Footloose Multinationals: European Perspective

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Declaration

I declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

Irina Gokh, March 2018

Acknowledgement

Doing my PhD research was the most interesting and enjoyable time in my life. I developed my personality and professional confidence. However, this is something that no one does on their own. I am not a self-made person because I had a lot of support from people around me who contributed to my development and helped me to complete this major endeavour of my life.

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Abstract

The literature does not always make a distinction between the different types of MNE activities, such as investment and relocation, which creates a theoretical gap regarding our understanding of the motivation that underlines an MNE's behaviour. In simple terms, investment can be initial or relocation (investment). In the case of initial investment, an MNE is investing for the first time; however, in the case of relocation, an MNE has to divest an existing operation and relocate it to another region, i.e. the investment exemplifies the expansion-related activity, but relocation exemplifies the move of production facilities from one country to another (Mucchielli and Saucier 1997). Hence, in the literature, investment, as a conceptual construct, might exemplify a multiplicity of meanings without providing further clarifications.

MNE is constantly changing due to the changes in the internal and the external factors, but a firm cannot grow in size endlessly "there is an optimal size beyond which the firm cannot profitably expand." (Casson 2014, p.216). Therefore, regular divestments are a part of a healthy life cycle of the firm because it helps to rationalise (i.e. increase efficiency) the allocation of existing resources. Rationalisation allows MNE to develop continuously without ever reaching the 'boundary'. The rationalisation of activities we define as footloose behaviour. Footloose behaviour –is a repeated relocation of the previously divested operations over a period of time. Footloose behaviour is a process of constant bundling (i.e. investment), unbundling (i.e. divestment) and re-bundling (i.e. relocation) of activities with the aim to balance the optimal size and growth of the MNE. In this thesis, we explore a new way of investigating FDI activity through the lens of systematic 'repeated relocations', which we approach as footloose behaviour. We aim to find the drivers of footloose behaviour.

In terms of methodology, we opted for a qualitative case study method. This decision was influenced by the fact that conventional quantitative methods do not offer reliable tools for the analysis of the phenomenon that is yet to be extensively explored. We want to explore the phenomenon and find the drivers of the footloose behaviour. The analysis of the data involves the coding (Nvivo) of the textual data and linking the findings to the propositions that we develop in the conceptual framework.

We found that innovation and efficiency are the main drivers of footloose behaviour. The cases studies revealed an interesting interplay between the ability of the MNE to innovate and the desire to achieve the maximum level of network efficiency.

We developed a typology of footloose multinationals that highlights the relative position of the company within two dimensions: innovation and efficiency. The typology, as we developed it, describes four types of footloose multinationals: IBM, Johnson Control, Procter & Gamble and Electrolux. The purpose of developing this typology was to understand better how the combination of innovation and efficiency affect footloose behaviour within different MNE.

Publications and Conferences

Some parts of this thesis have been submitted ***Journal of International Business Studies*** **(4*)** and currently under Revise and Resubmit Status:

- Footloose Multinationals: Extending the Internalisation Theory (2017), *Journal of International Business Studies* (4*), **Gokh, I.** and Filippaios, F. (Revise and Resubmit)

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- 4th Postgraduate Research Festival, Graduate School, University of Kent, Canterbury, United Kingdom, 23d June 2014. **Gokh, I.** Poster Presentation: Footloose Multinationals In the Context of European Union.

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List Abbreviations

APTA- The Asia-Pacific Trade Agreement

DDN- Dynamic Differentiated Network

EC – The European Commission

ES- Efficiency-Seeking

EU – The European Union

FDI – Foreign Direct Investment

FTA- Free Trade Area

GDP- Gross Domestic Product

HQ-Headquarters

IDP- Investment Development Path

IFDI- Inward Foreign Direct Investment

MERCOSUR- Southern Common Market

MNE- Multinational Enterprise

MS-Market-Seeking

NAFTA- North American Free Trade Area

NOI - Net Outward Investment

OFDI- Outward Foreign Direct Investment

PTA- Preferential Trade Agreement

RS-Resource-Seeking

RTA – Regional Trade Agreement

SADC- The Southern African Development Community

SAS- Strategic asset-seeking

EEC – European Economic Community

1. Introduction

A number of studies concerning company internationalisation have been conducted since 1960 (Benito 2005, p80), with a particular emphasis on multinational enterprises (MNEs), i.e., companies that own and control resources in foreign locations (Dunning 2001c; Dunning and Lundan 2008; Dunning and Narula 2010; Forsgren 2013). In order to exploit the competitive advantage of its global presence, MNE addresses its strategic motivations through the network of subsidiaries operating in the different countries. Each subsidiary is unique because the goals of the MNE in each location are unique too. Therefore, roles of subsidiaries are diverse and reflect unique characteristics of the host country and strategic motivations of the MNE. Hence, multinationals have a heterogenic organisational structure that we conceptualise as a *dynamic differentiated network* (DDN) (Filippaios and Papanastassiou 2008; Malnight 1996; Nohria and Ghoshal 1997; Pearce 2001; 2012). 'Dynamic' element stands for the transformation of the MNE network due to internal and external challenges. 'Differentiated' component is related to the difference in the evolution of MNE networks. 'Network' part reflects the linkages between subsidiaries of the MNE network.

The theoretical literature that inspired DDN model suggests that multinational enterprise remains competitive because of: 1) new investments and 2) changing roles of existing subsidiaries. However, when MNE has already established foreign operations the approach to competition changes. Large, mature MNEs, usually, encounter serious size-related problems. "As the firm grows, its structure evolves, and as it becomes more complex, it becomes increasingly difficult to coordinate" (Casson 2014, p.216). Thus, to reduce the complexity, MNE should find a balance between the optimal size and continuing growth. The multinational may start to relocate existing operations, which involves the move of resources from one country to another, in order to increase the efficiency of the network's operations. Nevertheless, the ability of the MNE to move around in order to support the competitive posture is often unconsidered in the literature. The relocation of resources is an associated necessity to *rationalise* the portfolio of *existing* operations in such a way that it will increase the efficiency gains of the differentiated MNE network. When an MNE relocates, what matters is not whether they generate profit in their current location, but whether or not they can generate higher profits elsewhere (Mata and Freitas 2012). The process of rationalisation that involves

repeated cases of the efficiency-driven relocations signals the emergence of a rather different kind of FDI activity – footloose behaviour.

1.1. Definitions of Terms

Footloose behaviour –is a repeated relocation of the previously divested operations over a period of time. '***Repeated***' refers to the *systematic* character of the DDN rationalisation motivation. The one-time relocation can reflect a random event, but when it happens more than once –it becomes a systematic behaviour (i.e. footloose behaviour). We also argue that the speed of footloose behaviour depends on the nature of the product. Footloose behaviour emerges quicker with short life cycle products, compared to the products with longer life cycles. ***'Divestment'*** refers to a cessation of all or of a major part of existing active operations that reduces the presence in the foreign market (Belderbos and Zou 2006; Boddewyn 1979). We subdivide divestments into three groups: **(1)** exit from the market; **(2)** closure of a subsidiary; and **(3)** organisational restructuring. Divestment is termed as ***'relocation'*** when terminated activities in the subsidiary are relocated to another country: **(i)** by establishing a new subsidiary, and **(ii)** by increasing the market scope, product scope or value-added scope of an existing subsidiary (see White and Poynter 1984). In the concept of footloose behaviour, relocation should be seen as 'relocation investment' because it involves *the investment* to another country by means of the relocation mode.

1.2. Literature Background

A limited number of studies have addressed the issue of footloose behaviour (see Caves 2007; Cowling and Sugden 1999; Flamm 1984; Görg and Strobl 2003; Inui et al. 2009; Van Beveren 2007). In the majority of these studies, the focus was on the divestment component of footloose behaviour that had a negative impact on the host country's economy. This literature emphasised that footloose behaviour emerges only due to the adverse shocks in the host country; thus, these studies largely ignored the characteristics of the firm, which may drive the footloose behaviour. Moreover, apart from divestment, footloose behaviour includes relocation and investment concepts. Therefore, we need approach footloose behaviour through the lens of a much wider IB literature. Currently, the literature focuses only on the impact of footloose behaviour and does not theoretically explain what is the precise mechanism that triggers the

phenomenon. Also, the literature does not provide the exact definition of the footloose behaviour. In this thesis, we aim to identify the drivers of footloose behaviour that contribute to the theoretical justification of the issue.

The main theoretical anchors that allows us to position the concept of footloose behaviour –is the literature that explains different aspects of MNE's activity, i.e., investments (see Buckley 2016; Buckley and Casson 1976; Dunning 1988a; Dunning 1988b; 2001c), divestments (Boddewyn 1983a; Boddewyn 1979; Burt et al. 2003), relocations (see Belderbos and Zou 2006; Buckley and Mucchielli 1997; Filippov and Kalotay 2011), and changes in subsidiary roles (see Birkinshaw and Hood 1998; 2001; Hood and Taggart 1999). There are two fundamental themes running through this literature: the MNE as an organisation and the MNE's external environment. For the purpose of this thesis, we conceptualise them as internal and external environments. Each environment can be studied in isolation in order to tease out the particular factors that have the greatest influence on the emergence of footloose behaviour. However, as MNE is "subject, as always, to conflicting pressures" (Buckley 2014, p. 231) between internal and external environments, it is necessary to consider how the factors from both environments interact with each other augmenting or reducing the footloose behaviour.

