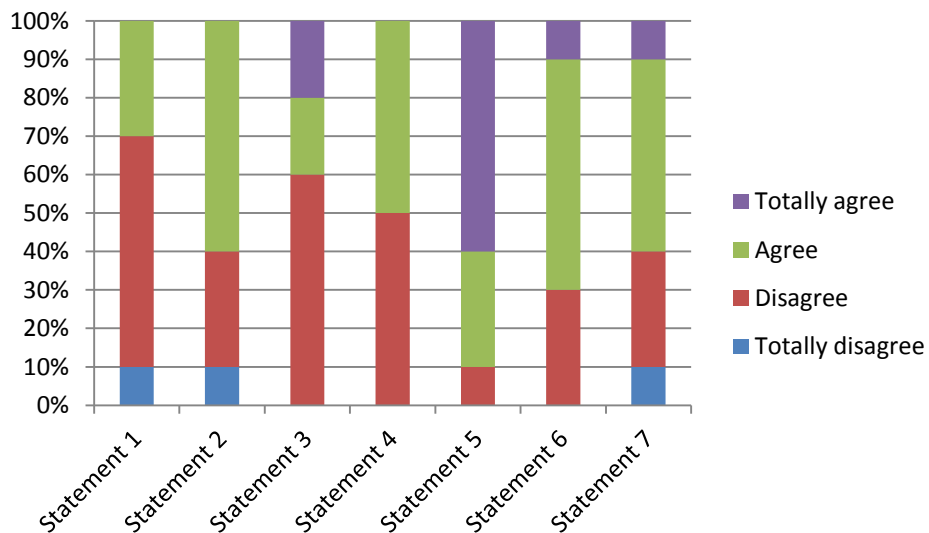
Fig. 5.12: Investment axis of the hexagon; awareness 4+ (N=10)

Figure 5.11 shows the survey results on the investment axis, figure 5.12 shows the results on the investment axis with a filter. In figure 5.12 only respondents with an awareness of 4 of 5 on a 5 point scale are included. The willingness to live and work in Portugal is remarkable, less striking is the positive image of the quality of life, the image of the quality of life was also in the theoretical part already acknowledged. Portugal is an interesting country to live in, it has a good environment but it does not offers opportunities to invest in according to the respondents. If we look at the people with an awareness of 4 or higher we see a more positive image of the opportunities. The respondents still think the tax climate is not attractive, but there are opportunities and companies to invest in. Diogo Ivo Cruz, consultant at InvestLisboa, mentioned in an interview that the opportunities Portugal (Lisbon) offers are not known. Companies that are already in Portugal stay more often and make more investments.

5.3   The Lisbon image according to consultants

The image of Lisbon is different from the image of Portugal. As explained in section 4.3 a city brand is more specific than a country brand. The statements are aimed at the different axis of the city brand hexagon.

