Leicester Business School

Multinational corporations, sub-national governance and human resources

Feedback report for UK participants

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EXECUTIVE SUMMARY

Objectives (Chapter 1)
- This study examines the relationships between multinational corporations (MNCs), and sub-national governance actors (local and regional development agencies, relevant levels of government, skills agencies and providers, localised cluster-type organisations, etc)
- It operates on the assumption that, in coordinating their international activities, MNCs are affected by local characteristics such as labour markets and industrial networks as well as specific public attempts at investor attraction and investor development, and that sub-national governance is potentially important in shaping the nature of such characteristics
- The report therefore examines the nature of sub-national governance in two regions of England as it affects FDI, what MNC managers and directors want from sub-national governance, and the nature of regional human capital networks. Findings for parallel studies in Canada, Ireland and Spain are also briefly reported
- The project is based on semi-structured interviews with governance actors and MNC managers/directors, alongside a social network analysis tool

Governance actors and policy-related findings (Chapter 2)
- While the comparatively liberal approach of the UK state has historically been successful in attracting foreign direct investment (FDI), this position is under increasing competitive threat
- Long-standing patterns of instability in English sub-national governance, both in terms of regional economic governance and skills coordination, have continued and intensified over the last few years. In particular, the demise of Regional Development Agencies (RDAs) and their partial replacement with Local Enterprise Partnerships (LEPs) came within the period of fieldwork for this project
- RDAs were significant actors in direct relations with inward investors, as well as in wider economic coordination. In particular, they were important as ‘brokers’ between inward investors and sometimes complicated institutional systems, particularly in the area of skills development and funding
- RDAs had significant problems relating to: the lack of economic functionality of regions; uncertain boundaries between local, regional and national actors, both relating to FDI attraction and more generally; and relatively weak political legitimacy. More generally, the excessive complexity and fragmentation of the skills governance system, at regional and national levels, makes coordination difficult
- The centralisation of inward investment efforts under a national contract, combined with the efforts of LEPs and local authorities, is seen by respondents as causing substantial risks of increased inter and intra-regional inequality in investment destinations. In particular, smaller cities and towns are likely to struggle to achieve adequate degrees of coordination under the new arrangements
- Concerns were also raised about the differences in regimes between English regions and the various devolved administrations
- The model of “business-led” institutions, favoured by successive national governments, has not succeeded in creating institutions with adequate coordinating capacities

Multinationals and sub-national governance agencies (Chapter 3)
- MNCs fall into distinct groups: ‘high engagers’ that intensively interact with local/regional actors, and ‘isolates’ who have little engagement. This is partly related to issues of business structure and strategy, but also to the preferences of individual managers and directors
- Sub-national bodies perform a number of functions on behalf of existing inward investors. These include aggregating the interests of firms, particularly in the skills domain, and acting as a broker between
MNCs and labour market and education institutions, as well as between governance actors at different geographical levels

- Coordination of bids for reinvestment, of collective skills and training provision, and of bids for various forms of public funding, were among the more important roles of RDAs from an MNC perspective
- MNCs and other large firms often perceive their skill requirements as being more specific than they in fact are, suggesting a need for coordination or direct brokerage by governance actors
- Perceptions of RDAs were uneven: multi-site operators tended to have more favourable views of northern RDAs than those in the south; managers of small subsidiary units typically reported little interaction
- A number of senior managers in large MNCs were concerned at the loss of a regional interlocutor following the demise of the RDAs
- Concerns were also reported about the coordinating capacities of LEPs, and about the new arrangements for support for inward investors
- Governance actor-MNC relations emerge dynamically out of negotiations and alliances; where MNC actors themselves take on a role in governance, e.g. of skills, the borderline between private firm and governance actor can become indistinct

Regional human capital development networks and FDI (Chapter 4)

- Social network analysis is used to capture in visual form the systemic relations between actors in the domain of regional human capital development
- Analysis of a regional human capital development network for an English region shows relatively loose ties between governance actors and MNCs in addressing skills issues
- In these circumstances, a small number of organisations played an important central brokerage role; the RDAs were particularly important in this
- The network structure largely follows funding; it appears to operate as a means of matching funding to small numbers of actors, with few permanent ties beyond the period of funding. As long as a perception of competition between actors for limited resources is prevalent, close collaboration among network actors is unlikely

International findings (Chapter 5)

- Comparative research has been undertaken in two regions in each of Canada, Ireland and Spain
- Where there are strong levels of sub-national governance (Canada, Spain), these do permit a degree of local flexibility within the overall national system. This allows regional actors to institutionalise patterns of cooperation, and allows ‘sub-nations’ to develop somewhat different emphases in their political governance of the economy – for example, one region in each of Canada and Spain is relatively liberal in its economic policies, the other much more open to social democratic type coordination
- Ireland, while having little sub-national autonomy and a broadly liberal approach, has supplemented its strong national FDI-oriented strategy with institutionalised informal networking among relevant actors, to a far greater extent than in England
- In general, skills are reported less frequently as a problem in all six international cases than they are in England
- ‘Appropriate’ geographic levels of coordination are probably more tied to levels at which there is an established civil society than to functional arguments about size of population
This research on which this report is based examined the relationships between multinational corporations (MNCs), and what we call sub-national governance actors. By sub-national governance actors, we refer to local and regional agencies with direct public responsibility for attracting and retaining FDI and/or for fostering environments favourable to high-quality inward investment. These include local and regional development agencies, the relevant levels and departments of local, regional and national government, skills agencies and providers, and various forms of business alliances, such as localised cluster-type organisations.

Work on this research project started with the assumption that, in coordinating activities across geographically dispersed sites, MNCs are affected by a number of local characteristics. These include:

- Labour markets and skills profiles
- Innovation systems
- Wider industrial and supply chain networks
- Specific public attempts at investor attraction and investor development (what was traditionally referred to as ‘aftercare’).

As the competition for FDI between and within developed economies becomes increasingly intensive, and success increasingly depends on the ability to assume higher positions in global value chains, such characteristics affect the nature of the commitment MNCs are likely to make to host geographies.

Within this increasingly international competition, sub-national governance is widely believed to be important (see, for example, MacKinnon and Phelps, 2001; Coe et al, 2004; Maskell and Malmberg; 1999). Of course, many MNCs continue to make location decisions in order to gain easier access to local and national product markets. Normally, though, high-value-added investors are geographically concentrated on either one, or a small number of, sites within a country the size of the UK.

This means that, while it is obviously important that national government ensures a competitive environment for FDI, many potential and current inward investors are concerned with the business ecosystem at relatively local levels. This particularly applies to skills, given that the labour markets for most investors remain predominantly local or regional. For the same reason, major investment decisions are of particular importance to local and regional governance actors, as it is at this level that the employment effects of such decisions are most keenly felt. Sub-national actors are therefore likely, where they have the capacity to do so, to attempt to shape business ecosystems in order to promote high quality investment.

Yet while the UK has traditionally been successful in attracting FDI, there have long been concerns about the institutions which might be expected to be important in creating the sort of ‘ecosystem’ that might be necessary in a much more competitive global market for FDI. Instability and confusion as to the roles of different bodies – agencies responsible for regional and local development, skills agencies, and local, regional and national government – are longstanding.

We therefore sought to examine:

- The roles of different sub-national governance actors, both in direct relations with inward investors, and in attempting to foster the kind of skills environment which commentators see as important for delivering high quality investment from potentially mobile firms
- How these relationships affect local MNC units’ supply of, and demand for, skills and competencies
- The extent to which foreign-owned MNCs can be said to be ‘embedded’ in sub-national geographies, particularly in ways that might drive wider regional development.

The current report mainly concerns our UK research. We conducted research in two top-level regions of England (i.e., what at our starting point were RDA regions), one in the North, and one in the Midlands. The main research instrument was semi-structured interviews, both with the principal governance actors in each region, and with senior managers and directors in key MNCs at a regional level. We also interviewed managers in a number of smaller MNC units which had been identified by local or regional inward investment agencies as ‘success stories’. In total 51 interviews were conducted covering 53 respondents (a small number of the interviews were group interviews). Of the interviews, 25 were in the Midlands region, 18 in the north, and 8 were extra-regional (typically representatives of institutions with a national remit). 35 interviews were carried out with institutional actors, and 16 with MNC respondents. Chapters 2 and 3 of this report draw mainly on these interviews, alongside relevant secondary material. Chapter 2 examines the roles of the various governance actors, while Chapter 3 looks at how and why MNC units engage with their regional business systems. Chapter 4 maps some of these relationships through social network analysis. Chapter 5 briefly summarises findings to date from parallel international research in Canada, Ireland and Spain.
CHAPTER 2:
GOVERNANCE ACTORS AND POLICY-RELATED FINDINGS

Introduction and context
Drawing on our interviews, this chapter examines the nature of recent attempts, at sub-national levels, to organise both direct public support for inward investment, and to provide relevant economic coordination, particularly in the labour market and human resource arenas.

The UK, as is well known, is a liberal market economy (Hall and Soskice 2001), particularly in an EU context. In other words, the coordination of economic activity is largely a matter for the hierarchies of private-sector firms, on the one hand, and relatively lightly regulated product and financial markets, on the other. In comparison to its EU neighbours, the role of the state – national or local – or of civil society actors such as business associations or trade unions in active economic coordination is relatively limited.

The country has long been successful in attracting inward investment. Historically, this has been due to the relatively open nature of its economy, and close links to the United States. From the 1980s, it was also, as an early mover in the European market for FDI, able to attract firms on the basis of access to the European single market, labour market flexibility, weakened trade unions, and, at the time, low labour costs within the pre-expansion European Community. The globalisation and deregulation of finance also entrenched London’s position as a world city.

The UK continues to be an attractive destination for FDI, for many of the above reasons. However, the marketplace has become much more competitive. This is not only because of the well-known opening up of lower-cost countries both inside and outside the EU, but also because of an increased concentration on attracting inward investment in the core EU countries, particularly Germany.

In this light, some of the difficulties a liberal market economy faces in coordinating the provision of what are to some extent collective goods, such as skills provision, potentially become more of a barrier to attracting high quality FDI with the potential to support local and regional development.

England, despite being on aggregate the richest country of the UK, also has substantial regional disparities in economic performance. According to Eurostat (2007), GDP per inhabitant, as corrected by Purchasing Power Standards (PPS), was 197 per cent of the EU average in London, and 124 per cent in the South East statistical region, but below the EU average in the three Northern regions and the West Midlands.

State power in England, is highly centralised, in comparison with almost any other democracy of comparable size. In particular, ‘regional’ governance policy (ie anything above local authority level) is largely in Westminster hands, and, given the majoritarian nature of the Westminster system, vulnerable to changes in national government, as recent events have illustrated.

Change and instability of sub-national policy and institutions
New Labour and the Conservatives, while sharing a broadly liberal economic policy, differ in two important respects relevant to this research, both of which manifested themselves in the period during which the fieldwork was conducted.

First, New Labour, from its arrival in power in 1997, had relatively more tendency to create institutions dealing with ‘market failures’, ie, situations where the private sector is not seen as capable of constructing an efficient market without intervention. Second, Labour is relatively more tolerant of regional-level governance than the Conservatives. Scottish and Welsh devolution were initially seen, by at least some ministers, as leading to a potential demand for some form of regional government in England.

For a combination of these reasons, New Labour created Regional Development Agencies (RDAs) covering the nine Government Office regions in 1998. Their role as inward investment agencies is examined below. More broadly, these non-departmental agencies had statutory responsibilities for furthering economic development and re-generation, promoting business efficiency and competitiveness, promoting employment, enhancing the development and application of skills relevant to employment, and contributing to sustainable development. Most of their role was as a coordinating agency between existing public, private and third sector bodies within their region, or, using older language, as ‘enabling authorities’. These responsibilities were brought together in the requirement to produce Regional Economic Strategies.
These agencies both drew their funding from, and reported to, central government. Regional assemblies, made up mostly of representatives of local government, also had a role in the scrutiny of RDAs. However these declined in influence following the rejection of a directly elected assembly in a referendum in the North-East, and were eventually abolished by the Labour government.

RDAs therefore represented a fairly centralised form of ‘regionalisation’ – their responsibilities and targets were set, and board members appointed, by national government. Boards consisted of individuals from the private sector, local authority representatives, and other miscellaneous individuals from civil society organisations, nominated and appointed in personal capacities.

RDAs were abolished by the current coalition government. As Government Offices for the Regions were also abolished, this left the English regions (other than London) without any intermediate-level governmental structures to speak of. Local Enterprise Partnerships (LEPs), which cover smaller, self-determined geographical areas, were created to foster strategic cooperation between combinations of local authorities and the private sector. These do not have statutory obligations, meaning that their precise scope of activity and focus differs from place to place. Despite a succession of announcements of central government funds – such as the Regional Growth Fund - to which LEPs can apply, their total funding remains much smaller than that of the RDAs.