Literature suggests that there are two factors that influence the elements of the internal and external environments of the MNE. These factors are *headquarter-subsidiary (HQ-Subsidiary) interdependence* (see Andersson et al. 2007; Forsgren et al. 2005; Gupta and Govindarajan 1991; 2000; Young and Tavares 2004) and *operational flexibility* (see Buckley and Casson 1998; Kogut 1983; Kogut 1985; Song 2014). We conceptualise MNE as a dynamic differentiated network *of linkages*: between the headquarters and subsidiaries, and between the different subsidiaries. HQ-Subsidiary interdependence and operational flexibility are the two distinctive characteristics of the MNE's *network* and represent different types of linkages.

HQ-Subsidiary interdependence emphases the internal differentiation within the MNE (Nohria and Ghoshal 1997). Subsidiaries differ from one another in terms of the characteristics of their host countries and access to resources. Hence, it requires HQ to modify the control mechanism and the allocation of resources specifically to the needs of each subsidiary individually.

Operational flexibility is a hallmark of the MNE network structure (Buckley and Casson 1998; Kogut 1983; Lukas 2006). Operational flexibility –is the ability to relocate resources quickly and smoothly in response to environmental (internal and external) changes (Buckley and Casson 1998). Any FDI activity affects the entire MNE network. Therefore, the level of operational flexibility will determine the series of sequential decisions regarding the resource transfer within the MNE network.

The concepts of operational flexibility and headquarter-subsidiary interdependence represent the dynamic nature of the linkages in the network. There are two types of links: between headquarter and subsidiary (HQ-Subsidiary interdependence), and between subsidiaries (operational flexibility). These two concepts are included because they work as moderators. They can change (increase or decrease) the strength of the relationship between the internal environment and footloose behaviour, between the external environment and footloose behaviour, and between internal and external environments.

1.3. Research Aim and Research Questions

In this thesis, we intend to find out the combination of the internal and external MNE factors that affect footloose behaviour given the different motivations of the MNE. In order to achieve this goal, we have generated four research questions:

1. *What are the key factors that drive footloose behaviour?*

2. *How do these factors interact to augment or reduce this behaviour?*

3. *How does headquarter-subsidiary interdependence moderate the key factors that drive footloose behaviour?*

4. *How does operational flexibility moderate the key factors that drive footloose behaviour?*

1.4. Methodology

In terms of methodology, we opted for a qualitative case study method. This decision was influenced by the fact that conventional quantitative methods do not offer reliable

tools for the analysis of the phenomenon that is yet to be extensively explored. We want to explore the phenomenon and find the drivers of the footloose behaviour. The analysis of the data involves the coding (Nvivo) of the textual data and linking the findings to the propositions that we develop in the conceptual framework.

The sources of data for our research are two databases: *FDI Markets* and *Eurofound*. FDI Markets is comprehensive and highly detailed online database, which covers all cross-border investments in all countries and sectors. This database holds information about the parent company (HQ), the investing company (subsidiary) source/destination country and city, industry and sector, a number of jobs created, the amount of investment and other. For some projects, the database provides a narrative description of the FDI motive.

The second database that proves to be valuable and complement FDI Markets is European Restructuring Monitor by Eurofound (The European Foundation for the Improvement of Living and Working Conditions). Eurofound database monitors the media announcements regarding large restructuring activities of companies, which operate in 28 EU member states. Eurofound publishes details about all types of companies (MNEs and domestic ones). Because media announcements are included into the database, it offers explanations of why a particular event happened.

From a methodological perspective, it is crucial to identify a geographical region that systematically changes and evolves with time; it can, thus, reflect the dynamic element of the MNE network. We chose the European Union as a study setting due to the following reasons. First, the EU provides a stable pivot point for the analysis of footloose behaviour. The fact that we know the history of FDI in pre-1992 Europe makes it possible to trace how these FDI patterns have changed in the post-1992 European Union. Second, the process of the EU integration and enlargement has a systematic character. Therefore, knowing the historical evolution of the FDI patterns in combination with the systematic changes, we can track the MNE's behaviour transformations regarding the changes in the internal and the external environments. Hence, highlight footloose behaviour. Third, the European Union consists of 28 member states. Using it as a study setting, we can counteract the limitations of the previous research that examine the phenomenon within a single country context.

Additionally, in order to select the MNEs for the case study analysis we decided to look for the most dynamic industries, i.e. industries that are expected to change regularly. We suggest that the pace of change is an important industry characteristic that can influence footloose behaviour. We discuss the characteristics of these industries and match them with the possible motivations that MNEs might wat to explore within these industries.

1.5. Research Justification and Contribution

In this thesis, we intend to find the drivers of the footloose behaviour. In exploring this issue, we make at least two important contributions. First, we make **a conceptual contribution.** We are the first to combine investment, divestment, and relocation into a single concept of footloose behaviour. Thus, we contribute to the literature with the introduction of the footloose behaviour concept and definition. Furthermore, literature that explores investment, divestment and relocations (core components of footloose behaviour) looks at these concepts from two viewpoints: internal and external MNE environments. However, the multinational enterprise is a dynamic differentiated network of linkages. Thus, apart from two traditional dimensions for exploring the footloose behaviour we include the third dimension –which is the characteristic of the MNE network (i.e. HQ-Subsidiary interdependence and operational flexibility). We, therefore, bridge the gap between different types of MNE's behaviour (investment, divestment and relocation). Existing theory approaches MNEs behaviour a simple series of investments either consequently or taking place at the same time, but it does not necessarily look at another element that impacts the investment decisions: the MNE network. The main characteristic of the network is linkages between its elements, i.e. subsidiaries and subsidiaries and HQ. Hence, if we look at the activities of the MNE through the prism of the network, we see that what appeared to be an expansion investment, is in fact, a relocation investment. In this case we have a series of activities starting from a divestment and followed by a relocation (i.e. a relocation investment). Thus, in this thesis we bring different activities of the MNE (investment, divestment and relocation) under a single framework of footloose behaviour to demonstrate their interrelatedness. Finally, we contribute to the literature with the typology of footloose multinationals. Overall, our conceptual model provides a new way of exploring the FDI pattern through the prism of footloose behaviour; thus, we contribute to the development of IB literature.

Second, we make **a methodological contribution.** The prior research on divestment labels some of the individual cases of MNEs leaving the county – as footloose MNEs. (see Caves 2007; Cowling and Sugden 1999; Flamm 1984; Görg and Strobl 2003; Inui et al. 2009; Van Beveren 2007). This research employed quantitative methodology and was focused on the impact of the phenomenon on a single country. Therefore, our choice of methodology, which is a qualitative case study, follows the nature of the research questions and allows us *to explore* the combination of internal and external factors that affect footloose behaviour; thus, enhance existing quantitative methodology. Further, our study setting is 28 countries of the European Union, and this allows us to advance prior research study settings.

1.6. Thesis Overview

The next chapter is Literature review (Chapter 2) where we review different theories and frameworks that provide foundations for the current research. In the Conceptual Framework chapter (Chapter 3), we propose a conceptual framework that directs our research. In the following chapter, Methodology, we discuss the relevant research methodology. In the two empirically driven chapter that follow, Industry Analysis chapter (Chapter 5) and Case Study chapter (Chapter 6), we empirically apply and investigate the conceptual framework propositions. Finally, the Cross-Case Analysis (Chapter 7) provides a comparison between the case studies and reflects on the typology of the footloose multinationals. The final chapter (Chapter 8) concludes the thesis.

2. Literature Review

2.1. Introduction

This chapter aims to provide a systematic critical review of the existing literature relevant to our research topic –the footloose behaviour of MNEs. The goal of this review "is to demonstrate the extensive research and critical evaluation of quality" (Booth et al. 2012, p.27).

Casson (2014) argues that IB literature extensively covers the benefits of internalising the market, but almost ignores the costs, which increase significantly with the size of the firm. Hence, the optimal solution for a company would be to set a 'boundary' where the costs and benefits of further internalisation are equalised. Multinationals are not static. Firms change and evolve with time due to different factors from internal environment (e.g. new technological developments) and external environment (e.g. European integration). These factors and their interactions govern the 'boundary' (i.e. the scale) of the firm. Hence, when these factors change, the cost/benefits balance may also shift. As a consequence, the boundary of the firm may be pushed back (i.e. the firm will reduce its size). Here we refer to the activity that was internalised but is no longer beneficial to keep internalised. This activity becomes valueless "empty calories" (Ibm 2014, p.3) and should be divested if the firm wants to avoid potential failure.

MNE is constantly changing due to the changes in the internal and the external factors, but a firm cannot grow in size endlessly "there is an optimal size beyond which the firm cannot profitably expand." (Casson 2014, p.216). Therefore, regular divestments are a part of a healthy life cycle of the firm because it helps to rationalise (i.e. increase efficiency) the allocation of existing resources. Rationalisation allows MNE to develop continuously without ever reaching the 'boundary'. The rationalisation of activities we define as footloose behaviour. **Footloose behaviour –is a repeated relocation of the previously divested operations over a period of time**. Footloose behaviour is a process of constant bundling (i.e. investment), unbundling (i.e. divestment) and re-bundling (i.e. relocation) of activities with the aim to balance the optimal size and growth of the MNE.