Statement 1   Lisbon has a well-known international status
Statement 2   Lisbon has a good quality of life
Statement 3   Lisbon is a good place to get higher education qualifications
Statement 4   Lisbon has a vibrant city life and urban attractions
Statement 5   If I visited Lisbon, the people would make me feel welcome
Statement 6   I would feel safe in Lisbon
Statement 7   Lisbon has a good standard of public amenities (schools, hospitals, public transport etc.)
Statement 8   Lisbon contributes to innovation in science and technology
Statement 9   Lisbon is a creative place with cutting-edge ideas and new ways of thinking
Statement 10   Lisbon has business I'd like to invest in
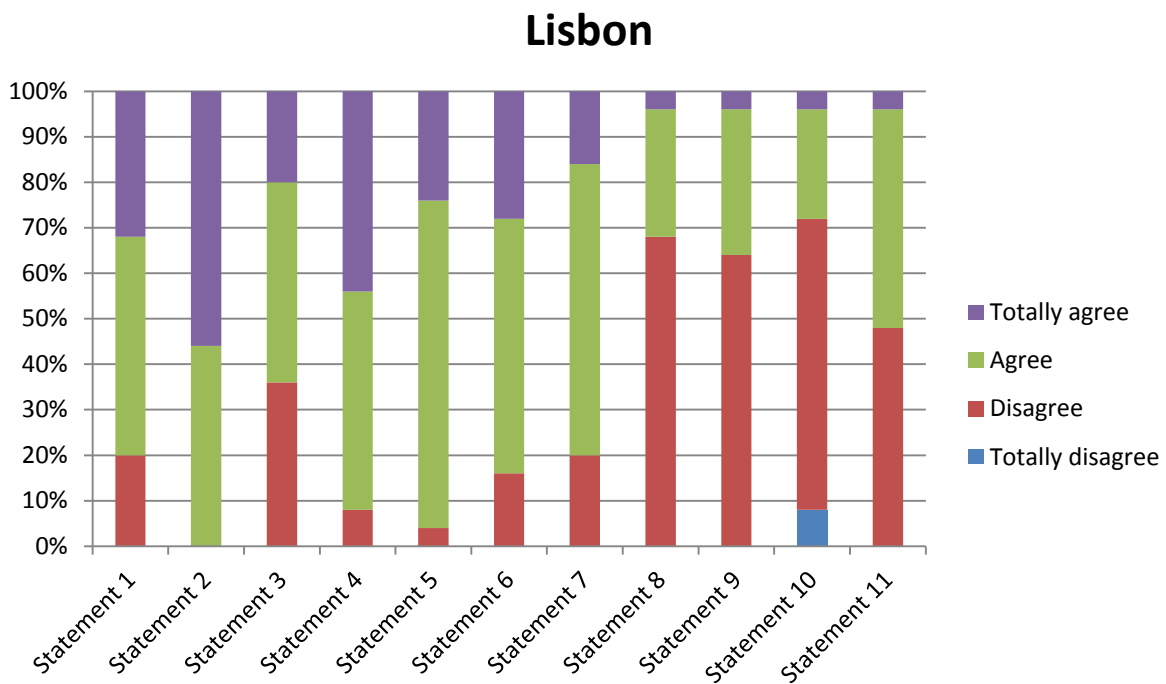Statement 11   Lisbon offers equal opportunities for everyone

Lisbon

Fig. 5.13: The Lisbon survey image (N=25)

In comparison to Portugal as a whole the image of Lisbon is more positive. The statements aimed at the presence (statement 1), place (statement 2), pulse (statement 4), people (statement 5 and 6), prerequisites (statement 7) are positive, these comparable points were also positive for Portugal as a whole.

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The city has a good quality of life where employees are willing to work in, Lisbon has got large group of high educated people with good education, the city is welcoming and is perceived a safe city and also the public amenities are no problem. Just as in the Portugal hexagon the image problem has everything to do with the amount of investment opportunities and the perception of Lisbon as an investment location. In the city brand hexagon this is measured in the potential part of the city brand hexagon, questions 3, 8, 9, 10 and 11 are questions that are directly related to the potential part of the hexagon. All these statements have a negative answer from the consultants.

The word association made for Lisbon as a city was also aimed at the potential of the city, the statement made was:

- What is the word that most accurate describes economic and business conditions in Lisbon?

Fig. 5.14: Word cloud Lisbon image

This wordcloud is formed in shape of a rooster, the rooster is the symbol of the city of Lisbon. The placement, size or number is not relevant to the importance of the words.

The wordcloud is positive as well as negative about investments in Lisbon and Portugal, on the one hand we see words like dynamic, undervalued, favourable, adapted, creativity and challenging but on the other hand we see a more negative image with words like non-competitive, uncertain, hazardous, difficult. About 12 of the 25 words have a positive image, then there are the words that are not that specific on the city like the austerity policy. The image of Lisbon until now isn't straightforward, there is a balance in positive and negative images of the city.