Prior to 2011, both RDAs and UKTI were responsible for the attraction of new inward investment. ‘Leads’ could be generated from either source, and both were involved in investment marketing overseas. RDAs would, whether directly or through contracted providers, also provide an aftercare or ‘investor development’ service for large employers in their region, including inward investors. This included site visits, attempts to broker relations between inward investors and other bodies within the region (eg skills agencies), etc. The largest inward investors were also account-managed on behalf of central government through UKTI. Finally, local authorities – or sometimes combinations of local authorities – funded inward investment agencies of varying scope at a more local level.

The current situation is that the attraction of inward investment is primarily the role of UKTI, through an outsourced contract delivered by a consortium consisting of PA Consulting, OCO Consulting and the British Chambers of Commerce. Local authorities, either individually or in combination, remain free to retain their own inward investment agencies. In principle, however, ‘leads’ are intended to be shared between such agencies and UKTI. In terms of aftercare, the largest foreign direct investors are account managed on a national basis. In England, therefore, the regional level of inward investment effort has been removed (the contractor does maintain its own offices in the regions, consisting partly of former RDA employees transferred under TUPE regulations, but the region as such forms no part of the structure).

Alongside their experiment in regional government, the Labour government, like its predecessors, continued the UK pattern of frequent reforms to the vocational training system. For example, a concern with ‘lifelong learning’ led to the replacement of Training and Enterprise Councils – local bodies responsible for skills, themselves only established in the late 1980s – with a Learning and Skills Council (2001), responsible both for youth further education and for adult learning. This body had a substantial regional presence, worked closely with RDAs, and was important to employers seeking funding for the upskilling of workforces. However, a scandal concerning the management of further education construction projects led to the abolition of this body in 2009, and its replacement with a slimmed-down, nationally focussed Skills Funding Agency.

Regions and FDI under the RDA regime
In both their location marketing and investor development work, the RDAs for both the regions we investigated attempted to focus on sectors or technologies in which the region was seen as having specific capabilities. This was sometimes allied with targeting specific locations, attempting to generate cluster-type effects. Similarly, there was a degree of ‘supply-chain marketing’, ie establishing possibilities afforded to potential new investors by the presence of foreign multinationals or large British firms at the top of supply chains. Particularly in the northern region, organised sectoral associations, part-funded by the RDA, actively sought to attract firms into specific perceived regional gaps in large firms’ supply chains, as well as improving the ability of indigenous firms to compete within them. While RDAs would work with investors who explicitly sought location in the region for reasons concerned with market structure - particularly in deprived areas - they generally attempted to concentrate on securing relatively high value-added investment, given one of the main targets they were measured against by national government was increasing regional Gross Value Added (GVA).

Investor development work was an important focus of activity. This consisted, at a basic level, of being, in the words of one MNC manager:

...a kind of umbrella for a lot of the other agencies which are going to help with the activity we’re going to do
A lot of such work was routine, comprising site visits, reporting on issues raised, dealing with these where possible through brokering relations with other agencies, and compiling relevant data both to inform Regional Economic Strategies, and to feed back to national government. Some RDAs claimed to go well beyond this, however. In the Northern region, a functional split was made between traditional aftercare, i.e. dealing with day-to-day operational issues, and more ‘strategic’ work,

...about challenging a company, where are you going to be in five or ten years’ time (inward investment manager)

the latter being organised through a sectoral approach. The manager explained the logic of this through an example:

Hitachi made TVs in North Wales. And one day it closed, and everyone went “Ugh!”, and four, five hundred people closed [sic]. Well if you’d known the sector, you’d have known that cathode-ray tube televisions were on their way out, everybody was buying flat-screens, but nobody actually challenged Hitachi in that factory; how they were adapting to the new technology. Nobody said, where are you going to be in four, five years time, and actually plan to either downscale that plant, or to look to work with Hitachi to actually bring in new technology. So I think the sector approach does allow you to have those very informed discussions on where those factories are going.

The extent of investor development work differed between regions, from attempts to create a strategic approach indicated above, to outsourcing this work in a minority of RDAs (not those under direct investigation here), while keeping initial investor attraction in-house. One problem, in a very target-driven governance structure, was the intangibility of investor development work, meaning this area was often deprived of a bottom-line in intra-RDA contests over resource allocation. In the words of an inward investment manager in a region which had outsourced:

Inward investment is a very tangible activity, you can see a new company coming in, you can see the 100 jobs associated with all of that...Investor development was much more intangible, you have worked with a company that’s already here, what have you actually done to help them?

There were instances where RDA intervention had been central to the attraction of new or replacement investment, and where the domain of skills had been important in this. One large project, involving an auto manufacturer and analysed in more detail in Chapter 3, involved skills upgrading at both basic and more advanced levels, not only within the subsidiary unit itself, but also across local suppliers. This was closely tailored to the needs of the subsidiary in competing with overseas plants, with the training package fitted around company practices and shift patterns. RDA officers were also co-responsible for writing a successful EU funding bid.

However, the MNC unit above was unusual both for its size, and the fact that, for structural reasons, UK subsidiary managers had to be committed to participating in bidding for new models in order to secure the viability of production facilities. The process was, in this case, also predictable enough for subsidiary managers to begin to prepare a strategy some years in advance. The skills domain was also seen as one of the few areas in which achieving the parent company’s aim of a rapid move to full production of a new product line at minimum cost could be influenced, as other costs were largely fixed. It is also arguably easier, in this type of firm, to make the case that ensuring the upskilling of the workforce and of suppliers has wider benefits to the local economy, thus deflecting questions about large subsidies to an individual MNC. Regional development bodies, in this case, did help secure relatively well-paid employment, alongside local skills actors and interactions with national government and trade union leaders.

Elsewhere, there were a number of cases where RDAs were significant actors, either directly or as brokers. These included ensuring skills supply for new investors, or for existing firms, by coordinating skills supply with regional skills actors and other local firms. They also sometimes acted as brokers between MNCs and higher education institutions, particularly around specific projects aimed at building up a local labour force. They were generally recognised as a regional interlocutor in the case of threats of disinvestment, and as brokers in managing the redeployment of workers made redundant by large MNCs. Importantly, the RDAs’ role as a broker for available EU funding made them significant actors in the eyes of managers of large subsidiary operations.

Generally, the reaction to RDAs was fairly positive among the largest investors interviewed, who saw it as useful to have a ‘local’ partner. Views, though, were overwhelmingly negative among managers/directors of smaller MNC units. In some cases, MNC respondents were highly critical of RDAs, and/or said that they had had little or no interaction with them, even where RDA interviewees had highlighted investor development work with them. It is possible that in some cases this may have been due to misunderstandings about the remit of RDAs, or managers’ unrealistic expectations about what support could legally be offered to individual firms.
RDAs as broader business system actors
As stated, one of the main drivers behind the creation of RDAs was to correct ‘market failures’. It is important to note that the inward investment professionals within RDAs played a substantial role in this.

Investor development managers presented a number of examples where their aftercare duties had led to the aggregation of skills demands, sometimes correcting very basic failures of firms to coordinate collectively. For example, on one site visited by an aftercare representative, one large biotech MNC in the Midlands complained about struggling to find intermediate level lab technicians, a skill set for which there was no appropriate apprenticeship or similar qualification. RDA employees contacted other biotech and healthcare companies, found similar problems, and coordinated workshops bringing together HR managers. This helped to create an aggregate picture of the relevant skill demand. The result was the development of a diploma-level qualification which is now available for the industry. A similar case, more surprising in that the large firms concerned were all located within a very tight geographic space, was reported by an economic development manager in the North;

Now the advantage of, if you like the sector approach is, Company A said to us, with their investment skills was a major issue. They had to upskill...and they wanted to put in certain processes. We said well actually we’ve been talking to Company B, and ...to Company C as well, that have exactly the same issues as you around this, we will look to fund a cross-company training programme, if those companies support it as well, if they put some funding in it...That actually benefited three or four biomed companies in (the same industrial estate) because they all had the same issues. Now they weren’t talking to each other, but because our sector team was key account managing three or four of them, we could draw out those common issues.

This sort of interest aggregation is more formally the role of Sector Skills Councils (SSCs) – ‘employer led’, but mostly state-funded, bodies which are intended to be the strategic skills bodies representing sectors, establishing qualification frameworks and influencing national government policy. These have a national-sectoral scope, but also have (scattered) regional representatives who seek to aggregate needs at local/regional levels. Inward investment managers would therefore also attempt to act as a bridge between the MNC and the relevant SSC:

We’ll bring the SSC into them to get a view as to what the specific challenges are for their business and how they can engage with ensuring that future provision meets their need

RDAs, again to different extents, also encouraged systematic employer coordination through the establishment or re-invigoration of regional sector employer alliances, aiming to develop and exploiting regional expertise, in order that regional firms met the standards of lead firms in global production networks. In at least some cases, these appear to have had some success in achieving regional upgrading in supply chains.

Finally, RDAs had skills directorates, with responsibilities for coordinating relationships with local skills networks, including job centres, skills agencies, universities, local authorities, etc. These were targeted at a wide range of goals, including issues around employability and social inclusion, and what inward investment managers saw as the ‘SME agenda’, as well as productivity/investment. Overall, four out of the nine RDAs had skills departments which structurally were situated within the broad area of economic development, while skills sections of the remainder sat more within Directorates dealing with a ‘communities’, or social inclusion agenda.

Perhaps because of this, RDAs differed considerably in the extent to which skills directorates coordinated with an inward investment agenda. In one region under direct consideration here, inward investment managers did not work closely with their skills directorate, preferring to deal directly with regional skills actors on the ground (e.g. the former Learning and Skills Council, Sectoral Skills Councils). The sometimes low evaluation of the competencies of skills directorates is captured by a quote from an investment manager in a region outside our direct remit;

We do have skills people internally that we would work with, but we would tend to go to real industry experts

In another region, though, the skills team was actively involved in dealing with the skills needs of specific investors, as well as having wider strategic responsibilities. This interaction was seen as important in securing the new auto investment reported above.

Specific problems of RDAs
Within the arenas in our remit, it is difficult to reach clear conclusions on the degree of success of RDAs. They clearly did help to mitigate some market failures, and to attract and retain inward investment. However, they also had a number of specific problems, which are important to consider both in a policy debate, and in contemplating the wider issue of the construction of competitiveness within regions under globalisation.

One problem was the lack of economic functionality of regions. The areas which the RDAs eventually covered were, in terms of population, typically very large, and clearly did not coincide with local or city region labour markets.
The cities and sub-regions within them often had different skills sets and economic strengths, with ‘clusters’ that would inevitably attract certain kinds of investment, and had different economic and labour market problems. Furthermore, in spite of the size of the regions, commuting areas inevitably cut across them. For example, the scarcity of relatively well-paid manufacturing jobs led to commutes of 50-70km being common in the largest plants we visited, meaning firms had substantial numbers of production employees from outside their regions. These problems were exacerbated in areas with weak regional identity. Although we cannot demonstrate causality, there are strong indications that regional governance developed more strongly, and with more employer support, in Northern regions – where there was some coincidence between RDA boundaries and geographical identities – than in the Southern half of England where, broadly, any sort of regional identity was very weak. As one local inward investment professional now working as part of a LEP argued:

At a regional level the RDAs never managed to convince (large MNCs) to be involved...because they didn’t recognise that artificial geography...where we can influence them to get involved...is by saying most of their workforce...are local people. And I think that’s where we need to engage with them and say well what are your future skills needs...I think they found it difficult with RDAs to get that because...it was never an economic functional area, the needs of (the extreme south of the region) compared to those in (the extreme north) are completely different.

Partly because of this, there were problems of fragmentation of delivery. RDAs’ activity, in inward investment and in other areas related to economic development, including skills, was supplemented by work in local authorities. Although in theory the co-construction of Regional Economic Strategies, and the existence of sub-regional partnerships under the aegis of RDAs, meant that the work of the various actors involved was co-ordinated, in reality this was not always the case. Particularly, intra-regional contests for investment led to inward investment managers in some powerful sub-regions seeking to appropriate some of the responsibilities of the RDAs. This, alongside the complex sub-contracting relationships between RDAs and sub-regional bodies, led to confusion among private-sector managers about precisely whom they were talking to:

There seem to be all these layers that I’ve never quite got my head round. I think there’s a city one, there’s a (sub-regional) one and then there’s (the RDA) and I can never quite work (it) out (Subsidiary managing director, MNC)

Multiplicity of delivery was also built into the relationship between RDAs and the national investment agency UKTI, which were co-responsible for attracting investment, and for the largest investors, for aftercare. RDA managers were generally critical of UKTI, claiming that the investment reaching non-metropolitan regions from UKTI was generally small-scale and low value-added. UKTI’s inward investment work was not regionally targeted. This meant that, in the eyes of regions outside the South-East, the ‘easy sell’ of the London market meant targets could be reached without benefiting other regions sufficiently. There were also conflicts, both around cost and the dangers of repeating a UK ‘message’, over the extent to which regional bodies should have offices or travel overseas to attract investment.

Finally, the process of ‘centralised regionalisation’ through which the RDAs were set up, combined with the withdrawal of the idea of democratic regional assemblies, meant that the political legitimacy of RDAs was relatively weak.

General problems of coordination

RDAs then had a number of problems which were built into their institutional construction. However, most of the problems of coordination faced in trying to foster high-skills, high value-added regional economies – both through inward investment and more generally – have little to do with how sub-national development agencies are constructed. It is also necessary to consider the more general institutional landscape within which English regional business systems operate.