The core literature that explains different types of MNEs behaviour is: investments (Dunning 1988a; Dunning 1988b; 2001c), divestments (Benito 2005; Boddewyn 1983a; Boddewyn 1979; Burt et al. 2003), relocations (Belderbos and Zou 2006; Buckley and Mucchielli 1997; Filippov and Kalotay 2011). We propose the following definitions of terms:

'Investment' or Foreign Direct Investment (FDI) –is "a cross-border investment made by a company with the purpose of obtaining a long-term equity interest in a foreign enterprise, and thereby exerting a considerable degree of influence on the operations of that enterprise" (Benito 1997a, p1365).

'*Divestment'* refers to a cessation of all or a major part of existing active operations that reduces the presence in the foreign market (Belderbos and Zou 2006; Boddewyn 1979). We subdivide divestments into three groups[1]: **(1)** exit from the market; **(2)** closure of a subsidiary; and **(3)** organisational restructuring[2].

Divestment is termed as '*relocation'* when terminated activities in the subsidiary are relocated to another country: **(i)** by establishing a new subsidiary, and **(ii)** by increasing a market scope, product scope or value-added scope of an existing subsidiary (see White and Poynter 1984).

Since the concept of footloose behaviour is grounded into several literature streams, our literature review is conducted with the four research questions in mind. The research questions are:

1. *What are the key factors that drive footloose behaviour?*

2. *How do these factors interact to augment or reduce this behaviour?*

3. *How does headquarter-subsidiary interdependence moderate the the key factors that drive footloose behaviour?*

1 Please, consult the appendices 1 for the full definition of terms.

2 Organizational restructuring – "is a process that involves a change in the control of resources of the firm. The firm will continue to trade in the foreign market through a different organisational form, involving a reduced resource commitment" (Burt et al. 2003, p.358).

4. *How does operational flexibility moderate the key factors that drive footloose behaviour?*

Taking together investments (see Dunning 1988a; Dunning 1988b; 2001c), divestments (Benito 2005; Boddewyn 1983a; Boddewyn 1979; Burt et al. 2003) and relocation (see Belderbos and Zou 2006; Buckley and Mucchielli 1997; Filippov and Kalotay 2011) represent a range of activities that MNE performs in order to sustain the competitive posture. However, the literature we highlight above treats these three activities as completely separate events, i.e. there is no connection in the literature between investment and relocation, for example. However, as we discussed in the introduction (Chapter 1), we approach MNE as a dynamic differentiated network; where 'dynamic' refers to the transformation of the network. The transformation, in its turn, is achieved through the new investments, divestments and relocations. Hence, these three activities are not separated, but interconnected and complement each other. As we demonstrate in the introduction (Chapter 1) it is important to see the interrelations between these activities.

The definition of footloose behaviour constitutes the particular sequence of steps (divestment and relocation investment) that MNE undertakes with rational to transform the network (i.e. to reorganise the existing allocation of recourses). Hence, the combination of investment, divestment and relocation creates the concept of footloose behaviour. Hence, the footloose behaviour is more about the links that exist and do not exist between investment, divestment and relocation.

If the first and the second research questions can be aligned with 'environmental' (internal and external) elements that impacting MNE behaviour; the third and the fourth research questions represent the 'network' element of the dynamic differentiated network of the MNE. We align these two questions with the characteristics of the network, which can influence the footloose behaviour. We conceptualise MNE as a dynamic differentiated network *of linkages*: between the headquarters and subsidiaries, and between the different subsidiaries. As we will see in the next section, the literature highlights two elements that characterise the MNE network and represent different types of linkages. These elements are HQ-Subsidiary interdependence (see Andersson et

al. 2007; Forsgren et al. 2005; Gupta and Govindarajan 1991; 2000; Young and Tavares 2004) and operational flexibility (see Buckley and Casson 1998; Kogut 1983; Kogut 1985; Song 2014). These linkages impact the perceptions of the environmental (internal and external) factors; thus, they can reduce or increase the possibility of the footloose behaviour.

Relocation is the glue that binds together investment and divestment, and when relocation is systematic – it is a footloose behaviour. Relocation consists of three events. First, MNE needs to divest a subsidiary and by means of relocation invest in another country. Given the description above, a relocation is a dynamic event with several actors involved (the host country from MNE divests, the host country where MNE invests, and MNE that performs all the actions). To investigate the dynamic phenomenon we should allow the dynamism to occur. Hence, the study of this phenomenon should take place in a dynamic context. Thus, studying relocation in the context of a single country limits the comprehension. In other words, one country study setting can reveal the relocation partly: either highlighting divestment or investment. It is further complicated by the fact that it is not possible to distinguish whether the investment to the host country is completely new (e.g. expansion investment) or it is a relocation investment (see Belderbos and Zou 2006; Pedersini 2006). Hence, it is not possible to trace the links between divestment, relocation and investment (Belderbos and Sleuwaegen 2005).

The same logic applies to the investigation of the footloose behaviour, which is a repeated relocation. Therefore, the study context should allow tracking two things: 1) the links between divestment and subsequent investment; and 2) the cases of repeated relocations. Relocation is a "complex phenomenon and should be considered as one of the effects of other dynamics rather than a process in its own right" (Pedersini 2006, p.12). Hence, relocation phenomenon should be studied from the *network* point of view, rather than from the position of the individual subsidiary. The same applies to the footloose behaviour, which is the systematic relocation.

This chapter is organised as follows: First, we discuss the individual concepts that constitute the footloose behaviour starting from the investment, following by divestment and concluding the section with the concept of relocation. Third, we discuss the characteristics of the MNE structure that allow us to capture footloose behaviour.

2.2. Foreign Direct Investment

Here, we discuss the 'investment' block of literature. Various foreign direct investment theories seek to explain why multinational enterprises exist, with particular emphasis on the following two questions: 1) what ***motivates*** domestic enterprises to invest and produce abroad? 2) What ***enables*** domestic enterprises to invest and produce abroad? The theoretical evolution regarding the issue of the MNE existence has been slow in progress because it required an understanding of the MNE as one of many alternative social institutions that attempt to establish economic activity (Hennart 2009).

2.2.1. The Internalisation Theory (Transaction Costs Theory)

Despite the profound contribution of Hymer, the recognition for developing internalisation into a full theory of international production is usually given to Buckley and Casson (1976), Rugman (1981) and Hennart (1982). These academics did not simply extend prior theories. Instead, Buckley and Casson (1976), particularly, re-focused the analysis by placing a firm in the centre of their argument (see Coase 1937). The firm, as an alternative institution to the markets, was now on the research agenda. Buckley and Casson considered MNE as "a special case of the multiplant firm" (Buckley and Casson 1976, p.36).

The internalisation theory aimed to explain why multinationals choose to take proprietary control over intangible, knowledge-based, firm-specific advantages. Due to the market imperfections, a firm could increase profit and decrease (or avoid) particular costs by creating the internal market (or internalise the external market). An internal market could be created in two ways: "(1) internalisation of a market refers to the replacement of an arm's length contractual relationship (i.e. external market); (2) internalisation of an externality refers to the creation of a market of any kind where non-existent before" (Casson 1986, p. 46).

Internalisation will happen only if the potential benefits are not outweighed by the costs of communication, coordination and control. Hence, the optimal solution for a company would be a set of a 'boundary' where the costs and benefits of further internalisation are equalised. The factors that govern this 'boundary' govern the scale of the firm. The internalisation theory is based around the concept of market imperfections, where some

transactions are more efficient to perform internally rather than externally. Thus, Buckley and Casson (1976) proposed five types of market imperfections that potentially are beneficial to internalise upon: **(1)** the need to coordinate the resources over an extended period of time. It is a necessity to bring the interdependent activities of the MNE under common control to maintain the competitive configuration of the overall MNE network at present and in the future. Imperfections in the market make MNE sensitive to the negative impact of the external factors. Therefore, a firm internalises various activities and create an 'internal market' to reduce the impact of external factors. Hence, it makes MNE network less vulnerable to the loss of profit due to the external challenges. **(2)** When the efficient exploitation of market power requires discriminatory pricing. Due to the 'internal market', MNE can differentiate pricing strategy for different markets to keep the appropriate level of profit. For example, a firm can reduce/increase the production volume in the particular market to reach the acceptable level of profit. **(3)** When bilateral monopoly produces unstable bargaining situations. A firm that experience the negative impact of external factors can negotiate with the producer of these external factors to reduce the negative effect. **(4)** When the buyer cannot price correctly the (mostly intangible) goods on sale, or when public goods are involved. A buyer's and seller's knowledge about the product value might be unique. Hence, when the seller cannot convince the buyer that the price of the product is reasonable, the seller is an incentive to take over the buyer's risk. Therefore, this may lead to the further firm's integration to the particular market. 'Buyer uncertainty' regarding the price for the public good is explained by the fact that public goods are sold multiple times over, but the value of these goods for the buyer may depend on the number of people that also purchased them. "Since the marginal cost of an additional sale of a public good is zero, the purchaser has to rely on the seller's good faith that the supply of good will be limited and that it will not be sold to others at a lower price"(Buckley and Casson 1976, p.38). Here, the seller can shoulder the buyer's risk by further industry integration. **(5)** When government interventions in international markets create incentives for transfer-pricing. Governments may impose sanctions, restrictions on capital movements or additional taxation on the firm's profit. Hence, to keep the profit level acceptable, a firm would set the prices for internal transactions in goods, services, intangibles and capital flows within the multinational. It enables MNE to fix prices above or below "opportunity cost so as to avoid (but not evade, since evasion is illegal) government controls and/or arbitrage differences in regulations between countries" (Buckley and Casson 1976, p.37-38).