A visual representation of the survey results shows the following image hexagon. The different axis for the survey are shown in different colours. A red colour means a negative image, an orange colour means a neutral image; there are some negative aspect but also some positive developments in that area, the green colour means a positive image.
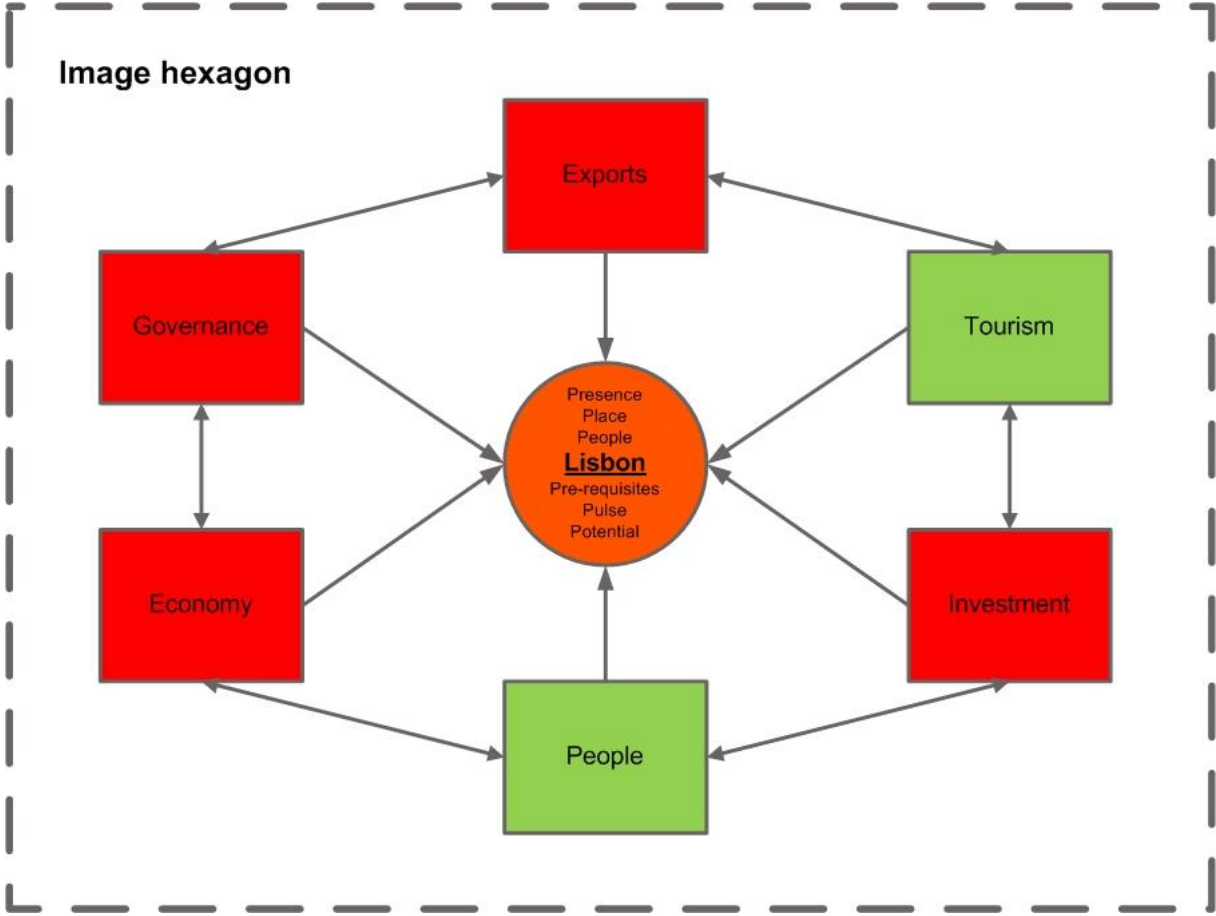
Fig. 5.15: Image hexagon

As seen in the graphs the governance, economy, investment and export axis are perceived negative by the respondents. The export axis is perceived negative because of the negative image of the innovative capacity of Portugal. The actual quality of the export product is perceived good by almost half of the respondents. The other half of the respondents has a negative image of the product quality, for that reason a red axis. The governance axis is also perceived negative, an incompetent and a dishonest government is the reason for this image. The government is also not supporting a good investment climate for foreign companies, for instance the tax climate has a negative image. The economy axis also has a negative image, the macro-economic environment is perceived very unstable. The labour market and the infrastructure also have a slightly negative image. The public health has a good image. The investment hexagon also has a negative image, Portugal and Lisbon is not perceived as a good place to invest in.