From our interviews, the most obvious point is that institutional instability, both of skills institutions, and more recently of economic development agencies, poses serious problems to coordination. This was an almost universal complaint from both governance and MNC actors:

I would like a period of stability, I would like a period whereby we all knew what was available, (and) how to get hold of what was available. And by that I mean cash and training, and qualifications. Qualifications are constantly changing, we have NVQ down to QVC. So I would like a period of stability so we can go in this direction, go on one course and stay there for a while and consolidate...Rather than just change again, let’s get something that we all think is the right thing to do and stick with it for a while." (Training Manager, auto manufacturer)

Because it is, it’s alphabet soup, it’s like make your way through a labyrinth basically. Now if we can hide the wiring and just get the right people in at the right time to do the right things with that company, so much the better. And that’s essentially what we’re trying to do, it’s certainly what I’m trying to do anyway because...it is totally confusing. And when I used to work at an employers’ association and we had member companies, member companies would ring me...
up and say what the hell is happening, how the hell do I get to all this, can you help me get through this maze. (Sector Skills Council Regional Business Partner).

So it’s so complicated, and there are so many different pots, that people try to make it more efficient by getting these private contractors involved in delivering, but it does hamper that coordination and it does make it challenging at times to really coordinate that recruitment and training provision. (Inward Investment Manager)

This confusion of institutions and agencies made the brokerage role of RDA inward investment professionals particularly important.

Another issue is that many MNC managers tend to emphasise that their skill requirements are ‘firm-specific’. This is obviously likely to be the case in some specialist cases. But given firms are slow to engage each other in the skills sphere, it is at least possible that some skills sets are in fact somewhat more general, or at least related, than often portrayed.

Sector Skills Councils, which are nationally licensed to send and act upon coherent demand signals, are themselves under-resourced, particularly at regional levels, meaning that they ...

...lack the granularity at regional and sub-regional level...in order for it to make sense so providers can deal with it (Skills Director, RDA).

In some cases, senior MNC managers that sat on regional boards claimed that there was little activity at this level, although employers with national clout had been involved with SSCs in setting national qualification strategies. While intended as ‘business-led’ institutions, the private sector has contributed much less to their funding than was the original target (see Payne 2008). They are also licensed by Government on a five-yearly basis, perhaps making long-term commitments difficult.

This pattern of ‘business-led’ institutions, with targets servicing the interests of private firms, but funded largely by the state and with little employer buy-in, is symptomatic of wider problems of coordination in the UK. Sub-national institutions can only do limited amounts to ameliorate these. There have been reported cases where, with EU funding, large firms (Nissan in the North East is one example) have collaborated with an RDA to organise skills upgrading that went beyond the immediate supply chain, but these are very isolated. Generally, weak employer associations often mean that little is done to rectify skills supply and demand problems without state-sponsored intervention.

**The emerging context**

What of the new arrangements under the coalition government? It is not necessarily easy to separate out a discussion of the potential merits of the new institutional set-up from issues of funding. Also, our research coincided with a set of change processes publicly described by the Minister responsible as “somewhat Maoist and chaotic”, meaning comments at this stage are inevitably somewhat speculative.

In inward investment terms, the national contract for UKTI is strongly based around the idea of a “UK First” proposition. There is a contractual target for the number of new inward investment projects in “England outside London” (i.e. the parts of the UK without a sub-UK governance structure for economic development). Beneath this, there are no regional targets (indeed, ‘regions’ are not recognised within the structure).

Some respondents argued that there were advantages to a more national structure. These are primarily in aligning ‘offer’ to corporate need. According to one inward investment professional:

*We had a project...and they were looking at the North West, they were looking at the North East and something in Wales. So (for) the first time we could sit down with them and have a conversation about their investment plans for the UK and we could actually get information, if you’re going to do this in one region how does that impact your investment decision in the other and, you know, what’s the plans, what’s the funding. You couldn’t do that previously because (of being very regionally focussed)*.

Equally, one inward investment manager for a large city was relatively optimistic, arguing, perhaps reflecting earlier conflicts, that much RDA inward investment work replicated local-level efforts.

Others, however, were much less sanguine. One inward investment manager argued that only three of the local authorities in his region “would have any service of any degree of scale and professionalism”. In the rest:

...it would be part of somebody else’s job that does it almost as a part time resource, rather than a dedicated high profile inward investment team

Indeed, a number of interviewees in local and sub-regional authorities in peripheral sub-regions were very pessimistic. While the major city regions will continue to fund inward investment efforts, and be capable of ensuring that they are in the minds of nationally-targeted contractors, respondents outside large cities suggest that both funding and capturing the attention of a national contract provider are difficult.

Other concerns with the national contractual arrangement included issues around ‘memoranda of understanding’ between the
national provider and local inward investment bodies — that is, the mechanisms by which investment leads created by local agencies are shared with UKTI — and the issue of aftercare/investor development. The national contract provides for investor development work, but resources are relatively thinly spread, and the difficulties in integrating such work within a target-driven culture — a problem under the RDA regime, as mentioned above — are likely if anything to become more problematic under a private-sector contract.

The prospect of a localised ‘patchwork’ is likely to exacerbate problems caused by centralising centrally-funded investment support nationally, leading to a substantial risk of increased regional (and intra-regional) inequality in the distribution of investment. For new investment, the danger is that national players will see regions as having niche offerings only, based on existing perceived clusters or sectoral strengths. This is a problem because it risks insufficient attention being paid to local needs, such as replacing lost investment with new FDI of similar or better quality. It also ignores the fact that MNCs do not always seek to locate in ‘clusters’ — indeed, our interviews provide evidence of ‘anti-clustering’ in places, reflecting for example the desire to access cheaper or under-exploited labour pools.

While LEPs are not required to prioritise inward investment, in many cases local/sub-regional economic development efforts have been re-configured around the LEP structure. This is primarily because much of the available funding is channelled around LEPs as institutions. Thus, in the majority of cases, LEPs are expected to be the local interlocutors to the national inward investment service. They also attempt to take on some wider elements of former RDA work, as locally-determined priorities and funding permit.

LEPs do, it is argued, often map onto labour market areas more accurately than RDAs did, and are the result of voluntary combinations by local authorities. However, their resources — particularly in terms of infrastructure — will remain limited, and interviewees reported concerns about whether they could go beyond being ‘talking shops’, and whether managers of prominent local firms were likely to participate. From an evidence of the LEP boards, evidence so far is mixed (see also Chapter 3). Many local governance actors seemed to be engaging with LEPs, faute de mieux, without any great enthusiasm. The reactions of MNC managers and directors to LEPs are covered in detail in Chapter 3, but the lack of a clear regional-level interlocutor is clearly seen as a problem by some major investors.

We should also not neglect the fact that arguably the main role of RDAs was as a channel for funding efforts at the coordination of regional economies. There is clearly a risk to existing institutions, such as cluster-type bodies, where these were created with (or in some cases reinvigorated by) RDA-brokered funding. Whether cluster-type bodies have established sufficient track record among their private sector co-funders — and can overcome free-rider problems sufficiently — to thrive without public support is uncertain. Equally, without infrastructure funding from a particular region, managers of such alliances are no longer under any obligation to directly aid inward investment efforts. Those which have a ‘product’ which can sell on the market are as likely to sell it outside their geography (including outside the UK) as inside.

The transition from RDAs to LEPs is unlikely to affect all parts of the country in the same way. Some interviewees with a perspective on the national perspective, for example, argued that the forms of public-private collaboration envisaged under LEPs already existed in Northern cities, which have long-standing traditions of municipal collaboration with the private-sector. This may mean that LEPs in some parts of the country are solving a problem which doesn’t really exist. According to one respondent in a central government department:

So there is a history in (the North) of local authorities and the private sector working together, which is not the case in other parts of the country, it is in some parts but not in all the parts. And therefore, you know, if you go down to the South you’ll probably paradoxically in some ways find more enthusiasm for LEPs down there than you will in the North because down in the South, this is a gross simplification but I think it has an element of truth, the LEP gives the private sector the ability to influence local authorities, which it didn’t have before. That’s not an issue in the North, that’s always been there

Finally, our UK research concentrated on English regions outside London. Clearly, there are now substantial disparities in the extent of ‘sub-national’ (or sub-UK) governance within the UK, given devolution in Scotland, Wales and Northern Ireland on the one hand, and the abolition of RDAs on the other. In interviews conducted towards the end of our research, this had become a concern of a number of respondents. According to one inward investment professional:

Originally London was going to be into the national delivery but Boris Johnson kicked off and made a case for London being a special example and therefore it’s exempt and he got London and Partners. Well if (the national model) is good enough for the rest of England, why is it not good enough for London? Why are the devolved administrations allowed to do their own thing? If they can make a special case for London and Scotland, Wales, wherever it is, to be exempt, why can’t the northern regions or Manchester or Birmingham…
Conclusions

Examining the relevant sub-national governance structures over a particularly unstable period of time, a number of points can be made:

If the aim is to make the regions of England an easy place to do business, it has to be recognised that the institutional environment, while placing relatively few constraints on inward investors, is complex. If securing inward investment is dependent upon securing positive, institutionally-derived advantages to locations, there is a need for brokers of some kind between the private sector and the range of governance actors involved at local and regional levels. While the RDAs did not always work perfectly in this regard, it is not at all clear how their role has been replaced.

There is probably no perfect answer to the question of what geographical level(s) sub-national development agencies should be at, in order to best manage what one of respondents termed “the flexible economic geography of inward investment”. Any attempt to draw local or regional boundaries around which sub-national activity is to be focussed is always likely to create problems of identifying boundaries, and of accordance with the geographic identities of the public and of relevant sub-national actors. Equally, between local, regional and national agencies, there is always likely to be either a degree of replication/redundancy, or gaps in provision. This is particularly the case in England, given the relative weakness of regions as a focus of identity or of civil society activity. However, a national inward investment agency, working without regional targets, is likely to exacerbate regional inequalities in the distribution of quality inward investment. Locally-led level inward investment activity can be relatively successful at in the largest provincial cities, which benefit from greater total resources and a ‘brand name’. The difficulties for peripheral towns in a post-RDA environment are likely to be much greater.

The regional level of coordination was withdrawn without sufficient consultation, including of large inward investors. Clearly some economic challenges require coordination at levels between the geographical scale of the typical LEP and the English national level. Regional-level coordination under the RDA model had relatively more support in the three Northern regions than in the rest of England. Whether this is related to the greater resources of RDAs in poorer regions, to the different issues faced, to internal organisational issues, or to matters of regional identity is unclear. It is though possible that the forms and levels of regional coordination required differ between regions. Any future attempt to create supra-local structures therefore needs to be constructed on the basis of what local/regional actors see as desirable and necessary.

From the perspective of more recent respondents, English regions that compete directly with the devolved administrations for investment face particular difficulties, given the devolved administrations’ enhanced relative capacity to coordinate activities around investor attraction and development. Peripheral regions of England therefore face the double challenge of a “UK First” FDI proposition favouring areas close to London, and an increased challenge from non-English geographies at their borders.

Two final, more general points should be made on the nature of economic governance. First, Britain has developed a tradition of “business-led” (but largely state-funded) governance institutions, with little general employer buy-in. It needs to be recognised that it is unrealistic to expect substantial employer-led coordination where institutional remits are vague. Employer participation in governance institutions (skills bodies, LEPs etc) should ideally involve decision-making on relevant matters within a framework. For LEPs to achieve success, both with regard to inward investment and more generally, they need to find ways of coalescing around projects in which private-sector managers and others can participate from a task-based, rather than primarily committee-based, starting point. Finally, funding for the coordination of economic development cannot only be project-based. Without infrastructure funding, the possibility of developing of institutional capacity such that it can create multiplier effects is likely to be limited. Some such effects work on a relatively long time-scale, and are not helped by continual radical institutional change.
CHAPTER 3
WHAT DO MULTINATIONALS WANT FROM REGIONAL GOVERNANCE AGENCIES?

Introduction

This chapter presents findings on why foreign multinational companies (MNCs) engage with subnational governance actors in England – entities such as LEPs, and earlier, RDAs, sector skills councils, training providers, and other organizations that help shape the ‘institutional environment’ of the locality at regional and sub-regional level.

The activity of MNCs takes place in a context, sketched in the opening chapter, of growing competition between localities to attract and retain foreign direct investment (FDI). This means that the institutional arrangements that are made at local level assume increasing importance in attracting mobile capital. The extent to which a locality can provide labour market skills, training, physical infrastructure, access to funding, and specialist knowledge resources impacts on its attractiveness to FDI. Of course, MNCs themselves actively help shape local institutional arrangements, as studies have shown (e.g. Crouch et al. 2009; Djelic and Quack 2003); and Phelps and Fuller (2001) go so far as to speak of the importance of the local ‘state–MNC nexus’ through which institutional arrangements are determined.

The chapter first examines the pattern of relationships between MNCs and sub-national actors, identifying the issues they interact on. It pays particular attention to issues to do with skills development, the external labour market, and redundancy and redeployment. Second, it examines the factors that influence that interaction. Finally, it considers the problems and tensions that emerge in the search for locally competitive institutional arrangements.