When company internalises its operations –it grows. When a company grows across the national boundaries –it becomes an MNE. Therefore, internalising markets across national boundaries leads to the formation of the multinational enterprises and their subsequent growth. The main point of the Internalisation Theory is to explain how a firm can grow, maximise the profit and increase efficiency. In Internalisation Theory, an MNE exists because it is more efficient (at some level) to coordinate activities inside of the firm rather than perform those transactions through external contractors. Here, two elements are important: the coordination of activities and the characteristics of the company-specific assets. Buckley and Casson (1976) argued that there are four groups of factors relevant to the internalisation decision: "(1) industry-specific factors relating to the nature of the product and the structure of the external market, (2) region-specific factors relating to the geographical and social characteristics of the region linked to the market, (3) nation-specific factors relating to the political and fiscal relations between the nations concerned, (4) firm-specific factors which reflect the ability of the management to organize an internal market" (p.33-34). The first three factors are related to the coordination of knowledge content of the assets. When a firm invest in the foreign location (e.g. production of the new product), it requires a "certain level of confidence that appropriate sales and marketing facilities will be to hand in the future when the product is to be commercialized" (Forsgren 2013, p.36). In other words, MNE needs to have a control under the uncertainty of the external market to maintain overall efficiency and perform planning (i.e. "long-term appraisal and short-term synchronisation" (Buckley and Casson 1991, p.39).

The fourth factor is about the coordination of independent economic activities. MNE is a collection of different activities. Some of them can only be performed based on the series of execution of other activities. Hence, it is a chain of activities, and it is critical to keep the order of activities within this chain. This issue is further complicated by the fact that these activities can be located in different countries. Internalisation Theory suggests that in order to control these globally dispersed operations, headquarters must possess the complete power over all operations (Forsgren 2013, p.49). This can be achieved by building an MNE as a hierarchical organisation with vertical relationships between headquarters and its subsidiaries. However, strict 'top-down' approach weakens the transfer of knowledge within the firm and results in knowledge

asymmetry[3], which reduces the overall efficiency. The issue of efficiency is critical for the concept of footloose behaviour. If MNE experiences the overall lack of efficiency, it may start the process of rationalisation of the allocation of existing resources. It is now enough to amend the network once (due to changes in internal and external environments) because in order to maintain the appropriate level of efficiency in the network MNE should systematically re-evaluate existing activities and amend them if necessary. Therefore, systematic efficiency chasing approach goes in line with footloose behaviour.

2.2.2. The Eclectic Paradigm

Dunning (Dunning 1988a; 1993; 1988b; 2001c) combined various theories together and developed the eclectic paradigm of international production or the OLI (Ownership, Location, Internalisation) framework. Dunning suggested that an MNE can invest in the foreign location and, thus, compete with the local firm only if it possesses a set of unique advantages. Otherwise, it would be impossible for a foreign company to win the competition in the new market as they would have to bear the extra costs of setting up and operating the foreign value-adding facility in addition to those costs faced by the local firms.

Dunning's eclectic paradigm is one of the most appropriate and influential grounds for explaining both the willingness and the ability of a company to become multinational by owning and controlling value-added activities in more than one country (Dunning 1988a; 1993; Dunning 1988b; 2001c). Multinational enterprises engage in international production via foreign direct investment, and the OLI paradigm seeks to explain the determinants of FDI in a specific country/region context. The eclectic paradigm provides a holistic framework to investigate the importance of factors that influence the initial expansion of an MNE and growth (or contraction[4]) of an MNE's activities (Stoian and Filippaios 2008).

[3] Knowledge creation at the subsidiary level, rather than at the level of the headquarters can lead to the problem of knowledge asymmetry.

[4] When MNE has already *established* foreign operations it might be necessary to contract them (i.e. divest or relocate) in order to sustain the competitive position. This is discussed further in the Dynamic Differentiated Network of the MNE (section 5 of the literature review).

The eclectic paradigm stresses that the willingness of an MNE to engage in international production at any given moment will be determined by three groups of advantages (Dunning 1993; Dunning 1988b; 2001c). Thus, an MNE may invest in the foreign market if there are ownership advantages, if the location is beneficial for setting up production facilities and if the MNE can utilise these advantages internally without involving a third party. The ownership and internalisation advantages are under the control of the firm, but the location is not. Therefore, the combination of ownership and internalisation advantages allows MNE to select the suitable location for investment.

The first group of advantages involves a "sustainable ownership-specific advantage vis-à-vis firms of other nationalities" (Dunning 1993, p.79), which is linked to the unique internal characteristics of the company and answers the 'why' component of an MNE's motivation to engage in FDI. Ownership advantages indicate that the MNE can compete in the foreign market and outperform competitors that do not possess the same unique ownership advantages. These advantages are associated with the ability of the MNE to coordinate its assets across national boundaries (i.e., involving the MNE's structure and its decision-making process), from unique ownership of the MNE (knowledge and technology), from access to income-generating assets, etc. (Dunning 2001c; Dunning and Narula 2010). It is critical for an MNE to understand how to utilise its ownership advantages and benefit from them in a foreign market. Ownership advantages (sometimes referred to herein as 'O advantages') are critical elements of this thesis because they highlight the unique scope of various internal characteristics of the MNE that help maintain the business's profitability in the foreign location. Here it is important to underline the difference between Dunning's and Hymers's approach to ownership advantages. Hymer's argument that a firm must possess some unique advantages (e.g., innovation, financial or marketing) is somewhat limited but serves as a point of departure for Dunning work. Dunning suggested that ownership advantages go beyond Hymer's argument as they also cover the unique *abilities* of the MNE (e.g., the ability to transfer resources, the ability to manage the allocation of resources, governance of the firm).

The second component of the framework is "the extent to which the global interests of the enterprise are served by creating, or utilising its ownership advantages in a foreign location" (Dunning 1993, p.79). These location advantages (sometimes referred to herein as 'L advantages') determine the attractiveness of the country for the MNE,

representing the external characteristics of the location that match O advantages; thus, L advantages relate to the 'where' component of a company's activities. For example, the characteristics of the location are reflected in the particular responsibilities of a subsidiary (namely, roles). However, due to the dynamic nature of the economic environment, the host country characteristics may change at any given point in time, and these changes may impact the MNE's business (i.e., the MNE will modify the responsibilities of its subsidiaries). If the location characteristics change, MNE would have to re-evaluate the advantages of this particular location. Therefore, it is possible that 'new' characteristics of the location will not be able to support the existing strategic motivations of the MNE; thus it can lead to the subsidiary role change, reduction of company's presence in the market or adoption of footloose behaviour. Therefore, the critical aspect is how the MNE will react to changes in L advantages (Pearce 2001).

The final piece of the OLI framework is internalisation advantages (sometimes referred to herein as 'I advantages') that regulate "the extent to which the enterprise perceives it to be in its best interest to add value to its ownership advantages rather than sell them", (Dunning 1993, p.79). I advantages address the 'how' component of MNE activity and explain why internalisation of the market is the best approach to this location for a given MNE. MNEs choose to internalise when a foreign market is characterised by certain imperfections. Therefore, if an MNE decides to internalise, it minimises the risks of uncertainty regarding the quality of the products, reduces the estimated time for the delivery of supplies and avoids market imperfections. Also, internalisation can help generate new O advantages (Buckley and Casson 1994; Hennart 1982). When an MNE internalises access to critical assets (such as unique products or technologies), it can block competitors' access to those unique possessions, generating new ownership monopolistic advantages.

Hymer (1960) highlights the main question of why FDI is possible in the first place: some companies possess advantages while others do not. Buckley and Casson (1976) internalisation theory explain predominantly 'how' question: in which circumstances a firm chooses to internalise overseas operations. Neither of these theories addresses the issue of 'where' a firm should invest. For Hymer (1960) country's characteristics play a role in the decision to invest (i.e. MNE's lack of knowledge about the particular market is a significant factor), but this model cannot explain why FDI is performed in a particular country rather than in any other country. Internalisation theory suggests that

efficiency is higher if resources are located in different countries, but the reasons why the particular country is more preferable are not highlighted (Forsgren 2013, p. 50). Hence, the lack of consideration given to the choice of location made Dunning (1988a; 1997a) suggest "that a fully fledged theory of foreign direct investment must include not only firm-specific advantages and advantages arising from internalisation, but also location-specific advantage" (Forsgren 2013, p. 50). Dunning incorporated Hymer's firm-specific advantages (or ownership advantages to highlight that the MNE controls these advantages), Buckley and Casson's internalisation advantages and specific location factors into a single model. The incorporation of L advantages creates opportunities for the MNE to adopt footloose behaviour. Hence, without the location factor, footloose behaviour is not possible. Therefore, the eclectic paradigm of the international products plays a critical role in the search for FB drivers as it incorporates the elements of the internal environment (the O advantages and I advantages) and the elements of the external environment (the L advantages).