The negative image of these axis is even more reinforced by the current crisis in Portugal. The people and the tourism axis have a positive image. The tourism is traditionally strong in Portugal and developed a positive image among the respondents. The people axis is also perceived positive, the openness and kindness of the Portuguese people is recognised. But also the fact that a well-qualified employee from Portugal is a valuable asset.

This leads to the orange Lisbon axis in the middle, the image of Lisbon shows similarities with the general Portuguese image. The economy, investment opportunities and creativeness are not recognised, but the people and quality of life have a positive image among the respondents.

The image of Lisbon the foreign consultants have is different from the image the consultants in Portugal have. In general the image from the consultants in Portugal is more positive to investment opportunities and the ease of access. The consultants within Portugal for example mention the access to cheap labour and the possibility of Portugal and Lisbon to be the gateway to Brazil and African countries from Europe. InvestLisboa and Diogo Ivo Cruz (consultant at InvestLisboa) indicates the following strong points of Lisbon:

- Ease of access
- Innovation and human resources
- European decision centre
- Hospitality and safety
- Quality of life
- Opportunities

The ease of access is characterised by the modern transport and infrastructure networks in and around Lisbon. With the ports of Setúbal, Lisbon and Sines close by the transport by ship isn't a problem. The airport is also only a 10 minutes drive out of the city centre, and with a new metro line under construction the access to the airport is becoming even better. Human resources are one of the most relevant factors of the success of a business. Qualification, flexibility, creativity, multilingual ability and competiveness are some of the differentiating values of the Portuguese human capital. Lisbon houses the largest university and research centres in the country. The highly competitive salaries of the qualified human capital attract mainly shared service and R&D centres. Lisbon as decision centre is not only important in Portugal but also in Europe. The Lisbon-region is the main decision centre for business with 3 million inhabitants and generating 40% of the national GDP. Besides that Lisbon is also home to the head office of the European Maritime Safety Agency. The hospitality and safety of Lisbon has always been recognized by foreigners who work and live in Lisbon. The UN considers Lisbon to be the safest capital in Europe. This safety in combination with the good quality of life in Lisbon makes Lisbon a good place to live and work. Lisbon is the European capital with the most hours of sunshine, only 15 minutes away from the beach and has a European surfing reserve within 30 minutes of the city centre. But also the opportunities in Lisbon were mentioned, for example the bilateral agreements with Brazil that offers chances for foreign companies, the tourist sector in Portugal and Lisbon is still very strong. Followed by the touristic sector there are some other strong upcoming sectors in Portugal namely: the economy of the sea and all the factors involved with that, the ICT sector and the energy sector. More special Lisbon is especially strong in shared service ICT, shared service takes a part of a company's service and transfers it to a country with a cheap workforce. Lisbon is in the same time zone as the British companies and has a cheap multilingual workforce. The economy of the sea is a sector that has involves everything what has to do with the sea for example fishing (InvestLisboa, 2011) (Ernst and Young, 2011).

The identity of the city is different from the image, the identity is more aimed at facts and not perceptions. It's difficult to measure an identity of a city, proper research is necessary. In this thesis I'm going to make a quick scan of the identity with city monitors. Different companies perform city monitors and rank cities across Europe

Hamburg	15	15	◄►	0.11	0.11	14
Manchester	16	12	▼	0.10	0.12	13
Lisbon	17	17	◄►	0.09	0.10	16
Birmingham	18	18	◄►	0.09	0.09	-
Lyon	19	19	◄►	0.08	0.09	18

Fig. 5.16: Best cities to locate business in. (Cushman and Wakefield, 2011)

on different subjects. Two city monitors used are the FDI Intelligence – European cities and regions of the future (2011-2012) and the Economic intelligence unit – Best cities and rankings report (2012). When looking to the different methodologies used in the city monitors, the Economic intelligence unit and the FDI intelligence city monitor both are using statistical data. The Economic intelligence unit uses a self-made rating system based on several primary data sources. The FDI Intelligence unit monitor uses secondary data like life expectancy, GDP, average salary etc.