Patterns of Interaction

High-engage rs and isolates

The study found that MNCs fall into distinct groups: the ‘high-engage rs’ that serially and intensively interact with local actors, and the ‘isolate s’ who keep very much to themselves, self-sufficiently carrying out their economic activity with little concern for or engagement with local institutional arrangements. The isolates tend to be smaller firms, and subsidiaries with very specialist or niche skill-sets, or those whose competitive resource needs are largely furnished internally within the MNC’s wider supply chain. Nonetheless, big MNCs could be isolates, their size giving them a sense of self-sufficiency: the HR director of one firm, EngCo, which changed its stance from isolate to high-engage rs noted that...

...Quite frankly as you have probably come to appreciate huge multinationals can be quite arrogant sometimes in the way they conduct their business. And the fact is that I had not been aware when I came in here of any desire to actually engage with external help.

There are broader sectoral factors at work too. Thus large engineering subsidiaries, for example in the automotive industry, are particularly reliant on accessing external funding for capital projects, upskilling, and so on. In contrast, service MNCs in sectors such as IT look very much to internal corporate resources for skills development, or expect to ‘buy-in’ the highly mobile skills they need from an active external labour market.

In addition to these broad ‘structural’ factors the pattern of engagement also reflects MNC strategy. Some firms determine at subsidiary level or even at the global corporate level a strategic stance on engagement with local bodies in the markets where they operate. Thus EngCo changed its approach from one of non-involvement to a global strategy of engagement with local bodies and agencies as part of raising its profile in host markets. This was seen as important for positioning the company in competitive local labour markets and securing the future ‘talent pipeline’, as well as reinforcing the brand in product markets.

Finally, it was striking how far engagement depended in on the preferences and personal agendas of individual managers in MNCs. Some individuals were deeply committed to a policy of engagement that often led to their assuming roles in regional or local bodies such as sector skills councils and LEPs. For example, EngCo’s HR director was very active in working with agencies on the development of STEM skills in the labour force, and in the expansion of apprenticeships.

Routine relationships versus sporadic high-intensity issue-driven interaction

For those firms that interact with regional agencies, there appear to be two predominant modes. The first could be described as routine, protocol-driven and regular interaction associated with the calendar-set agendas of bodies such as sector skills councils, producer networks such as the Automotive Alliance based in one region, and so on. Thus to take a region that was not included in the study, the board of the sectoral skills council for manufacturing, SEMTA, for the South-East has representatives of several major engineering MNCs such as Rolls-Royce, Siemens, BMW and GE.
In contrast there is also a more sporadic, high-intensity engagement around specific pressing issues: for example, the securing of a new round of investment by the parent MNC; the search to meet particular workforce training needs; or handling the fallout from a major redundancy programme.

Interaction was often initiated by local agencies rather than by MNCs. MNC presence on governance bodies sometimes reflected the body’s desire to fulfil targets or ‘tick boxes’, rather than active MNC engagement. One respondent at the central level accepted that:

[The] challenge is to stop people interfering in an [MNC’s] expansion that was going along quite happily without us just so we get our name on it and we can count it. And that happens, where you’re kind of getting people jumping on the back of stuff that was happening anyway in order to look like we’ve been involved. [...] You end up with people chasing the wrong target and having lots of people knock on their door saying we can help, we can help, and then when it comes down to it actually they can’t really help any more than the next person could but they did need the tick in the box to help themselves. And that frustrates companies a huge amount.

But the involvement of sub-national governance actors could be more strategic and goal-directed. Governance actors – including on occasion central government – were often perceived to be wanting to get something out of MNCs in a process that the public affairs director of EngCo termed ‘reverse lobbying’. Thus in the northern region, agencies were interested in promoting local firms in the supply chain and tried to involve MNCs in this. But the agenda did not interest some larger MNCs because their supply chains were global ones. This was the case, for example, in automotive:

[The MNC] have got a worldwide contract on nuts and bolts so for a small organisation in Liverpool to suddenly knock on [our] door and say I want to provide you with nuts and bolts, we are going to laugh at them because we have a contract worldwide. (Training manager, VehicleCo)

There seems, therefore, to have been a process of implicit bargaining between governance agencies and MNCs: to some degree, each wanted something out of the other. This was exemplified by the midlands engineering firm, EngCo, whose new corporate strategy of engagement involved the establishment of a major apprenticeship programme (though in this case, the governance actor was central government rather than a regional player).

Politically as well, [MNC visibility] was an important aspect of it because again this whole thing about raising our profile, here is a wonderful opportunity that not only do we have a return on investment directly in the manufacturing space, but politically the government is going to love us because here is a major employer in the UK saying we want to invest in a large scale apprenticeship programme...

(HR Director EngCo).

The functions that local agencies perform for MNCs

Sub-national bodies performed a number of general functions on behalf of MNCs. First they act as ‘interest aggregators’. That is they collected and articulated the needs and interests of disparate companies, for example where a number of firms had similar skills needs that each firm was unable to supply on its own but for which a collective interest undoubtedly existed. Moreover, agencies could facilitate cooperation between competitor firms by exploring areas of common interest, notably in relation to skills. Such a role is central to the work of sector skills councils such as SEMTA for science, engineering and manufacturing technologies. As reported in Chapter 2, there were cases where the RDA realised that training and skills requirements, articulated by an individual firm in relation to its own needs, actually constituted a broader sectoral issue of skills provision. As a result, the RDA was able to aggregate such demands and bring to fruition provisions that benefited the sector rather than just an individual firm.

The second major role MNCs saw regional governance actors as playing was that of coordinator or gatekeeper, given the proliferation and changeability of governance bodies and schemes reported in Chapter 2. RDAs in particular were seen as providing a ‘one-stop shop’, simplifying access to a range of other pertinent local – and sometimes national – bodies such as the Skills Funding Agency or Job Centre Plus, further education colleges and universities, and it was unclear how this function would be performed with the demise of the RDAs (see below). Regional actors also played a mediating or brokerage role with MNCs, having the accumulated skills and contacts to deal with third parties on firms’ behalf. This is akin to the role played by the Welsh Development Agency in relation to MNC requirements, reported by Phelps and Fuller (2001). Such brokerage was primarily in relation to funding. This provision of a link to funding opportunities forms the third principal role perceived by MNCs, and one they heavily emphasised. The issue is considered in more depth below.

Brokerage could be vertical, to other layers of governance, as well as horizontal within the locality or region. For example, a Japanese automotive MNC highlighted an issue over the points-based scheme for importing foreign labour.

... the original set of guidelines potentially prohibited them bringing Japanese engineers over if they didn’t speak English to a certain level. Now in terms of them bringing people over to the UK to work with the production process, them speaking English is not the reason they’re coming, you can use a translator, there are plenty of Japanese employees ... who speak Japanese
and English via that service, it's the technical competency that's important in that context.

(Development agency official)

The firms approached the RDA which in turn conveyed the concerns to central government bodies (the then Department of Business Enterprise and Regulatory Reform, and the UK Borders Agency). As a result, the final points rating system was amended, removing the need for English language skill for intra-company transfers. This allowed MNCs from non-English speaking areas to transfer skilled employees to the UK to provide technical support for operations.

While RDAs, when they existed, provided a vertical conduit to higher levels of governance, there was less coordination horizontally, between regions. This was perceived as a problem particularly for multi-site MNCs operating across several regions, as was the case with firms like EngCo, VehicleCo and ChemCo for example. The first of these had around twenty sites spread across five regions, four in England. A UK executive of the firm saw his task as one of establishing and maintaining regular contact at a senior level with each of the respective RDAs. For these companies, the variability in quality, competence and proactivity of the RDAs was a concern. The executive of EngCo gave a frank assessment of the RDAs with which he had dealings:

I will be quite open because they are on their death bed. [One RDA] were hopeless... there was just no relationship, there was no empathy. And we did things with them and they were helpful but frankly they were just not orientated towards our sort of manufacturing type company. There weren't many of us in the region and quite frankly I don't think they knew how to handle it. They just weren't big enough in terms of resource or whatever. The [second RDA] were different ...

[The regional plant of EngCo] was one of the crown jewels for them in terms of promotion, and I had a very good relationship with them.[...] The [third RDA] were the best for us without doubt, they had manufacturing in their blood in one sense without being too emotional about it. But they were clearly very switched on to engineering, very switched on to companies like ours and immensely helpful, and full of people who I think were competent.

As this extract indicates, the reasons for variability in the quality of the service provided by RDAs were broadly twofold: first, regions varied in industrial structure and the role of large-scale manufacturing; and second, and relatedly, RDAs varied in terms of the level of skills, expertise and competence that they were able to offer major overseas manufacturing firms. Similar observations were made of other bodies, such as sectoral coordinating organisations, for example: that they were primarily geared to SMEs rather than to the needs of larger-scale, more complex businesses. Even when subsidiaries were small, they were part of large organisations whose needs were quite different from those of SMEs. The problems this caused were exemplified by the following anecdote:

We even had one situation up here where Business Link came in and told a company that employed 60 people here and 20 people in [a northern city] that they were eligible for European Social Fund money because they were an SME, despite the fact they employed 22,000 people in the States.(Executive of central governance agency)

The issues that MNCs and regional agencies interact over

The interactions between MNCs and governance actors cover a wide range of substantive issues. The nature and process of interaction tend to change over time. In relation to new investors, regional agencies were used for a variety of issues, primarily of infrastructure and labour supply, and the relationship to some extent involved coordination between UKTI and regional bodies, for example in organising site searches, and in securing labour availability, suppliers and access to support funding. For established MNCs, issues of skills and reinvestment predominated, while 'end-of-life' decisions about disinvestment and closure again prompted interaction between MNCs and agencies. Below, a number of the main issues are discussed in more detail.

The texture of the relationship was often one negotiation as firms tested their institutional environment with their regional interlocutors. One new manufacturing investor constantly probed the position of regional (and higher-level) actors.

In the UK for the work permits there's this point-based system whereby to bring overseas workers into the UK you now have to get 70 points on this criteria. [The foreign investor’s] comment was, "well OK, it's normally 70 but can we have 40?" So everything is a negotiating position because of the culture of that business. [...] They wanted to have manufacturing capability in the UK but they didn't want to incur the costs of doing that. So they felt the appropriate thing was to set up effectively a [east Asian] manufacturing plant in the UK, employing [east Asian] labour and use them. From an economic commercial point of view it makes [...] commercial sense. So you can understand why they want to look at that. We obviously very quickly persuaded them that they weren't able to do that but there was a role for bringing [east Asian] labour over to support the set-up and to support the skills, you know, knowledge within the business that they needed to bring in. (RDA official)
Reinvestment

MNCs already established in the region harnessed their existing relationship with local governance actors to build what might be called ‘investment alliances’. These typically took place in a context of global inter-plant competition for investment within the MNC. Two examples illustrate the way in which such alliances worked.

The car plant. In one automotive manufacturer, VehicleCo, the subsidiary set out to construct a broad coalition that included regional actors and central government in a strategic approach to securing corporate investment to build a new model. The UK plant was in competition with several other plants of the MNC in Europe and further afield.

I started with the local government first of all, with local trade union, with ourselves getting them on board. Then we went to the [Regional Development Agency, one of the RDAs, which was a great RDA. Then high level of trade union. Then I started to meet with [the secretary of state] at the Department of Trade and Industry at the time. And it’s about making sure that people understand what you are trying to do, the challenges that face you, and what is necessary from all of the stakeholders in order to deliver. And relative to skills I have got x million Euros in grant for this model for training, obviously with the great support of the government and the support also of the trade union. (HR Director, VehicleCo)

VehicleCo saw the value of incorporating senior union officials into the investment coalition, not least because of their importance in providing commitment to training requirements associated with new investment – as the above extract indicates.

From the point of view of the RDAs, investment coalition strategies could create problems (see chapter 2), particularly where an MNC had more than one UK plant and hence the possibility arose of inter-plant competition within the UK. In these cases, there was some tension between governance actors at different levels, with central agencies claiming a perspective on national interests as a whole that could differ from that of regional players:

...if you took somebody like say [two multinational motor manufacturers] with their plants at [English sites], then what was the role of [the development agency] in discussions with their local management as opposed to the discussions between HMG and the national or indeed international management of [the two MNCs]. That was always an issue, it was always a source of tension between the two, you know, who was actually speaking, who had the authority to speak. Because of course you do have a situation where [these two MNCs] had a number of different plants across the country, and where you could see the development agencies would always see it as being within their remit, within their interests, to try and maintain the plant in their region as opposed to elsewhere. So you had that bit of competition. (Representative of central government department).

IndustrialMachineCo’s location decision. A large global engineering and electrical equipment manufacturer, IndustrialMachineCo, responded to a severe downturn in sales following the economic crisis in 2008 with a review of its plants in different countries, with the aim of rationalising activities through plant closures and mergers. The MNC’s plant in a small midlands city was part of that corporate discussion, and questions were asked about whether that location was the correct one for the product line being manufactured there. The subsidiary’s activities were scattered across several different sites in the city, and the MNC’s proposal was to rationalise the operation by bringing all the activities together on one site, either at the existing location in the UK, or in competitor sites in eastern Europe or China. Local management’s response was to make the case for continued investment in the city. A successful case was built around the strength of the local supply network, the productivity of the local workforce and its specialist skills in areas such as product design, and the subsidiary’s burgeoning relationship with the local university for a range of graduate skills in business and engineering.