Despite being the most influential framework in the IB theory, eclectic paradigm received some criticism. Eclectic paradigm struggles to align MNE level and country-specific interactions. From the MNE's point of view, O advantages and I advantages should be considered jointly in any managerial decision-making, where I advantage is a dominant parameter. Therefore, the existence of the multinational enterprise is the result of I advantages that allow deployment, transfer and creation of O advantages (Rugman et al. 2011a) in the matching location (L advantage). Furthermore, OLI paradigm is accused of being a 'shopping list' of variables, which "are so numerous that its predictive value is almost zero" (Dunning 2001c, p.177). Indeed, every MNE is different, and thus, they require different sets of skills and location-specific characteristics. Dunning argues that OLI's purpose is to offer a methodology and very generic set of factors, "which contain the ingredients necessary for any satisfactory explanation of particular types of foreign value-added activity" (Dunning 2001c, p.177). Additionally, the eclectic paradigm is considered to be static in some sense. OLI explains the set of variables that are required for initial investment and further 'expansion' investments, but the framework cannot explain the behaviour of the MNE if O, L and I advantage change with time. This aspect is particularly relevant for the concept of footloose behaviour. OLI fully explains initial investments (as a mean for sustaining competitive position), but when an MNE has already established a network of operations the approach to competition changes, which is not possible to explain with

the eclectic framework. It is necessary to take into account the characteristics of the existing network to decide on any desired FDI activity. Hence, to maintain the competitive position, MNE may start to *reorganise* the allocation of existing resources. Thus, it may indicate a footloose behaviour.

2.2.3. Foreign Direct Investment Motivations

The eclectic paradigm explores the key monopolistic advantages that make a company multinational and allows it to compete in the global market; hence, the OLI framework highlights the internal characteristics of the MNE. Also, the OLI framework emphasises the key location advantages of different activities that MNEs undertake in the host country. Hence, it allows identifying the key location advantages (i.e. external factors) of international production. According to Dunning (1993), we can broadly isolate four separate motivations for international production: resource-seeking, market-seeking, efficiency-seeking and strategic asset seeking. This classification has been extended from the earlier taxonomy made by Jack Behrman in 1972 (Dunning and Lundan 2008, p.67). MNEs do not tag their activities. Thus, recognising the investor's motivations for FDI in a particular location is significant for the current research because it helps explain the reaction of the MNE to changes in the external environment (e.g., what will happen if the host country is no longer able to support the current FDI motivation of the MNE). Overall, theories discussed above help to establish the 'external view' on foreign direct investment, but the 'internal view' on the FDI is associated with FDI motivations that highlight the behaviour of the firm. The FDI typology is designed to explain how MNEs choose the locations; hence it has practical implications for managers, researchers and policymakers (Rugman and Verbeke 2009).

The resource-seeking FDI indicates that the L advantages of the host country do not significantly impact FDI inflows because the main driver for the resource-seeking investment is the unique or scarce natural resources found in the location (Narula and Dunning 2000). For example, the need to secure inexpensive supply of natural resources triggered much of the FDI flows in the 1800s and early 1900s, principally from the most industrialised markets (such as Europe, USA and Japan) to the less developed countries (Dunning 1993, p.110,124). Multinationals that are after unique resources are less likely to leave this location (even if the location characteristics change) as they will not be able to find these resources elsewhere. Hence, the possibility of footloose behaviour is

almost zero. On the other hand, in case of natural resource-seeking motivation, either the depletion of resources or improvements in technology could make this motivation to be linked with footloose behaviour. For example, coal mining sector. Coal used to be an important fuel source in 1960-70's, but due to the changes in the technology, the significance of coal dropped. Hence, some regions were flourishing, growing and developing in the past due to the coal-mining sector, but nowadays these regions are in stagnation due to the depletion of coal. In this case, the relocation of activities may indicate footloose behaviour.

The comparative advantage in the price for labour can attract MNEs with the resource-seeking motivation. However, the regional development, which may take place during a course of time, can increase the price of labour. An investment that started as a resource-seeking imperative for cheap labour can be vulnerable regarding footloose behaviour if the location characteristics change (i.e. the cost of labour increases) and MNE amends their investment motivation to the efficiency seeking. In this circumstance, the location cannot satisfy either existing or changed investment motivation and, thus, a firm may adopt the footloose behaviour.

The market-seeking motivation affects FDI that is looking to overcome import barriers in the host country (e.g., the host country has increased tariffs, or the size of the market makes it more profitable to undertake FDI than to export from the home country) (Dunning and Narula 2010; Narula and Dunning 2000). This FDI type may highlight the deeper integration of the host country, after the success of exports, or the expansion of the MNE to a new host country. Additionally, transportation costs and government policies can drive MNE to pursue the market-seeking FDI. However, Dunning (1993, p.58-59) proposed that strategic reasons also have their place within this type of FDI. For instance, the need to follow a company's client, or the requirement to locally adapt the product or the elimination of some transaction costs. In the case of market-seeking FDI, the host country market typically offers increased profits due to economies of scale and often requires product adaptation for the local market. However, product adaptation cannot be achieved through production in other markets, and, therefore it might reduce the element of footloose behaviour. If there is a need to locally adapt the product it means that an MNE will not be able to service that particular market in any other way. Market-seeking motivation is thus making it difficult for the MNE to leave that market.

Hence, we do not expect to see a significant element of footloose behaviour in the firm that perusing market is seeking imperative.

Nevertheless, if we incorporate product life cycle into the market-seeking motivation, the adoption of footloose behaviour is possible. Market-seeking motivation plays a particular role during the growth stage of the product. However, during the maturity stage the product should become standard; hence, it eliminates the need to adapt this product for the particular market. In other words, the standardisation of the product takes away the market-seeking motivation. So, if a product requires adaptation in the early stages of development and has a short life cycle we expect to observe very opportunistic investments by the MNE. This is an extreme form of footloose behaviour.

The economy of scale can lead to footloose behaviour. If market-seeking investment is based *only* on the economy of scale, and there is a potential to increase the economy of scale further by producing in another market whilst covering the required market, MNE may adopt footloose behaviour (i.e. MNEs can relocate away from the core EU countries to another EU country, but still servicing the whole European Union from that location) (Filippaios and Papanastassiou 2008).

Generally, in case of market-seeking imperative, subsidiaries are more integrated into the external environment of the host country and considered self-contained production units by the MNE (Dunning and Lundan 2008, p.67). Therefore, changes in location characteristics can influence MNEs' footloose behaviour if these changes lead to lost profits and if the subsidiary will no longer add value to the MNE. Multinational enterprise is a network of subsidiaries; thus if the particular subsidiary does not bring value to the overall network, it is necessary to rationalise the allocation of existing operations in such a way that it will increase the efficiency gains of the differentiated MNE network. The process of rationalisation may involve footloose behaviour.

The efficiency-seeking motivation for investment has two main forms, which are closely related. The first one is associated with the will to increase the cost efficiency by (re) locating production, wholly or partially, to cheaper countries. For example, this motivation can be highlighted in the industry where it is acceptable to have unskilled or semi-skilled labour. The second form of efficiency-seeking FDI matches the need to rationalise the allocating of existing recourses in such a way that it will benefit from the

joint governance of globally distinctive subsidiaries (Dunning and Lundan 2008, p.72). An MNE may want to exploit the comparative advantage in the nearby markets or take advantage of the economies of scale and scope across national borders.

The efficiency-seeking motivation is a critical element for the analysis of the footloose behaviour. When the/an MNE has already established a network, it is necessary to assess the efficiency level of the whole network. It is important to bring all operations to a common denominator, where each individual operation adds value, and when all the operations together create the highest level of the network efficiency. Further, we need to acknowledge that a firm is a network, which is under the constant influence of external and internal factors[5]. Hence, this influence creates the dynamics in the network by forcing the company to seek new solutions to maintain competitiveness systematically. Therefore, we argue that as soon as the location characteristics (external factors) change and the ways the MNE does business change (internal factors), it is much easier for the company to adopt the footloose behaviour and leave the location. Hence, MNEs with very specific motivations might end up becoming footloose when their aims in the regions are achieved or are no longer supported by location characteristics.

Strategic asset-seeking FDI is probably the fastest growing investment motivation among of the four FDI types (Dunning 1994). MNEs are looking for tangible and intangible assets that are critical to securing the long-term strategy, but impossible to find in the home country (Dunning and Lundan 2008, p.72-74; Narula and Dunning 2000). Strategic asset-seeking FDI does not always seek to exploit the existing ownership advantage of the MNE. Instead, it is often used to create new advantages that will help to secure company's competitive posture (i.e. R&D centres). On the other hand, the strategic asset-seeking investment could be aimed at weakening the competitive position of the rival firm (Dunning and Lundan 2008, p.73). This FDI type is critical for the company; hence, it is highly unlikely for the MNE to leave the location because it will not be able to obtain access to these strategic assets elsewhere.

[5] Multinational enterprise is a dynamic differentiated network. All elements of the network are interconnected. The headquarters and subsidiaries are the elements of the MNE network. Hence, there are links between the headquarters and subsidiaries, and between subsidiaries. These network linkages are critical for this research because they symbolise the characteristics of the network. Also, this linkage supports the efficiency of the whole network and help to increase its level. We will discuss them in the next parts of the literature review. However, it is important to mention these linkages, (as we discuss the efficiency-seeking motivation) because they moderate MNE's perception of internal and external environment.