In the Economic intelligence report cities are judged on an extended version of the Economic intelligence unit liveability index which monitors stability, healthcare, culture and environment, education and infrastructure. In the best cities and ranking report a spatial factor is built in, this new factor seeks to account for spatial aspects of city life like; urban form (sprawl, green space), the geographical situation of the city (natural assets, isolation and connectivity), cultural assets and pollution. Lisbon scores a 25th place out of 70 cities, Lisbon has rather average scores, Lisbon scores good on the greenness of the city, the cultural assets the connectivity and the low pollution in the city. The city scores average on sprawl and natural assets and low on isolation. The most interesting factor here is the good connectivity, the connectivity is based upon the number of other cities that can be reached and on the average number of daily flights from the Lisbon airport. This score correspondents with the ease of access that was mentioned by InvestLisboa (Economic Intelligence Unit, 2012).

The FDI Intelligence report focuses on European cities and regions, in the overall part of the report Lisbon isn't in the top 10 or top 25. Barcelona is the only city from the Iberian peninsula that made it in the top 25. Lisbon is in the top 3 overall performance rate of cities in the southern part of Europe. Other cities in the top 10 were for example Istanbul, Valencia, Murcia, Madrid, Barcelona, Milan, Rome, Bilbao and Ljublana. Lisbon did enter the top 10 among the small cities FDI strategy (250.000 – 500.00 inhabitants) in Europe in 9th place.
The ratings on FDI strategy take account of the number of staff dedicated to promoting inward investment, information on high growth sectors, incentives available to stimulate investment and the availability of world-class property sites.

Ernst and Young (2011) did a study on the attractiveness and also studied the future, what sectors should be points of attention in the short term and which factors must be looked after in the long term. There was a survey held among 207 professionals, the question was: How should Portugal stimulate growth over the next two years. The results for the short run were clear: Portugal must support SME's, reduce the tax burden and support innovation and high-tech industries in the short term. The problem is that the government is under a Troika as mentioned, so the measures proposed are hard to implement because the government needs permission from the Troika. So in the short term Portugal can't really do a lot about the situation the country is in. But according to the Ernst & Young study there are measures that should be taken in the long run in order to make Portugal competitive. According to the respondents in the research the most popular measure is the softening of the tax legislations, the second the renewing of the education and training system, third the promotion of innovation and as fourth the renewing of the justice system. The tax legislation and the renewing of the justice system were also found in the theoretical analysis of Portugal, the improving of the efficiency of the public services was also in the list.

A real identity for Lisbon can't be formed based on the city reports and studies, but the city monitors show that Lisbon is a rather average city in Europe based on performance. It has some strong points like the communication infrastructure and the city itself. Lisbon is a green city with cultural heritage which is important for the quality of life for foreign employees. These strong points found in the reports and studies differ from the points advertised by the consultants from InvestLisboa.

The two city monitors are insufficient information to come to strong conclusions concerning the identity of the city of Lisbon. But a conclusion about the difference between the image of InvestLisboa of Lisbon and the image of the consultants can be found. The ease of access, the hospitality and safety, the quality of life and is lesser extent the human resources are all recognised and familiar by the consultants. The factors that are not familiar and unclear in the eyes of the consultants are the innovative capacity of Lisbon, the opportunities that Lisbon offers and the image of European decision centre and also in lesser extent the human resources.