There emerged an investment coalition comprising the local management team of the MNC, the university, and the regional development agency. As a result, a viable new site was identified and a successful case was made to the IndustrialMachineCo board for investment to be retained locally.

One of the factors that enabled the emergence of such coalitions between firms and governance agencies (cf. Kristensen and Zeitlin’s 2005 account of local coalitions in the Danish subsidiary of a UK MNC), was the commitment of the subsidiary’s management team to the locality. In the case of IndustrialMachineCo, local managers ‘had grown up with the business in [the city]’. The issue of personal commitment of local managers is well expressed by a respondent based at the local university:

[Part of this embeddedness is what the intentions and the views and ambitions and the aspirations of the local team are. Are they here for two years and off or are they people who have grown up with the business? […] So there are different levels of agency within organisations which is quite interesting.

As this suggests, the personal career aspirations and strategies of key local managers are an important factor in determining the emergence of investment coalitions with regional actors at times of new investment or global rationalisation of operations, as in the two cases described (cf. Dönnębächer and Geppert, 2009; also Kristensen and Zeitlin 2005).
Training was seen as a crucial part of the bidding competition among plants in different countries to build the new model, particularly since technological advances placed additional demands on the workforce:

*Every plant had to put together a bid and part of that bid was what training you could bring to the table for your people. Because every time we bring a new model in there is a significant shift in the technology with that product. And VehicleCo are keen to ensure that we build a vehicle of the right quality at the right levels from day one. And training is very important when you are building a new product. So they were keen as to how we would manage that and what the cost would be. We were fortunate that we put together a good plan and the plan was funded to a large extent by [the RDA] so they helped us to be successful in bidding for the car. It [...] was part of a massive programme but it was I believe a significant part and it helped us be successful in the bid.*

As the extract makes clear, governance actors, including the RDA, had an important role in brokering the relationships that would allow skills and training to be available, and this included brokering financial support for training (see below).

In *IndustrialMachineCo*, likewise, securing the supply of skills was seen as providing a crucial competitive advantage that helped ensure the viability of a reinvestment bid. The subsidiary came to an agreement with the local university to set up an engineering school, a primary role of which was to assure a steady, long-term supply of tailored engineering skills, as well as to carry out research and development in collaboration with the company.

*We are actually the anchor because they [the MNC] wouldn’t be able to replicate the relationship they have got with another university pretty much anywhere else. So ironically we are the ones who stopped them from thinking about relocation to [eastern Europe or China] (Senior university executive)*

Beyond the sporadic and intense interaction over renewed investment in plants, training was an issue where, as mentioned earlier, development agencies played a role in addressing market failure (see the example of laboratory technicians, pg ?). It was the experience of development agencies that MNCs exaggerated the firm-specific nature of the skills that they required, and it took the broader perspective of an RDA dealing with many firms to understand sectoral requirements. Nonetheless, there does appear to be an important distinction between general skills where there is an interest in collaboration with other employers to create the appropriate skilled labour pool, and very specialist, highly competitive skills relevant to small numbers of firms where there is less of an interest aggregation role for.

One car manufacturer, *CarCo*, spoke for example of its very particular skills needs in digital design, which were company-specific and hard to generate through broader training schemes.

This interest aggregation role in relation to skills was easier to accomplish in some sectors than others. Thus in the automotive industry, there were a small number of large players who shaped the skills market, and it was easier to provide institutional mechanisms of coordination, whether through the regional entities of sector skills councils such as SEMTA, or through region-specific, ad hoc sector bodies such as the organisation representing automotive manufacturing firms and governance bodies in one region we researched. This organisation played a role in VehicleCo’s planning for the skills and training requirements for the MNC’s new model for which it was bidding.

But the role was broader too. Sub-national governance actors helped MNCs plan for the skills implications of foreseeable technological change, such as the expansion of the market for electric vehicles. As one training manager put it,
the resulting skills requirements affected the whole of the supply chain in the automotive sector, from batteries through to retailers, logistics, health and safety, maintenance and roadside recovery.

Another example of regional interest aggregation in the northern region concerned skills for the composites sector. Composites are carbon fibre-based materials used in the automotive, aerospace and other manufacturing industries. The heterogeneity of the sector and the variety of final products involved complicated the process of developing skills strategies, and as the following extract shows, a strategy was conceived of in terms of national rather than purely regional engagement between governance actors (both central government and sectoral), MNCs and other corporate players:

There are so many companies out there working with composites and aircraft industry, wind turbine, or certainly the blade manufacturers, they all at the time thought that they were using proprietary techniques and technology but they were doing broadly similar things in different parts of the country with different shapes and sizes. And it took a national composites strategy to bring them together to say well actually rather than being a bit of engineering that you tack onto everything else, what if we were to develop a framework of qualifications around the use of composites and the processes that people need. And that's what happened but it's taken 18 companies, three government departments, two Sector Skills Councils and two and a bit years. (National-level governance body official)

The focus of manufacturing MNCs in particular was on the supply of high-end skills, and here firms tended to be critical of some of the skills initiatives being undertaken, particularly by central government. Firms also criticised the gap between the identification of skills needs, and the practical supply of skills. In the words of the personnel director of CarCo,

... my view is [the sector skills council] are very clear and they articulate the needs of the automotive sector to align with our needs. [...] I think translating that into action is always much more difficult isn’t it, and that’s the challenge. So if you talk to [the sector skills council] they were very clear it’s about higher level skills, they are very clear it’s about some of the digital design skills, very clear it’s about some of our leadership and higher level manufacturing skills. That’s fine, no issues with that and there are any qualifications that meet that. The challenge that we have got as a business is how do we actually in this local area upskill people.... Because it’s fine having identified need, but how do you actually then meet that need?

There was a feeling among a number of respondents that the sector skills council, while expert at securing money from government, was less than strategic in spending it. The broader issue concerned the priorities of training expenditure by central government. There was a perception that money was more readily available for overly-generic ‘low-end’ skills at around NVQ level 2 than for higher and more industry-specific skills. This view was not necessarily held by all major firms. In the car industry, for example, MNCs were keen to take advantage of NVQ level 2 training schemes. Nonetheless, many MNCs were more concerned with the development of apprenticeship schemes at NVQ level 3 or even level 4 with a pathway through to an undergraduate degree. This was the case with EngCo in the Midlands, and with one northern engineering firm, AeroCo, which spent some years working with SEMTA as well as with industry competitors to develop a range of higher-level apprenticeships. In the words of a Midlands engineering subsidiary, MetalworkCo,

I’m always getting emails from the local training providers saying work with us and we can secure you this funding but when you delve into it, well we know how it works sort of thing and it tends to be too generalistic for our requirements [...] There needs to be more input from local employers and more control really given to how the funding is used. [...] We need to be more specific to like the heavy industry or the heavy engineering environment whereas what’s been offered is quite soft. [...] My view on the [regional] approach has been it’s very much around supporting SMEs who can’t afford to organise training in the way we probably could. (HR director MetalworkCo)

MNC respondents also were wary of relying on training providers to guide them through the labyrinth of funding opportunities, since the providers had a vested interest in pointing a potential client firm to provision for which they would receive funding on a per capita basis under government schemes. One response to this was for firms to seek more objective advice, for example from the National Apprenticeship Service, the body that oversees and funds the delivery of apprenticeship programmes in England.

Finally, MNCs used bodies such as Business Link or Jobcentre Plus to coordinate the recycling of skills in the wake of large regional redundancy programmes. For the firm making redundancies, local/regional governance actors helped place surplus skills back into the labour market; for other firms in the product market, agencies facilitated the access to the redundant skills. EngCo described its experience as follows:

...when [a regional motor manufacturer] were laying a lot of people off, that was a joint initiative between [...] our agency worker provider and [the RDA] to some extent, although it was more our initiative in saying are you doing something?
Because obviously the skill sets are very similar. And that manifested itself in us attending, well actually they had a job shop on site as you can imagine, because they were laying off a large number of people and we were, along with other employers, we were advertising our vacancies. (HR director EngCo)

The search for funds
MNCs commonly saw the gatekeeper role of regional bodies as providing access to sources of funding. RDAs and other bodies were seen as having expert knowledge of funding frameworks, whether at EU or national level, and having the skills needed to access funds for training, capital investment (e.g. for training facilities), and so on. The ability to tap sources of funding was regarded by subsidiaries as a source of competitive advantage. In the words of a Japanese car manufacturer, MotorCo, it helped ‘to keep business going, keep us here in the UK’.

Firms adopted a pragmatic, calculative approach to funding, for training for example, in the sense that they saw it as a way of lowering the unit costs of production, and hence contributing to success in the competitive corporate investment (or reinvestment) tournaments in which they were required to participate (see above). Thus VehicleCo explained how training subsidies were part of the package the plant had to offer in bidding for the new model. There were cost pressures on a plant to produce high volumes of a new model ‘from day one’:

So in order to do that you have got a lot of training to do up front with the people to get them so you can build your car at that rate. So that’s what [the parent company] will tell you, it’s volume, it’s also the cost. And they are not looking at cost as far as the training cost, they are looking at the cost as far as cost per car, which is sucked into the cost. [...] So the more you can get down your cost per car, the more volume, lower cost, then a better position you are in to bid for the car. So if someone else is willing to pay for the training [...] then the costs are reduced and your cost per car is going to be reduced. If you can do things smarter because of the training then you can reduce your costs. (VehicleCo plant training manager)

Crucial, therefore, was the ability of the subsidiary to coordinate funding for training. With the help of the RDA, and the Department of Trade and Industry, the subsidiary managed to line up nearly €10m in training grants for the new model.

Similarly, in IndustrialMachineCo, the RDA played a key role in putting together a case for remaining in the region that might appeal to the MNC’s corporate board. Part of this case was the provision of skilled engineers through the deal with the local university. In order to set up the training

We had a commitment of a million from us and a million from IndustrialMachineCo as the capital but we estimated it was effectively a 7.5 million build. So we went to [the RDA] to get match funding through ERDF single part match funding subregional, to get the outstanding 3.2 million to get it going. And [the RDA] I have to say were very good, they didn’t call it this but they fast tracked it through the ERDF process so we could get the capital. (Senior university executive)

EngCo’s HR director suggested that a key task for local managers of MNCs was to explain to regional actors and funding actors why multi-billion pound international corporations required local training subsidies.

Now that is always a very difficult thing to say because they would look you in the face and say are you telling me that a company with a $30-40 billion revenue stream around the world is not going to do this job unless we the RDA give you a million pounds, or whatever it happened to be.

We had to look them in the face and say yes because we would say at a plant level every plant in the EngCo world has to compete with every plant in the EngCo empire for new investment and they have to make their case as best they can. And in the end that sort of argument played.

For the same firm, part of the expertise and know-how of regional agencies was the skill required to avoid bureaucratic over-complication of the search for funding, for example by avoiding the need for funding to be sanctioned by higher-level governance actors in central government.

The relationship, a lot depended also on how the individual RDA got on with the London civil service. How you tailored your application bid for capital assistance. Some RDAs were much cuter than others about how to play the system to ensure the programmes did not unnecessarily have to go to London for approval. Because there was a financial limit, and if you were above it, it absolutely had to go to London and you knew then it would go round a completely different appraisal process and a much longer one. Whereas if you were cuter and stayed within the RDA approval limits it would be a whole lot more straightforward. It wouldn’t guarantee success but it would take you away from a whole lot of bureaucracy. (HR director EngCo)

The impact of institutional change
There was widespread concern that the changes in the institutional fabric resulting from the abolition of RDAs would exacerbate problems of coordination and integration, both across regions but most notably within them. The changes were seen to respond to the Coalition government’s localist agenda rather than reflecting a coherent and rational structure for promoting regional development, and the lack of coherence led some to expect that the new structure would be quietly abandoned as unworkable.
The notion that there was a single regional interlocutor, a point of access to other bodies and an entity capable of coordinating action among a range of governance actors, was seriously undermined by the move to LEPs. For example, VehicleCo was looking to encourage a Chinese components supplier to establish a subsidiary close to its operations in the northern region. As the HR director put it,

This is a problem I have got, now that the RDA has disappeared who do I talk to in order to make that happen. There I am, I am trying to bring company XYZ from China to here, they are already supplying us with parts and are desperate to establish a manufacturing base say somewhere within the UK, it's going to bring jobs which is exactly what the government wants. RDA has gone away, who the hell do I talk to? I have had meetings with senior people from [a regional county council] and [one of the LEPs], I have not had meetings with them, I had the RDA people involved and it's now ground to a halt. I am now in a situation where I am bringing our local MP in to see me in a couple of weeks time to start pushing this.

In other words, the responsibility for coordinating diverse actors to achieve a complex task – in this case, securing a new investment by a supplier – fell back to a far greater extent on the subsidiary itself. Such a situation would be likely to cause particular problems for relatively new and ‘unembedded’ MNCs.