When MNE undertakes strategic asset seeking investment, it does not aim to exploit the existing competitive advantage. It seeks *to create* new competitive advantages, and, therefore, strategic asset seeking investment is distinctive compared to other types of investments. Strategic asset-seeking motivation is underlined by a long-term strategy and does not seek immediate profit gains. Taking R&D centre as an example of strategic asset seeking investment, we can contrast it with other subsidiaries in the network. Subsidiaries are required to add value to the whole network by means of exploitation of MNE's ownership advantage, but R&D centre aims to develop new competitive advantage; thus operates beyond the MNE network relations. This does not imply, that R&D centre does not add value to the network. It is quite the opposite. This kind of investment produces value within the course of time for other subsidiaries to exploit it. In other words, it is the 'engine' of the MNE network. Hence, the footloose behaviour is very unlikely to happen within the strategic asset seeking investment because MNE will not leave the location that can provide unique strategic assets.

Even if the strategic asset seeking investment is relocated to another country, it is not possible to explain with the rationalisation momentum of the MNE network. Hence, this relocation will be a random event, not a systematic behaviour. Therefore, it cannot be labelled as footloose behaviour.

The literature on the FDI as well as literature on divestments treat the investment as a separate activity of the MNE. The drivers of the investment are 'frozen' in space and time. In other words, the factors that led to investment initially might no longer be there. However, literature does not address this aspect of investment. Therefore, we need to look at the investment as an activity that is linked to other activities of the MNE.

2.3. Foreign Divestment

While the investment motivations have received the most attention from the international business research community, considerably less attention has been given to the divestment aspects of MNE business (Belderbos and Zou 2006; Benito 2005; Mcdermott 2010; Pennings and Sleuwaegen 2000). Scholars emphasise that international divestment is a topic of sensitive nature with a stigma of failure attached to it (Benito 2005; Boddewyn 1979; Grunberg 1981; Ketkar 2006; Loke 2008; Mcdermott 2010; Steenhuis and De Bruijn 2009). As suggested by Grunberg (1981) "it

seems that few topics are as sensitive and secretive in the business world, and the reason for this sensitivity is not difficult to discover. Divestments, because of their typically damaging effects on workers and communities, are, to use the words of a former British prime minister, "the unacceptable face of capitalism" (p. 23). Hence, this can significantly impact the research on divestment.

Giving the sensitivity of the subject relatively few studies have been empirically conducted (Benito 1997a). However, the research on foreign divestment is critical for the development of the International Business field in general, and for the enhancement of our knowledge regarding the long-term behaviour of the multinational enterprise that functions as a dynamic differentiated network. Divestment is a pivotal point for the understanding of the drivers of footloose behaviour as it is necessary for the company to divest its operations first and afterwards relocate to another market. Furthermore, from the viewpoint of a multinational enterprise, more knowledge about factors that influence the longevity and stability of overseas projects may contribute to a better evaluation of potential FDI projects (Benito 1997a; Berry 2009).

Overall, there is no agreement in the research community regarding the definitions of foreign divestment. Scholars use the terms such as 'divestment', 'divestiture', 'disinvestment', 'closure', 'exit', 'contraction' or 'organisational restructuring' interchangeably and rarely define them adequately. Additionally, the interrelation between these concepts is often unconsidered and leads to confusion (Benito 2005; Burt et al. 2003; Jackson and Mellahi 2005). There are many types of divestments, but what is critical to acknowledge that divestment does not have to be complete and final. Divestment is a spectrum and reflects the degree of resource commitment.

For the purpose of this thesis we propose the following definitions and interrelations: (see Appendix 1 for the full definition of terms): **Foreign Divestment (disinvestment, divestiture, contraction)** – is a cessation of all or of a major part of existing active operations that reduces the presence in the foreign market (Belderbos and Zou 2006; Boddewyn 1979). "Divestment may be operational through the closure of trading units. The divestment may also take the form of organisational restructuring, e.g. changing from corporate ownership to a franchise or part sale of a failing subsidiary. The divestment may entail exit" (Burt et al. 2003, p.3589). **Exit** –"is a total withdrawal of a firm from an operational presence in a foreign market. The exit may be accomplished

through the sale of assets, international store swaps, bankruptcy or other processes" (Burt et al. 2003, p.359). **Closure** –"is the cessation of trading, by MNE, from one or more subsidiaries in a foreign market. MNE will continue to trade in the foreign market with a reduced intensity of distribution" (Burt et al. 2003, p.358). **Organisational restructuring** – "is a process that involves a change in the control of resources of the firm. The firm will continue to trade in the foreign market through a different organisational form, involving a reduced resource commitment" (Burt et al. 2003, p.3589).

2.3.1. Theoretical Background of Foreign Divestment

The decision to adopt footloose behaviour is a strategic *choice* of the MNE that is why we only consider the voluntary type of divestment. Within this the kind of divestment we can examine the true motives of the company.

In his papers, Boddewyn (1983a; 1985); Boddewyn (1979), concludes that the overall number of divestment decision is growing. Also, he predicts that this trend will continue to rise, particularly for those MNEs that are based in developed countries. Boddewyn's ideas levelled up the interest in the topic of foreign divestment, in particular, because execution of divestment requires complex decision-making process (Dhanaraj and Beamish 2009), and has significant economic implications for the host country (as divestment is a potentially negative economic activity).

The golden thread that can be traced through the works of Boddewyn is that all MNE's "subsidiaries –at home and abroad –are born, grow and die" (Mcdermott 2010). Many policymakers and stakeholders, unfortunately, have ignored this critical thought. Hence, the foreign divestments receive a negative stigma attached to them, and they are touted as shock announcements. With his idea of subsidiary's 'life cycle', Boddewyn suggests that during the process of internationalisation, the company will grow and evolve; thus, it will inevitably face the need to divest. Consequently, the divestment should not be seen as a firm's defeat or lack of commitment to internationalisation, but as an integral part of this process (Boddewyn 1983a; Mcdermott 2010). "If investment is a hopeful affair like marriage, divestment is more like divorce: something painful, however necessary it may be, because it is associated with past bad judgment, current inability to handle problems, or an even worse future"(Boddewyn 1983a, p.27).

This has important implications for the concept of footloose behaviour. Footloose behaviour as such has an adverse connotation due to the divestment component. However, extending Boddewyn's argument further on the concept of footloose behaviour, we argue that this behaviour does not hold a 'negative' meaning. It is a natural process that aims to further growth and development. The network configuration is a key element, which allows the company to operate more efficiently. Therefore, if there is a need to improve the efficiency by divesting some activities, this move should be viewed as 'neutral' strategic decision only (the negative meaning can be only associated with the *implications* of divestment for the host country, for example). Mcdermott (1996) and Benito and Welch (1997) also propose that foreign divestment decisions are an integral part of the internationalisation process.

If we step back from a detailed discussion of each research on foreign divestment, we see that divestment triggers are diverse and high in numbers according to the literature. Therefore, it is difficult to distinguish the dominant triggers. Moreover, this situation is further worsened by the fact that there is no consensus among the researchers at all regarding the dominant divestment drivers (Benito 2005; Boddewyn 1979; Matthyssens and Pauwels 2000; Mcdermott 2010; Song 2014). In the attempt to classify divestment triggers, Benito (1997b; 2005) follows the approach of Chow and Hamilton (1993) and Clark and Wrigley (1997). Benito (1997b; 2005) argues that divestment triggers are hidden within three sets of literature streams: industrial organisation, finance and corporate strategy. Each of these literature streams highlights particular incentives and impediments for divestment. The factors from these literature streams have contributed to the development of Benito's (1997b; 2005) conceptual framework for divestment, which we discuss later in this section.

Industrial Organisation literature looks at the divestment triggers from the two angles: some circumstances serves as incentives to divest, while others as impediments (1997b; Benito 2005). Here, the main incentives to divest are losses, below expectation profit returns, a decrease in consumer demand or new competitor offering a better product or lower price (Siegfried and Evans 1994). All these factors are sufficient to consider the subsidiary inefficient. Hence, MNE may decide to liquidate the unproductive units by divesting them. This move helps to restore the overall MNE efficiency. However, some factors serve as impediments to divestment. The presence of these factors reduces the need to divest, but not eliminate it completely. The possession of the non-alternative

assets (or ownership advantages) makes a firm stronger competitor and reduces the need to divest (Williamson 1985). Therefore, it creates an impediment to exit (Caves and Porter 1976). The strong bonds between subsidiaries (the high level of integration) also contributed to the factors that reduce the need to divest (Benito 1997b; Benito 2005).

Financial studies highlight the performance of the subsidiary as a key element for future divestment. Some studies suggest the divestment increase the market value of the MNE (Markides 1995; Padmanabhan 1993) because the divested subsidiary was a poor performer (Benito 2005). In this case, divestment eliminates the losses and overall financial efficiency for the whole MNE. On the other hand, poor financial performance might not be the only trigger for divestment (Weston 1989). The diversification strategies can increase the possibility of divestment (Markides 1995).