5.4   Communication strategy
It's difficult for a city to escape from negative points that are out of their control. A city is always under influence of the country it's in. If the country has a negative image it is difficult for a city to escape that image and to build a good image of its own. The image problems that were found in the theoretical analysis are confirmed in the survey. The government, economy and investment axis are not attracting investments, but scaring off potential investors.
The strong points of Lisbon as a city are not that obvious. The country is in crisis but Lisbon must develop an image as a hotspot within Portugal. There are different roles and sectors Lisbon can serve, Lisbon can be a place that attracts touristic investments. The touristic sector is already massively represented in Lisbon, but this strong image must be nourished. The touristic sector brings a lot of investment and also indirect advantages to the city. Another point that should be strongly communicated is the cheap access to high quality and high educated employees. The cheap workforce combined with the cheap and easy access to office space attracts investment.

InvestLisboa is now already communicating the strong points of Lisbon, a more intensive collaboration with the consultants in Lisbon will help to communicate these strong points to specific companies in sectors that are looking for a cheap high educated workforce, cheap office space, a good quality of life and open and flexible people. The sectors on which Lisbon should be aiming at are also known, Lisbon has a strong relation with the tourism sector, the ICT sector, especially the shared service industry, the economy of the sea and the energy sector. The communication strategy should also be aimed at the factors that are less obvious and known for consultants and companies. The gap between het nowadays communication strategy of InvestLisboa and the perceived image of the consultants shows that the innovative capacity, the opportunities and the image of European decision centre are not known among consultants. InvestLisboa is already communicating the innovative capacity and the opportunities Lisbon offers. The current communication strategy is therefore adequate. The fact that Lisbon is an European decision centre on European maritime safety is not obvious, this could be stronger communicated.

The major goal of the communication strategy of the IPA must be to get Lisbon in the top of the short list of the consultant. Specific communication to consultants is necessary in order to target the right businesses. Especially in the current situation when the FDI-decision is not that common anymore and the competition is fierce. The long term aim is to build to an image as Portugal as the European gateway to Brazil and Africa.

5.5 Conclusion

The image of Portugal according to the consultants is pretty similar to the theoretical analysis, the weak points on government, investment and economy are the same. The government needs to rethink its behaviour, the system itself can be more effective. Better communication, higher productivity, less bureaucracy must lead to a better performing government. The government is the base for building a new image for Portugal, the Troika agreements helps the government in getting the key economic indicators to an acceptable level. After the key economic indicators are stabilized to an acceptable level, the government has to develop a new behaviour towards public spending. These sectors will take the investment axis also to a higher level. The people axis has good aspects but also negative aspects like the braindrain of the highly educated. The tourism sector is traditionally strong, this must be nourished because the tourism sector is important for the national economy. The export sector is also developing in a positive way, Portuguese products are seen as good quality products. Portugal isn't seen as a exporter of high value added products, they are not an exporter of knowledge.

Lisbon has similarities in image with Portugal, with is completely logical because Lisbon is partly dependent on the country. The consultants are not straightforward over a real Lisbon-image, it lacks the same points as Portugal does. The soft factors like quality of life, safety, public amenities etc. have a positive image but the economical, government and investments parts are perceived negative. Lisbon is influenced by Portugal as a whole, it's difficult to set a different image as a city when you are in a country that is underperforming. With the strong points of Lisbon, the ease of access, the hospitality and safety, the quality of life and city, Lisbon offers opportunities. And also the perceived strong points of Lisbon by the investment promotion agencies, the human capital and innovation, the European decision centre must be communicated stronger because here the consultants knowledge is insufficient. These factors must be targeted through consultants to specific target groups/businesses that are looking for the competitive factors Lisbon offers. Lisbon must be in the top 3 of the short list of the consultant. The Portuguese government is working hard in managing and improving the current situation. In the long term Portugal must aim at being the gateway to Brazil and Africa.

6.   Final conclusion

This thesis is about attracting FDI to a country and how an image of a country and city helps to attract or to repel investment. In this thesis I researched the factors that attract investment to a country, because these factors are the underlying principles to build the country's image on. It's difficult to build an image of a nation because these determinants develop and change overtime and sectors. For example the determinant government is highly flexible, in most of the European democratic countries there are elections every four years. An economy builds their determinants overtime. When the economy develops, determinants develop and take a stronger position internationally. The pillar model showed us the different stages of an economy in a country. It's important for Portugal to stay in the most competitive pillar. The world economic forum classifies Portugal as an innovative driven economy. If we look strictly to the conditions that Portugal needs to be in that position they fail. Portugal also fails conditions from the efficiency driven economies, like the financial market development. Even some important basic conditions are failed, the stable macro-economic environment fails and the position of the institutions is also questionable.