For firms, such as EngCo, that operated multiple sites across several regions, the abolition of RDAs and creation of LEPs was seen as a ‘nightmare’:

There is no way we can have any degree of coordination across our entities [...] [The government] are wedded to localism and that in turn is not good news for big companies because there is going to be no consistency across, even within the old regions there will be no consistency. (Senior executive EngCo).

This was acknowledged by one senior governance actor:

Where you have large companies with 23 manufacturing sites across England, Scotland and Wales who really don’t want to speak to 23 different local authorities to manage their skills agenda.

A concern with the breakdown of horizontal institutional communication was paralleled by fears that the role of vertical coordination which RDAs had performed, linking regional and national governance levels, would be beyond the capabilities of local LEPs. As a result, firms felt they were losing an effective conduit for communicating to central government about business issues.

Because we have gone from a position whereby we had regionally based contacts that fed back into government reasonably efficiently. So if you said something to an RDA you would be pretty confident it could get back into government reasonably efficiently. So if you said something to an RDA you would be pretty confident it could get back in the right way into government. Particularly if it was a BIS related issue. And that our facility managers would have no inhibition about talking to an RDA if they wanted to, they would not be a threat. Whereas the long trail from [a northern LEP] to Whitehall might inhibit someone running one of our plants in the north east. So we have lost that connection. (Senior executive EngCo)

It was felt that the government recognised the danger, however, and the creation of a quasi-regional structure for BIS was seen as trying to plug the gap in vertical institutional linkages left by the abolition of RDAs.

The new institutional landscape created dilemmas of engagement for MNCs. Should they get involved in the new bodies, or not? One the one hand, involvement was important for access to the institutional networks that were necessary, for example, for mobilising resources and identifying providers for training programmes. On the other hand there was scepticism as to the quality and competence of the new bodies, and fears that, starved of resources, they would be little better than talking shops.

Some of our facility managers have asked me, “Should I apply or should I offer myself to sit on LEPs?” And I said, “Well it’s entirely your decision but you should recognise what you’re letting yourself in for. If you do join a LEP, because very few of them are genuinely business or business run or dominated, I think you will find there will be a lot of councillors, either former ones or otherwise, going into it”, and they are going to be sort of downmarket, crudely, could become downmarket talking shops on a Friday night with no money, no resource and little ability to do something massive. They could really struggle to make a difference I believe because they have got no money, no resource and that combination is pretty damming I think. (Senior executive EngCo)

When, despite the reservations, MNC executives did attempt to get involved in the new LEPs, their experiences sometimes confirmed the fears, with parochial local interests being seen to trump more strategic concerns with economic development of the locality, as the following instance illustrates.

...we have a highly competent facility manager in [the midlands], he runs a [component] plant with about 800 people, it’s absolutely a fundamental part of the business in the UK... And I know the MP very well, he is in his 50s, he has an industry background. He came to talk to us about the LEP because he is a great promoter of the LEP, he believes if we have to have LEPs the one in [the midlands town] had to be the best it could possibly be. And he said would this guy be
interested in putting an application in [...]. And the bottom line was he was, he put an application in and he got nowhere. And the [LEP] were hopeless, they were just all bordering on the rude that our guy didn’t even get an opportunity. So that message goes out on the EngCo network, guys this is what can happen if you put your head above the parapet. I am not aware we have got anyone in a LEP.

A central governance respondent confirmed that, at the time of the research at least, large local employers were ‘either through firm choice or through non-selection’ in many cases not represented on LEP boards. Without involvement of senior figures from key MNCs in their locality, LEPs’ credibility with MNCs as interest aggregator and gatekeeper would appear likely to dwindle rapidly.

In the new structure, UKTI and specifically the consultancy, PA Consulting, that delivered its services was seen as providing cross-regional integration and coordination for bigger MNCs in core sectors such as automotive, life sciences and ICT, in relation to such issues as recruitment, management succession, or training. Thus one official of the consultancy explained his role in the following terms:

...Where they’re multi-sited, that’s where I add most value because they’re needing more hand holding into the different bits and joining that all together for them. Whereas if you’ve got one company in one place with one skills issue, I can be polite and hand them over [to lower-level agencies] to deal with. But the real value is added where you’ve got 20 sites across the UK and they need it managed for them, and all the different relationships brought together, or they want to run a pilot in one or two places with a view to then going national with an apprenticeships campaign or a recruitment campaign.

Despite this expanded role for a central agency, however, there was some scepticism. Respondents acknowledged, for example, that for UKTI to play a coordinating role through the consultancy’s operations, the MNC’s needs had to come to its attention, at a time when inter-level linkages were, as mentioned, disrupted by the abolition of RDAs. Moreover, MNCs had reservations about the ability of the consultancy to play a proactive coordinating role. One major multi-site MNC, EngCo, claimed to deal only rarely with UKTI or the consultancy, and saw it as mainly concerned with exporters ‘to assist primarily people who are not well connected externally’ (senior executive EngCo). Indeed, the firm saw itself more as supporting UKTI in the latter’s efforts to attract inward investors, by showcasing ‘who is already in the UK and therefore, to potential inward investors, a major reason why they should consider coming to the UK versus somewhere else’.

Conclusion
To summarise the main argument, what MNCs want from sub-national governance actors is:

- Access to additional funding, particularly where this helps them retain investment in the region, or attract new investment into the site
- The ability to provide access to a proliferating and changeable range of relevant bodies such as skills and training providers, at regional level
- To act as conduit if necessary to actors at higher institutional levels, notably central government
- Expertise in identifying, aggregating and articulating interests from a range of firms, particularly at a sectoral level, so that resources can be targeted for example on the development of new skills needed by the sector as a whole
- In the case of new inward investors, help with identifying and developing appropriate physical infrastructure, such as suitable sites that have appropriate infrastructure and are attractive to mobile key employees.

There are a range of relationships between firms and governance actors, from low-key routine links to high-intensity, issue-focused bursts of activity. Many MNCs simply get on with their economic activity and have little if any interaction with the institutional actors.

A number of issues were evident, particularly concerning the proliferation and changeability of relevant bodies, in the relationship between MNCs and sub-national governance actors. The plethora of potentially relevant bodies and the frequent institutional tinkering created significant problems of coordination that were only partially resolved by the intermediary role of the RDAs. Such problems were more severe for multi-site MNCs that operated cross-regionally within the UK. Institutional volatility – the constant development of new bodies partially supplementing or replacing existing entities, combined with a multiplicity of central initiatives whose complexity frequently baffled MNCs – was a fact of life. But volatility affected not just the schemes available, e.g. in training, but also the basic institutional fabric of the regions during the time of our research, with the abolition of RDAs and their replacement by LEPs.

The new structure provoked considerable unease and scepticism among MNC respondents about the ability of the arrangements to perform the coordinating and integrating functions that RDAs had previously performed, however unevenly. The danger of such volatility was that the hard work of building effective networks linking institutional actors and MNCs would be undermined. The
‘institutional memory’, based as it was on the networks of individuals operating within these structures, was in danger of being lost to the system.

Other potential problems are apparent in the ‘MNC–local state nexus’ (Phelps and Fuller 2001). While the interests of sub-national governance actors, particularly inward investment agencies, and MNCs largely overlap, they are at times dissonant. The former are concerned with the broader picture of regional economic development, not just with the corporate interests of particular MNCs, and this difference of perspective sometimes created tensions. On the other hand, there was also the danger of a relationship so close that in effect a dominant MNC could ‘capture’ or ‘colonise’ governance bodies, with the result that the latter pursued particularist, sectional objectives rather than broader ends of regional development.

Finally, the evidence suggests some wider implications for how we understand the institutional fabric. Firstly, the results tell us something about the nature of MNCs. These are not homogeneous, monolithic entities, but rather collections of operations with overlapping but sometimes conflicting interests. This is seen most clearly in the strong alliances between local MNC management and shifting constellation of governance actors ranging from the regional development agency to the sector skills council, and a plethora of training providers at different levels; in some cases alliances also involved working closely with senior trade union officials. Such ‘locational coalitions’ were most vibrantly observed in relation to planned strategies for securing new investment, or continuing investment, in a plant that was regarded as a key, embedded element of the regional economy.

Secondly, the study emphasises the dynamic and creative nature of the relationship between MNCs and governance actors. Together they give meaning to the institutional fabric through their interactions. In other words, institutional arrangements are not some given, inherent or pre-existing context that defines the characteristics of a locality. On the contrary, they emerge dynamically out of the negotiations and alliances of MNC subsidiaries and governance actors in a locality. As was seen in examples such as that of VehicleCo, firms and governance actors work together to create the institutional environment in terms of the availability of appropriate skills that are needed for the MNC to perform and expand its economic role within the locality. Thus there is an important role for ‘agency’ and proactive creation by local governance actors, in alliance with local management, of the conditions for embedding high-skill MNCs. Moreover, and relatedly, the findings indicate that governance roles are blurred. MNCs frequently themselves performed a quasi-governance function, singly or more commonly as a collective, for example over sector skills planning for future needs in industries such as composites or motor manufacturing, or in the development of apprenticeship programmes. The borderline between private firm and governance actor could thus becomes indistinct.
Introduction
Translating policy into action is dependent on both the structures that are created around a set of formal rules and actors and the emergent social relations that underpin such structures. The resulting interdependency and dynamic between structures and social relations define the engagement and participation among relevant stakeholders which is necessary to both develop and deliver policy with impact. The analysis here seeks to shed light on the structural characteristics of the relationships between governance actors and multinationals that aim to retain or attract FDI through labour market skills and competencies, within a regional frame of reference. These structures we refer to as the regional human capital development network (RHCD network).

There are two key points to consider when interpreting the analysis that follows. First, the particular focus here is the nexus between multinationals and governance actors with respect to skills or competencies issues. Many of the sub-national governance actors and multinationals may connect on a wide range of issues in a number of different arenas. However, these other areas of activity are not considered as part of this analysis. Second, as we shall discover later in the analysis the membership of the network of interest is potentially extremely large. Consequently it was not possible in interview all possible actors, but instead through snowballing to follow a trail of key informants who were able and willing to take part in this work. Despite these limitations the data collected enables us to develop a range of different types of graphical representations and statistical analyses based on ego networks.1

The Network as a policy tool
The RHCD network that emerges in the context of FDI reflects a policy network of interdependent governance actors and multinationals that has a shared interest in advancing labour market skills policy, provision and/or delivery. As such the network members may be formally or informally institutionally linked (Rhodes, 2007). The linkages between network actors reflect the flow of resources which may take the form of tangible resources such as funding for the delivery of training. But equally intangible resources in terms of knowledge and expertise regarding how to leverage available funding or identifying emergent shared skills gaps and creating collaborative partnerships to deliver solutions. The policy arena of labour market skills has always been defined by a division of responsibilities between government and private stakeholders. However, the drive toward partnership based public policy development and implementation underpins modern democratic policy and the recognition of the interplay between governance actors and market forces is a cornerstone of ‘Civil Society’ (McArther, 2008). The ability of networks to deliver positive economic and social impacts is consequently dependent on the efficiency of the structures and the social relations that characterise the flow of resources and outcomes.

The links between actors may arise from political opportunity, institutional roles, personal preferences, reputation, or social trust (Bainbridge, Potts and O’Higgins, 2011; Leifeld and Schneider, 2010). Assumptions and perceptions among network actors with regard to the ability of the network to deliver against some of these drivers are critical in determining engagement and participation activity. Further, the delivery on outcomes is largely subject to discretionary decision making which is shaped by constraints on resources and interpretation by individual actors (Lipsky, 1980). As a result the devolved nature of network structures can mean loss of central control by policy makers - associated with traditional command and control models of public policy implementation - making evaluation of policy impact more difficult and the criteria for policy success more diffuse. Therefore, while network structures have become a popular mechanism for integrating policy efforts with market demands, their complexity, the multiplicity of actor interests and dispersion of power makes the realisation of desired impacts challenging.

The analysis here will begin to address the challenge of using network structures in the arena of labour market skills and FDI by exploring the membership and ties between governance actors and multinational firms. The analysis suggests the network conveys signal regarding the status and hierarchy of actors, and the centrality and connectedness of network members. The resulting Regional Human Capital Development Network can be characterised as a series of loosely connected sub-groups which use both closed and open ties within. Arguable such a structure provides dynamic capabilities allowing the variety of stakeholder interests and motives for discretionary engagement to be managed. On the other hand the limited coherence across the network gives rise to a level of complexity that makes the outcomes or impacts difficult to track.

Network Analysis
The method used to interrogate the data is
Social Network Analysis (SNA). This method can be used to provide insight into the ties between network members with respect to issues such as responsibilities, accountability, resource flows, distribution of power, dependency, cohesion and importance (Wasserman and Faust, 1994). SNA usually considers a network of actors that operate within a prescribed policy ‘boundary’ which in this case is labour market skills and development activity focused on attracting or retaining foreign direct investment at a regional level. The attributes and relationships of actors can be represented graphically through nodes and ties respectively. The nodes represent the actor and their attributes (e.g. policy maker, policy implement, governmental actor, educational actor). The ties are the links between the actors which can be described in terms of presence or absence, strength, direction, centrality relative to other actors (Wasserman and Faust, 1994).