Corporate strategy literature highlights the product lifecycle approach for divestment. Divestment is a suitable strategy for the mature (declining) product (industry) (Harrigan 1980). MNE can eliminate the product (or industry commitment) through divestment to liquidate existing losses or to prevent future losses in case of unfavourable forecasts. It is a route in 'end game'(Benito 2005). MNE operates with a portfolio of products. This portfolio should be under the constant evaluation from strategic and financial points of view (Chow and Hamilton 1993). Hence, divestment is a 'result' of this evaluation, when the company aims to maintain the certain efficiency level. Other studies find out that divestment is much more common with unrelated subsidiaries (Hamilton and Chow 1993). Also, non-core units might be more isolated less in the MNE network. The above reasons make subsidiary vulnerable and increase a possibility for divestment.

Based on the industrial organisation, finance and corporate strategy literature review Benito (1997b) groups the possible triggers into four segments that form a conceptual framework. Benito (1997b) suggests that to assess the possibility of divestment we need to take into account the interplay between the incentives for divestment and impediments for divestment.

- *"The stability and predictability of the environment — competitively and politically — in which a foreign unit operates"* (Benito 1997b, p.317). This element goes in line with Boddewyn (1983a) argument (discussed later in the section) that the erosion of the advantage to internalise operations due to

changes in the "competitive or political environment in which the company operates" (Benito 1997b, p.320). There is no need to stay in the location if it is no longer profitable.

- *"The attractiveness of current operations, which is dependent on the current and expected performance of a foreign unit"* (Benito 1997b, p.317). If the unit brings profit – it is good enough to be a part of the MNE network. Hence, the 'expected' performance decreases the need for divestment. On the other hand, MNE may still divest to obtain a good price for the well-performing operations, which did not pass the 'review' process.

- *"The governance problems associated with foreign operations, which are dependent on the mode of operation chosen for a given activity, the unfamiliarity of the foreign context and, finally, of the parent company's ability to deal with such problems"* (Benito 1997b, p.317). Again, this goes in line with Boddewyn (1983a) argument that it is easier to divest the foreign unit as HQ is not emotionally and physically involved. Hence, it is easier to divest the remote subsidiary that located in culturally different countries.

- *"The strategic fit between the parent company and a foreign affiliate, i.e. the degree of relatedness between the parent company and a foreign unit, and whether the parent is a company with a well-defined core-business or not"* (Benito 1997b, p.318). This factor is associated with the HQ-subsidiary interdependence and the interdependence between units. The higher interdependence between subsidiaries and between HQ and subsidiary, the lesser need for divestment.

Overall, Benito's conceptual framework allows teasing out the factors, which potentially can trigger the divestment process. On the other hand, this approach separate triggers into the predefined categories. It may be useful for discovering purely divestment triggers, but regarding footloose behaviour, the approach to divestment should be more holistic. If we separate triggers or allocate them to categories, we may miss crucial links. MNE exists within both internal and external environments, which simultaneously influence MNE's perceptions regarding these environments; thus, it is necessary to consider how the factors from both environments interact with each other

triggering divestment. In this line of argument, Boddewyn (1985) suggests a more 'eclectic' approach for the issue of divestment drivers. Boddewyn (1985) proposed that foreign divestment is best comprehended by adopting a "condition-motivation-precipitating circumstance perspective since nothing happens unless it is possible, beneficial, and triggered—and these causal elements also apply to FDs[6]" (Mcdermott 2010, p.47). Regarding conditions, Boddewyn (1983a) developed a Dunning-like "eclectic theory of foreign divestment," forecasting that divestment would happen when an MNE discovers that any one of the following conditions took place (Mcdermott 2010):

- MNE ceases to possess a net competitive advantage over firms of other nationalities;

- MNE (even if it retains net competitive advantage) no longer finds it is beneficial to internalise competitive advantages;

- MNE does no longer find it profitable to utilise its internalised net competitive advantage in a particular host country.

This approach allows taking both environments (intern and external) into account. Hence, it is lined up with the approach to the MNE as a dynamic differentiated network. Footloose behaviour aims to rationalise the allocation of existing resources in the whole network; it is important that we approach the divestment in a similar manner (i.e., divestment of individual subsidiary should take into account the network characteristics). Undoubtedly, it is important to consider the individual characteristics of the subsidiary and host location, but in the context of a dynamic differentiated network, the individual characteristics of the subsidiary must be supplemented by the factors of the network itself. Footloose behaviour does not happen at the subsidiary level. The subsidiary may, of course, influence footloose behaviour, but the final decision is done at the MNE level. Furthermore, we also take into account that divestment as such (in the light of footloose behaviour) does not indicate any kind of misconduct functioning in the subsidiary, because what (might) matters is not whether a firm generate profit in its

[6] FD- Foreign Divestment.

current location, but whether or not they can generate higher profits elsewhere (Mata and Freitas 2012).

As multinationals peruse their objectives via subsidiaries, the main focus of divestment literature is on the level of the *individual* subsidiary. However, MNE is a network of subsidiaries, and the decision to divest depends on the role of a subsidiary in relation to their subsidiaries in this network (Benito 2005). If a candidate for divestment is built as a part of a production network, the final decision is based on the characteristics of the remaining network (Belderbos and Zou 2009). Hence, in this thesis, we approach MNE as a network and consider divestment on the level of the network, rather than an individual subsidiary.

We argue that divestment drivers mentioned in the literature above treat the divestment as an event that happens independently from other activities of the MNE; thus, for this literature divestment is a separate activity. Prior research has not yet looked at the all the elements of investment, divestment and relocation together and that the existing theory is unable to provide holistic explanations as literature focuses on one of the elements, which is divestment is this case. Footloose behaviour is a complex phenomenon where divestment is just a small fraction of it. Therefore, drivers of divestment alone cannot help us to understand the drivers of the footloose behaviour.

2.4. Relocation

Relocation is a central element of the concept of footloose behaviour. Although the footloose behaviour is the combination of the three equally contributing notions, the aspect of the relocation is somewhat distinctive. Relocation is the glue that binds investment and divestment together and shows the true intrinsic motivations of the MNE. Investment highlights MNE's interest to serve the particular market; divestment signals a desire to leave this market because MNE's goals there have been achieved or no longer can be achieved. However, when MNE relocates it engages in divestment and investment. Relocation indicates that MNE seeks to reorganise the allocation of existing resources.

2.4.1. Relocation Typology

To relocate means to move an activity from one location to another (Buckley and Mucchielli 1997). Divested activities in the subsidiary are relocated to another country: **(i)** by establishing a new subsidiary, and **(ii)** by increasing a market scope, product scope or value-added scope of an existing subsidiary (see White and Poynter 1984). Meardi et al. (2009) argue that analytical distinction should be made between two groups of relocations: (1) **Direct relocation** is the transfer of productive activity from *one location to another*. The direct relocation is predominantly linked with the need to cut costs or eliminate losses in the current location. It is a *reaction* of the MNE to the changes in the internal and external environments. Here, MNE may perceive the current location less suitable or the potential location more suitable. Hence, it is linked with the efficiency search and probable footloose behaviour. Although the transfer of subsidiary may be potentially profitable, this type of reactive relocation should be supported by the characteristic of the whole network. More important, direct relocation aims to increase the efficiency of the particular productive activity; hence, the overall network efficiency is not the main priority. (2) **Indirect relocation** involves the *redirection* of operations into several different locations. Indirect relocation, which includes *the redirection* and *fragmentation* (see Jones and Kierzkowski 2001) of operations between several plants (countries), aims to increase the efficiency of the whole network. Perhaps, the lack of attention in the academic literature to the distinction between direct and indirect relocations is the cause of the increased attention to the external determinant of the relocation, i.e., when comparative cost advantage attracts MNE to another location. On the other hand, due to the dynamic nature of FDI projects, it is not always clear what kind of relocation took place in the particular case. For the purpose of this thesis, it is important to keep this distinction in mind to increase the analytical value of the data analysis.

2.4.2. Theoretical Background of Foreign Relocation

Relocation of production represents one of the most tangible and potentially observable aspects of the internationalisation process of the company. Relocations often involve reorganisation and workforce reduction in the regions where the activities to be relocated were previously performed (Pedersini 2006). Hence, the relocation issue receives much attention from the academic community. There is no agreement among

scholars regarding the particular determinants of the relocations. However, we can highlight the most accepted general sets of factors for explaining the relocation: the external factors and internal factors (LampóN et al. 2015).

The first group of factors are related to the external characteristics of each country (or region). The special attention is brought to the labour conditions and with particular emphasis on the labour cost (Pennings and Sleuwaegen 2000; Steffen 2012) and the size of the potential market (Holl 2004; Sleuwaegen and Pennings 2006). Additionally, such factors as infrastructure endowment (Holl 2004), the development of the economy (Van Dijk and Pellenbarg 2000), and the potential for the economic integration (Holl 2004; Lee 2006) are mentioned.

The second group of factors belongs to the internal environment of the individual company. These factors include growth opportunity (Brouwer et al. 2004), the chance to improve the performance of the firm (LampóN et al. 2013; Lee 2006), institutional integration (Knoben and Oerlemans 2008; Van Wissen 2000), and the potential costs for relocation (Clark and Wrigley 1997). As noted by LampóN et al. (2015) the factors discussed above "have clarified the motivations for, barriers to, and facilitators of, relocation, the large number of explanatory variables usually included in analyses makes it difficult to identify a single parsimonious model that can throw light on the key factors" (p.1411). Each of the factors for the internal and external environments are discussed in more details in the conceptual framework chapter. However, these factors (internal and external) are the drivers of relocation. Relocation is not a footloose behaviour, but a part of it. Thus, we take these drivers as components, a piece of the puzzle.