The role of the consultant is not straight forward, a potential investor can also choose to keep the site selection process in-house. If a consultant is involved they usually operate in teams of specialists, some are specialized in taxes and another is specialized in law. The data they use often comes from the company's internal network. Multinational consultants usually operate all over the world so they know when a country changes for example its tax system. Attractive countries are communicated internally. It's not really the site selector who diffuses the FDI globally but it's the attractiveness of a country and how countries are becoming more competitive or less competitive.

The current image of Portugal is one that is smeared, Portugal used to be ,when entering the European union, one of the best students in class. Overtime the Portugal is more and more seen as a touristic resort within Europe. The respondents see Portugal as a country with a good quality of life, friendly people and a solid set of public amenities. But business wise Portugal and within that Lisbon isn't on the European map. The image of the respondents on the government, investment and economy axis isn't positive. This is completely logical with a country that has macro-economic indicators that are completely out of control and a status that is downgraded to the level of junk. But besides that negative image there is also a recognition for the hard work already done and the willingness to become the best student again.

Lisbon directly suffers from the image Portugal as a country has, consultants look at different determinants when looking for a new investment location for their clients. This depends on the conditions a client favors, is the company looking for cheap resources or a new market or strategic assets. For Lisbon some conditions can be favorable, for example resources seekers that are interested in cheap labor and a good quality of life for their employees Lisbon has to be on top of the shortlist. But like mentioned Lisbon suffers from the negative image Portugal as a country has, the unfavorable tax system and legal system repel foreign investment. First the national government has to work on the government, investment and economy axis. An advice for InvestLisboa in how to communicate to multinational business consultants in order to attract more investment to Lisbon is for that reason also hard to form. The fact that this thesis only researched the image of Lisbon in detail and not the identity of the city is not helpful in giving that advice. But a gap between the current communication strategy of InvestLisboa and the image the consultants have is found The respondents don't see Lisbon as an innovative city with business opportunities, respondents also don't recognize Lisbon with the image of European decision center. InvestLisboa is already promoting the business opportunities and the innovativeness of the city, so the current communication strategy of InvestLisboa is accurate. The strategy aims in communicating the business opportunities and the innovative climate Lisbon offers.

The image of Lisbon as an European decision center is not communicated that obvious, the European maritime safety centre in combination with the upcoming economy of the sea offers chances.

Lisbon has opportunities, it is seen as an undervalued, pro-business city with a rich culture. Lisbon suffers from the crisis, and the image Portugal has internationally. Lisbon has to keep developing its strong points and use its strong points to aim at sectors were those strong points are seen as important. Lisbon also has to develop the relationship with Brazil and develop an image of Lisbon as gateway to Europe for Brazilian companies.

An advice for further research is a more in-depth study on the identity of Portugal as a country and Lisbon as the capital. With the image found in this study a clearer communication strategy can be found. What are the strong points of Portugal and how should the Portuguese government focus in order to create a competitive advantage as a country. The research goal of this study can be; to find the identity of Portugal and how to use the strong points to improve the Portuguese competiveness. The theory on the role of the multinational consultant in the FDI diffusion and the unique data on the image of Portugal and Lisbon can be used to compare the image found in this thesis and the newly found identity of Portugal and Lisbon.

The methodology used in this thesis was adequate, the interviews were helpful in understanding the role of the consultant in the FDI location process. The surveys gave a good insight in the image of Portugal as a country and Lisbon as a city. The respondents were difficult to reach because it was a specific group. Consultants are highly paid workers, with little time and therefore difficult to talk to. A difficult point in the thesis was the research on the image. First the image of the whole country has to be studied in order to find a correct image of a single city.

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Appendix 1: Survey question
1.

In what country is your company located?

[ ]

2.