The method of identifying the network population used was snowballing beginning with a set of policy actors that have designated responsibilities for FDI investment regionally and labour markets skills i.e. the Regional Development Agency (RDA) and associated government body UKTI. Through the analysis of documents and interviews with RDA staff a list of the names of other organisation they have ties with was constructed. Each interviewee was asked about their ties to other organisations and in this way the list was added to until no further new organisational names arose. The snowballing techniques was particular pertinent in this instance as it was the only feasible and reliable way of identifying the multinationals and smaller organisations engaged in these networks. Further the discretionary nature of actor engagement in this particularly type of network meant that no publically available list of network members existed.

Characteristics of the Regional Human Capital Development Network

Analysis of networks has provided insight to how and why they can be a powerful tool for mobilising resources. As a consequence actors within the network can hold different positions and roles which reflect the dependency between actors, the effectiveness of information flow or access to resources. We examine the data collected to graphically and statistically explore issues of signal, centrality, density and structural holes.

Signalling

Networks can provide a signal to the market place regarding the quality or status of network actors. For example, the status of a newcomer to an industry and region may be inferred from their relationship with other high-status network members (Baum, Calabrese and Silverman, 2000). This is important as it could be a lever that policy maker use to engage multinationals or other key players. Within the networks observed as part of this work the policy groups had clearly identified significant FDIs that they made efforts to engage with. However, encouraging FDI engagement in policy objectives was strongly linked to both parties being able to identify mutual gains from engagement. Figure 1 shows the ties between the actors engaged within the Regional Human Capital Development (RHCD) Network.

In total the diagram represents 77 individual actor network members represented through 137 ties. The colour coding on the diagram indicates the different types of actors that are involved within this network. The variety of stakeholders active within the network is clear:

- The multinational companies (MNCs) are represented in grey
- Blue represents the sub-national governance actors including the RDA, Business Link and regionally offices/representatives of the Manufacturing Advisory Service (MAS), job centre plus, Learning and Skills Council (LSC), National Skills Academy (regional office)
- Red represents the national government actors such as BIS, UKTI, Skills Funding Agency (SFA), STEMNET, National Skills Academy, National Apprenticeship Service
- Green represents specific skills groups such as SEMTA, Connexions, other sectors skills councils
- Black represents university both regionally and nationally within the higher education sector
- Dark green represents union driven Union Learn
- Dark grey represents local colleges within the further education sector
- Yellow represents employer led associates such as Engineering Employers Federation, Institute of Directors, Confederation of British Industry (CBI)
- Finally the political arena represented in light blue includes county, city and local members of parliament or councils.

This graph allows us to explore if the different types of network members hold different positions within the network and as a result have a different role, access to resources, power and relation to others. It is clear from the diagram that national government actors (red), for example, have a quite distinct position in the network compared to sub-national governance actors (blue). The later have closer ties to a much wider range of MNCs and are more central within the network overall. The former by contrast take up peripheral positions in the network and tend to tie with a much smaller number of MNCs and educationally institutions. This is likely to reflect the distinction in roles with specific central government actors having relations with a small number of large FDIs and associated skills funding. It could be argued that there is a hierarchy within the network which signals the status of the MNC with significant FDIs and related skills issues being addressed by central
government departments whilst responsibilities to other FDIs are devolved.

The employer associations also take up peripheral positions within the network and where ties exist these are directly with the firms. The position of the MNCs within the network is interesting in that it demonstrates the diversity in the level of engagement. There are a number of MNCs (e.g. MNC6, MNC18 and MNC20) that have multiple ties with a range of different types of actors and therefore hold a more central position. In contrast there are many that have relationships with a very limited number of actors i.e. 1 or 2 other actors and therefore sit on the periphery. Also notable MNC5 and MNC13 are examples of actors that are significant investors in a region but have had no active engagement on skills issues during the lifespan of this research. This is an important characteristic of the network for it demonstrates the reality of the network in that some actors may take on observer roles or become inactive as the dynamic and priorities of the members themselves change.

Centrality and Density

An actor in a network is considered prominent if its ties to other actors make it prominent. One form of prominence is centrality where an actor has many connections to others. One measure of centrality is the number of ties an actor has with other network members (Wasserman and Faust, 1994). Much of the research on centrality has focus on the inter-organisational relations amongst private firms. The relationship between governance actors and private actors is less well documented. However, the evidence from inter-organisational analysis shows that ‘centrality increases performance’ (Tasi, 2001, 2002). The higher an organisation’s centrality the greater its absorptive capacity i.e. it ability to learn from and utilise the information it accesses (George, Zahra, Wheatley and Khan, 2001; Cohen and Levinthal, 1990).

Another important characteristic of a network is the extent to which its members are connected.
to each other. One measure of connectedness is density – a network with complete closure is one where the actors are connected to each other. Therefore density provides a measure of the ties between actors in the network. Coleman (1988) suggests that where members of the network are very close to each other then trust is higher and transaction costs are lowered. These types of networks have been associated with increased knowledge sharing (Rowley et al 2000) and enhanced network performance (Ahuja, 2000; Uzzi, 1997).

An alternative measure of connectedness is what are referred to as structural holes. Coleman (1990) argues that structural holes are the opposite of density. In other words this occurs in a network where there is a hole between two actors which are both connected to a third actor, but not connected to each other (Burt, 1992). The actor that can bridge the structural hole can lever benefits via access, timing and referrals.

Some have argued that rather than structural holes and density being opposites they are in fact complementary (Burt, 2000; Reagans and Zuckerman, 2001). The argument suggests that organisations need to access information and/or resources outside their group, but the individual members of the group need to share the information with each other in order to gain benefits from it. When there is competition outside the group then structural hole create opportunities for social capital among those that can span the structural holes. In contrast when collaboration is needed within the group then closure can help create social capital to deliver collaboration. In sum, social capital is an important mechanism through which resources are leveraged but the conditions under which they operate can vary.

The value of closure and structural holes has also been found to be contingent on the nature of the knowledge being explored in the network.

Specifically, where network members are attempting to exploit knowledge already gathered then closure in networks is more productive. This for example could be reflected where network members have identified a competence development need and group of interested firms are working closely with educational providers and funders to deliver an intervention. In contrast, if the network is concerned with exploration strategies where the objectives and outcomes are not yet crystallised then structural holes and less density is preferable as it enables information from outside group boundaries to be accessed.

Figure 2 helps us explore the centrality and connectedness of network members. Here the number of ties an actor has with others is reflected by their size on the graph. Thus whilst the network is large all members are not connected to each other but instead there appear to be multiple core groups or sub-networks within the overall network. These subgroups are more closely tied to each other than they are tied to other subgroups. For example, there is a sub-group around Natgov6, and examination which organisations are tied together it suggests this sub-group is primarily concerned with scoping, developing and planning skills policy. Specifically, the sub-group involves a range of actors include higher educational bodies, significant MNCs and sector or skills groups.

There is also a subgroup around MNC18 which reflects the MNCs relations with political actors and local skills providers, employer associations. However, although there are subgroups within overall network it is relevant to note that none of these subgroups are isolated within the overall networks. It could therefore be argued that the overall RHCD network has multiples hubs which reflect differentiation in the resources, power, and interests of each hub.

Statistical exploration of the relationships underpinning these networks indicates that subnatgov3 (i.e. the RDA) is the most influential in the sense that it has by far the greatest number of ties with other actors in the whole network i.e. 32 direct ties with other actors specifically on skills issues impacting on FDI, this translates to connections with around 40% of the whole network. Natgov is also a significant source of influence have 22 network ties corresponding to 28% of ties within the network. Other key actors are subnatgov9 (new LEP structures) with 12 ties (15% of the network); sectoralskills2 with 16 ties (20% of the network); and multinational 6 with 12 ties (15% of the network), multinational 18 and multinational 17 with round 10% of the ties to other actors.

Generally those with much higher levels of ties and those with very few ties are predictable in the behaviour patterns i.e. they are likely to sustain high or low levels of behaviour over the longer-term. However those will medium level ties as in the case of the multinationals or the new LEP structures we would expect to be more difficult to predict and could strengthen or reduce their ties long-term depending on a range of network factors from available resources to transaction costs to trust relations. Given this policy network is undergoing significant readjustment with the demise of some policy actors and rise of new policy actors there is a large group of network member that may continue to engage but could equally disengage if the conditions are not perceived as conducive. What is also clear from the graphical and statistical analysis is the influential role the RDA has undertaken within the network in terms of ties to other actors.

The density measure confirms that overall the network is not constituted of closed relations where a lot of the network members are tied to each other. Here overall density of the network was .02 where 1 represents complete closure of
the network. Network density is thus very low. It is also possible to examine the density of the networks ties within each of the groups of network actors such as the national policy actors or the sub-national governance actors. Here the density figures show that density is greatest among the sector skills group where the number of actors is also very small (density .3), followed by the sub-national governance group (density .06) and the national governance actors (density .05). Network density among the actors within the other groups was much lower. Thus overall the policy network is wide ranging with a lot of actors but the relationships between these actors are loose. It could be argued that this is a preferable structure for a policy network where it is important that a small number of actors can link to larger groups to sharing or disseminating knowledge. But equally the development of sub-groups could be an efficient means through which competing priorities between groups of stakeholders can be managed across groups. Also those group members that share priorities can develop closed relations where trust can facilitate speedy and innovative solutions. This issue of the benefits of subgroups and their structures is explored further through Figure 3.

In figure 3 we focus on the ties of one specific network member Subnatgov3 (i.e. the RDA). Within this sub-group the RDA holds a central position having the largest number of ties than any other actor in the group. However, overall the density of the sub-group is low at .16. This is because many of ties are not close but instead reflect the classic ‘star’ shape whereby a single actor has a connection with multiple others, but the others are not connected to each other. The analysis reveals that the RDA is an ideal position to act as broker. When compared to the position of other network members from the overall network, the RDA was found to have the highest number of potential brokering relations at 692 i.e. there were potentially 692 pairs of relationships between other network members that the RDA could broker.
We can drill down further in the analysis by examining the ties between 14 members of the wider network that describe the direction of the relations they have with each. In terms of direction we mean whether the network member is a source of information or a receiver of information. As might be anticipated the direction of exchanges between the network members if two-way. For example, MNC18 shares information with the subnatgov3 (RDA) and vice versa. The central position of the RDA reinforces its position in connecting actors that would not otherwise be connected to each other. In other words there are a large number of structural holes around the left hand side of the graph. However, on the right of the graph we can see potential structural holes being filled by the SectSkill2 (in this case a regional SEMTA group).

**Conclusion**

One of the benefits of the social network analysis method is its ability to capture in visual form the complex systemic relations between a wide range of actors. The analysis here had illustrated the existence of sub-groups that are loosely tied together. We might have anticipated much higher levels of density within the network reflecting tight ties between governance actors and multinationals in addressing skills issues. However, it is very apparent from the example examined here that the terrain is characterised by a small number of closed ties and a higher degree of open ties. In these circumstances we see a small number of governance actors performing a brokering role. It remains to be seen whether the institutional restructuring currently underway will generate different relations.
between governance actors and private firms. However, where brokering relations are common we also tend to find a single organisation and its members build up significant institutional knowledge regarding how to leverage resources within the network. This again has implications during structural change with regard to where this knowledge goes and the time that may be taken to generate new institutional knowledge among partners. The interview evidence would suggest the institutions are already accommodating to this need through the movement of personnel from old institutions to new.

The lack of density and by implication the large number of structural holes within the network may reflect the resource dynamics underpinning ties within this specific network. Much of the activity within this network is driven by funding. The network structure appears to operate as a means of matching funding to small numbers of actors rather than whole groups of actors. Once the funding finishes the ties are broken. Equally, competition between the multinationals may be more dominant than the desire or need for collaboration. Therefore, as long as a perception of competition between actors for limited resources is prevalent the expectation for collaboration and closed ties among network actors will not be met.

**Endnotes**

1 Ego networks can be collected through survey or interview where a list of network members is generated and then individuals are asked about their ties to those on the list.

2 Graph based on the ego networks of 14 focal organisations

3 Graph based on the ego network of the Regional Development Agency
**Introduction**

In order to gain a fuller understanding of relations between sub-national governance actors and MNCs under a variety of economic and political systems, our research has been replicated across six other regions in three other countries. These were Canada (Quebec and Ontario), Ireland (Shannon and the Gaeltacht region) and Spain (Asturias and the Madrid region). With the exception of Ireland, research is still ongoing at the time of writing. This chapter therefore briefly summarises findings to date.

**Spain**

Spain is a notably less liberal economy than the other nations under comparison here. It also has among the highest degrees of regional political decentralisation in Europe. Spain is divided into 17 Autonomous Communities with directly elected parliaments and governments. These have extensive competencies in planning, transport, culture and sport, agriculture, health, education and social assistance, as well as economic development. References by our interviewees to "the government" frequently meant the regional rather than national government. The drivers for decentralisation remain political rather than economic, related to (continually renegotiated) compromises between the national state and sub-national political actors; the latter are, in many Autonomous Communities, either strongly regionalist or sometimes, to a greater or lesser degree, separatist.

While we have some evidence, particularly from the Madrid region, of large multinationals seeking political deals with national governmental actors, the broader picture is that public responsibility for the attraction and retention of FDI is held at regional (Autonomous Community) level, with the national state having relatively little direct involvement. Substantial FDI, particularly in the automotive sector, dates back into the Franco era (1939-1975). The modern competition for FDI, however, dates from Spain’s entry into the European Community in 1986. Since then, there has been intense geographical competition for FDI. While, as elsewhere, there is obviously competition between localities with regions, and, where local authorities are relatively powerful, such as the city of Madrid, there remains the possibility of conflicts of jurisdiction between local and regional development agencies, the locus of this competition is primarily regional. This competition has centred not only on new investment, but also, in some peripheral industrial regions such as Asturias particularly, on maintaining employment within large privatised plants in the extensive formerly nationalised sector, which have been extensively rationalised as their ownership has largely passed into foreign hands. Regions have inward investment agencies with substantial day to day autonomy, but under the control of regional governments. These are fairly political institutions, with their leadership subject to change following the political fortunes of the regional government.

Given the substantial autonomy of regional governments, regions have been able to seek FDI through intra-national variations in elements of the sub-national business systems facing potential investors, and to adopt different approaches to wider coordination – Madrid is the epitome of neo-liberalism in a Spanish context, while Asturias has, since the 1980s, largely followed a form of ‘business-friendly social democracy’, with employers’ associations and trade unions having an important role in governance of the regional political economy. There is obviously a risk that, within a country comprised of what some of our interviewees regarded as 17 ‘mini-states’, such competition becomes ‘zero-sum’, based on competitive grant or loan offers from the public sector. Heavy reliance on grants in the 1980s and 1990s, and the subsequent closure of some plants which were publicly funded, has indeed contributed to the negative image of MNCs among much of the Spanish public. On a broader basis, interviewees involved in the defence of existing large plants, particularly trade unions, were well aware of the problems of potential ‘regime shopping’ within Spain.

At the same time, foreign MNCs in general did appear to be more integrated within regional business systems in Spain than was the case in the UK (or Ireland). In general, strategic initiatives at the subsidiary level seemed to receive fairly effective support from governance actors, either through regional inward investment agencies, or more directly through relations with regional Ministries. In Asturias in particular, subsidiary-level actors had been successful in attracting global or European-level mandates, including significant research and development activity. The existence of clear and relatively powerful regional-level interlocutors was generally acknowledged as important here. Additionally, in a comparative perspective, the
existence of strong regional identities did seem to be an important factor in creating consensus and relatively strong ties between the actors involved. The importance of regional government itself contributes to there being a convergence between the geographical scope of political governance areas and regional economies, although this operates in a non-identical way across Spain; Asturias, for example, is for reasons of physical geography a very self-contained regional economy, with little inter-regional commuting, for example, while Madrid, as the capital region attracting substantial headquarters as well as industrial FDI, has much more fuzzy economic boundaries, perhaps making regional actions harder to coordinate.

While collaboration with higher education institutions was cited as being of importance in some investment decisions, it would though be an exaggeration to see Spanish regions as examples of strong regional innovation systems. MNCs, particularly those outside the group of foreign-owned formerly nationalised enterprises, were not very actively embedded with skills institutions. In other words, the productive systems of MNEs were created at one remove from formal qualifications, and employment systems often at one remove from national and regional industrial relations actors, with a heavy reliance on firm-based systems. Thus, as previous research on employment relations in MNCs in Spain has found (e.g. Ferner et al 2001), the apparently densely institutionalised framework of Spanish employment is in fact very malleable as applied to MNEs; particularly among new entrants, regional or subsidiary-level compromises allowed for the creation of various forms of non-union HRM or of micro-level social partnership arrangements, both of which would be extremely difficult to establish in large Spanish-owned firms.

While the qualifications and skills of the Spanish workforce within MNEs were not generally seen as problematic, managers dependent on relatively localised supply chains did have concerns with entrepreneurial and managerial capacity within the ‘industrial tissue’ of smaller enterprises which often had previously fairly captive markets in nationalised enterprises. This was also a concern of investment agencies, particularly in the more industrial economy of Asturias. This did lead the managers of some subsidiary units to engage in quality initiatives with indigenous firms, through open days, membership of quality clubs, etc., going beyond immediate market needs, on a fairly ad-hoc basis.

Ireland

Ireland, perhaps partly because it is much smaller than the other two countries considered here, has strongly centralised political administration, with 94 per cent of public expenditure decisions made at a national level (O’Broin and Walters 2007), and a fragmented sub-national infrastructure. While both the regions in which we carried out fieldwork have economic development agencies, their remit is somewhat limited. What is most distinctive about Ireland, however, is the weight of FDI within the economy. This is driven by a long-held political consensus over an FDI-driven industrial policy, with support for low corporation tax and liberalised trade policies extending throughout the political class.

Thus, certainly compared to England, and despite fragmented sub-national government, Ireland has an articulated FDI-oriented business system. Thus the attraction and retention of FDI in Ireland operates via a hierarchy, with a predominantly national level orientation. The national inward investment agenda, Industrial Development Authority, Ireland (IDA Ireland), has an extensive remit and is relatively powerful; this tends to override regional focus, as where FDI locates within Ireland is not a primary consideration for IDA Ireland. Below this national-level tier, higher education institutions and networks of supply chain firms operate as a secondary body of institutions central to the attraction and retention of FDI. The sub-national level substructure – local and regional government, the local offices of IDA Ireland, regional development agencies – has some role in local networking and access to resources, but overall has always had a much more limited role.

Within this formal picture, Ireland is also marked by the distinctive importance of informal networking – both among MNCs, among institutions, and at the intersections between the two – at the sub-national level. Institutional action tends to coalesce in relation to FDI. Institutions tend to adopt a homogenous perspective on the role and importance of FDI to national and local economies, and thus systematically engage, both formally and informally, to encourage a positive environment for FDI. Institutional engagement with MNEs occurs both on a personal level and a formal institutional level, to enhance positive interactions and establish good relations within the sub national environment. Finally, there is evidence of MNCs engaging in positive, informal or semi-formal networking, namely collaboration on winning new mandates and investment, sharing best practice or on issues of common interest, such as infrastructure within the sub national space. It appears there is a significant tendency for MNC subsidiaries in Ireland to interact with other Irish subsidiaries in order to enhance their position to corporate. Additionally, the informal relationships of local subsidiary managers within and between MNCs in the sub national location offer a significant contribution through the informal transfer of knowledge, access to unique resources and personal networking. This sort of activity within MNCs appears to go well beyond what is found elsewhere.
This is partly an effect of the existing weight of FDI within the economy, and the concentration of managerial talent towards the foreign-owned sector. Interviewees repeatedly argued that, over time, Ireland had developed a cadre of managers who had become schooled in an MNE environment; they had developed skills and political acumen, not only on technical issues of management but also in developing and influencing corporate decision-makers, attracting new mandates and generally embedding MNCs more deeply in Ireland. This is also affected by a particular form of overspill resulting from a pattern of former MNE managers setting up supply chain operations.

FDI in Ireland is fairly strongly ‘clustered’ on a sectoral-regional basis. There is however no evidence of a deliberate policy to strategically produce clusters in Ireland but rather, the natural and organic growth of particular sectors in particular locations has been identified by institutions and now offers a source of advantage. A range of institutions have now adopted the perspective of clusters in Ireland, with IDA Ireland using the presence of sectoral clustering as a marketing tool to attract new investment. Third level educational institutions are fostering strong research links with local industry to enhance research capabilities and skills development. Also, local indigenous industry is being promoted by other institutions to create a supply network in the region. Therefore, while clustering in Ireland was initially serendipitous – associated largely to the availability of resources – the presence of a cluster in a location has been identified by local institutions and is currently being adopted as a potential means of attracting and retaining investment. The presence of strong personal relationships between industry actors and managers within the sub national environment has been recognised as a significant tool in the transfer of knowledge, developing subsidiary portfolio and embedding the subsidiary within the location.

In summary, in the formal sphere the national investment agency IDA Ireland is of over-riding importance. This organisation in many ways reflects a national consensus on attracting and retaining FDI in Ireland. For all significant actors, whether specifically mandated to do so or otherwise, putting on the ‘green jersey’ and helping this effort is important: while issues of the intra-national distribution of investment are not absent, they are of secondary importance. This very strong consensus also somewhat overrides the ‘skills ecosystem’ role of some institutional actors, with solutions sought more by direct networking rather than, as is more the case in England, navigating the formal skills system.

Canada
Canada is broadly a liberal market economy by any European standards. However, it is notably less ‘liberal’ within a North American context, with a larger welfare state and a somewhat more employee-friendly employment system. Outside the large natural resource sector, Canadian provinces compete for FDI on the basis of high quality general education and vocational training. Interviews also revealed that relatively open federal immigration policies were important in attracting FDI by increasing the possibilities of attracting highly educated and skilled workers; this was particularly the case in Ontario, which is in very direct competition for investment with the Northern United States. Overall though, the concentration of governance actors on development through foreign investment was perhaps somewhat more moderate than in the European economies examined here. In Quebec, in particular, the provincial state’s development strategies, while encouraging FDI, remained pre-occupied with the development of internationally competitive local firms.

The provinces of Canada (Ontario, Quebec, etc.) have, by any standards, an extremely high level of autonomy over most domestic affairs. Provincial governments are the key actors with regard to FDI governance policy, and also have substantial autonomy over issues related to employment and skills governance. Beneath this, sub-provincial ‘regions’ have very little political autonomy.

The main locus of politics in Quebec is separatism vs. federalism. This is important for two reasons. First, provincial state attempts to reinforce a Quebecois national identity extend to the field of economic coordination. Second, electorally, conventional conservative parties are blocked from power. Quebec consequently has pursued (at least in a North American context) relatively social-democratic policies. Equally institutionalised relations between employers’ organisations and trade unions on matters such as skills are much denser in Quebec than in Ontario. In general, Ontario pursues a more conventionally liberal approach, with fewer attempts at systematic coordination between civil society actors.

Inward investment agencies have a relatively restrained role in both provinces; their remit does not extend beyond the attraction of inward investment. Sub-provincial offices of the Quebecois investment agency exist, but have no real autonomy of action. Local investment agencies – such as in the highly successful case of ‘Canada’s Technology Triangle’ in the Kitchener-Waterloo-Cambridge area west of Toronto – emerge on an ad-hoc basis in Ontario. The existence of Quebecois ‘regional policy’ leads to institutionalised state support for local inter-firm cooperation in localised sectors in the form of a cluster-type strategy. Some large MNCs have taken lead roles of these sectorally based alliances of employers.
In general, the Canadian workforce is highly skilled, and both further education colleagues ("community colleges" in Ontario) and a successful higher education sector have high degrees of capacity to collaborate with business. This is a distinct competitive advantage, including for manual work, where the skills profile is recognised by, for example, auto manufacturers as being substantially higher than in the case of US states.

**Concluding remarks**

There is a clear and unsurprising difference between the Canadian and Spanish cases, where sub-national governance is structurally important, and the English and Irish cases. For those seeking to attract and embed FDI, this allows a degree of local flexibility within the overall national business system. This allows regional actors to create institutionalised patterns of cooperation which augment the national business system, but at the same time sometimes risks creating zero-sum competition between regions. Ireland, on the other hand, retains many of the FDI-facing advantages of a liberal market economy, while, through a strong and strategic consensus on the importance of attracting and retaining investment, overcoming many problems of coordination through relatively informal networking both at national and more local levels. As we have seen, the capacity of this network is closely related to an interpretation of Irish (economic) national identity that is strongly FDI-oriented; the very weight of FDI within the Irish national economy creates mutually-reinforcing effects in this regard.

The issue of scale is important; for relatively small states such as Ireland, there may be less functional need for regional levels of non-market coordination. Within larger states, further work is required on the scale at which the development of sub-national systems is most likely to have some effectiveness. Interviewees in various places have argued that this might be a matter of population (i.e. what is a sensible scale at which to attempt to coordinate FDI and related business system activities), of labour market areas, of accordance to the regional identities of the public, or of some combination of these factors. While sub-national economic space can be important in the potential creation of competitive advantage in attracting and embedding FDI, the process of the construction of the geographical space, and the levels of sub-national autonomy within it, is inherently embedded in national and more local politics.

Our comparisons show the existence both of neo-liberal approaches to FDI (England, Ireland, Ontario, and, at least within a Spanish context, Madrid), and more actively coordinated approaches (Asturias, Quebec). Both these approaches can, in the right circumstances, be successful in attracting good quality inward investment. However, it ought to be remarked that the liberal approaches of Ireland and Canada are strongly supported by past and current coordination efforts in the organisation of state-FDI relations, and in the skills domain (it is notable in this regard that concerns about skills deficiencies remain far more common in England than elsewhere). The recent reduction in the degree of coordination of sub-national economies, alongside the centralisation of FDI attraction, in England therefore is something of an uncontrolled experiment.
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