What is your position within your company?

[ ]

3.

Please answer the following statements (1 = completely unfamiliar, 5 = completely familiar)

	1				5
What is your awareness of Portugal	○	○	○	○	○
What is your awareness of Lisbon	○	○	○	○	○

4.

The following statements are about the Portugese export and innovation (1 = strongly disagree/bad, 4 = strongly agree/good)

	1			4
How do you feel about products that are made in Portugal	○	○	○	○
Portugal contributes to innovation in science and technology	○	○	○	○
Portugal is a creative place with cutting-edge ideas and new ways of thinking	○	○	○	○

5.

The following statements are about the Portugese governance (1 = strongly disagree, 4 = strongly agree)

	1			4
Portugal is competently and honestly governed	○	○	○	○
The Portugese government respects the rights of its citizens and treats them with fairness	○	○	○	○
The Portugese government behaves responsibly in the areas of international peace and security	○	○	○	○
The Portugese government behaves responsibly to protect the environment	○	○	○	○
The Portugese government behaves responsibly to help reduce world poverty	○	○	○	○
Portugal has a stable government situation	○	○	○	○
The Portugese government created a positive investment climate for foreign investors	○	○	○	○

6.

What is the word that most accurate describes the Portuguese government?

[   ]

7.

The following statements are about the Portugese culture, heritage and tourism (1 = strongly disagree, 4 = strongly agree)

	1			4
Portugal is an interesting and exciting place for contemporary culture such as music, films, art and literature	○	○	○	○
I would like to visit Portugal if money was no object	○	○	○	○

	1			4
Portugal is rich in historic buildings and monuments	○	○	○	○
Portugal is rich in natural beauty	○	○	○	○
Portugal excels at sports	○	○	○	○

8.

The following questions are about Portugese citizenship (1 = strongly disagree, 4 = strongly agree)

	1			4
If I visited Portugal, the people would make me feel welcome	○	○	○	○
I would like to have a person from Portugal as a close friend	○	○	○	○
A well-qualified person from Portugal would be a valuable employee	○	○	○	○

9.

The following statements are about the Portugese economy (1 = strongly disagree, 4 = strongly agree)

	1			4
Portugal has a stable macro-economic environment	○	○	○	○
Portugal has an extensive en efficient infrastructure	○	○	○	○
Portugal has good public health	○	○	○	○
Portugal has a flexible labor market	○	○	○	○
Portugal has an attractive tax climate for foreign investors	○	○	○	○
Portugal offers interesting business incentives for foreign investors	○	○	○	○

10.

The following statements are about Portugese immigration and investment (1 = strongly disagree, 4 = strongly agree)

	1			**4**
Portugal is a good place to study for educational qualifications	○	○	○	○
Portugal has a good quality of life	○	○	○	○
I'm willing to live and work for a substantial period in Portugal	○	○	○	○
Portugal has businesses I'd like to invest in	○	○	○	○
Portugal offers equal opportunities for everyone	○	○	○	○

11.

The following statements are NOT about Portugal but are about LISBON (1 = strongly disagree, 4 = strongly agree)

	1			**4**
Lisbon has a well known international status	○	○	○	○
Lisbon has a good quality of life	○	○	○	○
Lisbon is a good place to get higher education qualifications	○	○	○	○
Lisbon has a vibrant city life and urban attractions	○	○	○	○
If I visited Lisbon, the people would make me feel welcome	○	○	○	○
I would feel safe in Lisbon	○	○	○	○
Lisbon has a good standard of public amenities (schools, hospitals, public transport, sport facilities etc.)	○	○	○	○

Lisbon contributes to innovation in science and technology	○	○	○	○
Lisbon is a creative place with cutting-edge ideas and new ways of thinking	○	○	○	○
Lisbon has business I'd like to invest in	○	○	○	○
Lisbon offers equal opportunities for everyone	○	○	○	○

12.

What is the word that most accurate describes economic and business conditions in Lisbon?

[ ]

13.

Can I contact you for more in-depth questioning about the topic (by phone or email)

[E-mail:]