Although some literature highlighted the internal factors on their own, the external factors are much more discussed among academics and practitioners. Buckley and Mucchielli (1997); LampóN et al. (2013); Rojec and Damijan (2008) argue that the academic debates over the international relocations are primarily focused on the movement of capital to low-wage countries (i.e., relocations of the MNEs are studies from the perspective of the host country with the goal of contributing to the development of policy implications). Belderbos and Zou (2006) suggested that comparative cost advantages are emphasised because developed countries are afraid to lose the competition for FDI to lesser-developed countries like China. The benefits of

the external environment of the host country are considered to be the main 'pull' factor that forces multinationals to relocate. Indeed, the cost advantage is a significant factor, but its significance is considered from the host country's point of view only. In this thesis, we are interested in the understanding the relocation from the MNE level. Hence, the approach to the relocation should be different.

Given that dynamic differentiated network of the MNE exists within internal and external environments simultaneously, taking into account the only factor from external or internal environments limit the understanding of the relocation determinants. Therefore, some studies highlighted that determinants of the relocation are positioned within the MNE network (Belderbos and Zou 2006; Buckley and Mucchielli 1997; LampóN et al. 2015; Pedersini 2006). Relocation is a "complex phenomenon and should be considered as one of the effects of other dynamics rather than a process in its own right" (Pedersini 2006, p.12). Hence, relocation phenomenon should be studied from the *network* point of view, rather than from the position of the individual subsidiary.

Some studies highlighted that relocation is linked with the search for the overall network efficiency (LampóN et al. 2013; Meardi et al. 2009). Moving production to another location gives the opportunity not only to reduce costs rapidly but also increase the efficiency of the MNE network in the long-term run. For example, LampóN et al. (2013) argue that network efficiency and the possibility to increase efficiency (by means of relocations) carries more weight than the need to hold good financial conditions. Thus, he puts forward two arguments to defend his position. Firstly, for the majority of industries, it is critical maintaining the appropriate level of efficiency to meet the constant demands to decrease costs. This is important in order to sustain the competitive position with regards to the competitors and in order to survive in general. It is preferable for the MNE to take the financial risk rather than go through the slow death from staying in the location. Secondly, when MNE considers the relocation, the cost of this decision spreads on the whole network, not just on the plant to that may be relocated. Hence, the important factor for the decision to relocate would be the overall network efficiency.

Relocation is a dynamic process that involves divestment and subsequent investment. However in order to establish the connection between individual cases of divestment

and investment we need to look at the MNE as a whole. Therefore, we should be able to identify the following links: 1) the links between divestment and subsequent investment, and 2) the cases of repeated relocations.

In other words, we need to see the connection between different activities of the MNE. We can do it if we consider a MNE as a network because, in the network, every part of this network has a connection to other parts of the network.

2.5. Dynamic Differentiated Network of the MNE

Multinational enterprise follows pluralistic objectives. Hence, all four FDI motivations are critically important for company's growth and well-being. However, this situates changes when the company matures. Once MNE enjoys having a large network of subsidies scattered around the world the investment tactics changes. MNE starts to focus more on the efficiency-seeking and strategic asset seeking investment motivations. Due to the growth of the MNE network during the course of time, it becomes important to increase the efficiency gains by relocating activities from one country to another (Buckley and Mucchielli 1997; Pennings and Sleuwaegen 2000). It allows rationalising the allocation of existing operations and improving efficiency. Also, MNE should constantly work on the development of the new competitive ownership advantages; thus, strategic asset seeking investments are critical for the firm

To exploit the competitive advantage of the global presence, MNE addresses its strategic motivations through the network of subsidiaries operating in the different countries. Subsidiaries of the same multinational are diverse regarding their roles (i.e. functions) (Filippov and Kalotay 2011; Pearce 1999; 2001; White and Poynter 1984). The difference in roles exists because MNE's goals and objectives in each location is different; hence the subsidiary performs the particular scope of functions that correspond to the firm's motivation to invest in this location. Another important aspect is the fact that each location is unique and, therefore, this factor is also taken into account when a firm invests in a subsidiary (Hedlund 1986; Pearce 2001). Thus, the roles of subsidiaries are diverse; they reflect unique characteristics of the host location and strategic motivations of the multinational.

We cannot adequately address the diversity and dynamism of subsidiary roles with a uniform organisational structure (Nohria and Ghoshal 1997). The traditional structure does not allow subsidiary's value-added function and does not recognise the linkages between subsidiaries. Footloose behaviour is a dynamic phenomenon; thus, we need an approach that would allow the dynamism to occur. Hence, the structure of the MNE should be dynamic (as motivations or location characteristics may change with time) and permit the existence of diverse value-adding subsidiaries and linkages between them. That is why we approach the MNE as a dynamic differentiated network (Dunning and Lundan 2008, p.72) because this view explains how an MNE reacts to global competition and highlights changes that occur inside the MNE network.

This approach provides a diversified and complex outlook on the contemporary MNE. MNEs utilise their competitive advantages via carefully organised international networks of diversified operations. The critical point here is that the network is heterogeneous because the strategic motivations of the entire MNE are addressed by subsidiaries that are different in terms of responsibility and functional scope and reflect location characteristics through a type of FDI. Hence, each subsidiary can exploit unique aspects of its location to generate benefits for the entire network (new O advantages) (Filippaios and Papanastassiou 2008; Malnight 1996; Pearce 2001). The roles of the subsidiaries reflect the interaction/interrelation of the characteristics of the host country's environmental conditions and MNE's strategic motivation (Hedlund 1986; Pearce 2001). Furthermore, the approach to the MNE as a dynamic differentiated network has been adopted and tested by many scholars at different times (Pearce 2012), which provides us with the foundations to explore it further and compare the arguments. Also, this approach takes its originating cues from other theoretical frameworks (Filippaios and Papanastassiou 2008; Malnight 1996; Pearce 2001; 2012) and brings them under a united umbrella (i.e. investment, divestment and relocation), which reflects the contemporary state of the MNE. "The model that fails to differentiate the various organisational entities and linkages within MNC does not accurately represent the realities of the business world, one in which internal differentiation is requisite to a firm's success" (Nohria and Ghoshal 1997, p.4). Hence, these are the reasons why the dynamic differentiated network (Filippaios and Papanastassiou 2008; Malnight 1996; Pearce 2001) approach to the MNE is selected.

As a dynamic differentiated network, the MNE operates through the scope of different types of subsidiaries that have diverse strategic goals that add value to the MNE as a whole (Buckley and Casson 1976; Dunning 1988b; Hymer 1960). The MNE network may transform itself over time due to the restructuring process in which subsidiaries may change their roles in response to transformations in the strategic aims of a region or changes in the external environment of the host country (Bartlett and Ghoshal 1990; Ghoshal and Nohria 1989). Additionally, changes in the MNE network might result from an expansion process (e.g., opening new subsidiaries) or contraction process (e.g., termination of existing subsidiaries) (Birkinshaw and Hood 1998; Hood and Taggart 1999). The dynamic differentiated network approach can thus highlight investment, divestment and relocation decisions within the network. Hence, this element is the genesis of the **'dynamic'** element of a differentiated network and explains how an MNE reacts to challenges in both the internal and external environments.

In the initial concept of DDN, Nohria and Ghoshal (1997) used the word 'differentiated' to highlight the difference within the multinational network (e.g. different roles of subsidiaries). However, our approach to the word 'differentiated' is rather different. The internal differentiation within the MNE network is highlighted by the need to combine the investment motivation with unique location requirements. Hence, we imply that subsidiaries of the MNE network cannot all follow the same goal and be equal regarding their responsibilities. Furthermore, we imply that the level of HQ-Subsidiary interdependency is different for all subsidiaries, as well as their overall integration to the network (operational flexibility). Hence, giving that we imply the differentiation within MNE anyway, we argue that it is important to highlight the difference between MNEs. Hence, in this research, the **'differentiated'** component represents a methodological issue, which refers to differences in the evolution of MNEs and will be addressed in a cross-case analysis of multiple case studies.

The **'Network'** element emphasises the linkages between each element of the MNE network. Sub-units of the MNE are linked to the network; hence, changes in one sub-unit affect the entire MNE (Filippaios et al. 2004). MNEs operate through the scope of their subsidiaries, which implement, in turn, the strategic determinations of the MNE. Each affiliate aims to fulfil its strategic goals and bring value to the entire MNE. Hence, based on the network's linkages, each subsidiary is affected by changes in other subsidiaries. If a subsidiary that is about to implement changes to its strategic goals is

formed as part of the production network, the final decision about changes will be based on the characteristics of the remaining network. Therefore, to overcome the changes and sustain its strategic imperative, the subsidiary may modify its role. Hence, a change in the role of the subsidiary will impact the entire MNE network and other subsidiaries, in particular. Thus, there is a constant element of change embodied in the whole MNE network.

As we discussed in the introduction, two important elements are underlying all research in the IB field: what is inside of the MNE and what is outside (Forsgren et al. 2005). The first one we conceptualise as an internal environment. This element holds all the factors that are located within the boundary of the MNE network. The second question relates to the factors that are located outside of the MNE boundaries. Hence, we conceptualise it as an external environment.

In the network of the MNE, two factors influence the elements of the internal and external environments of the MNE. These factors are headquarter-subsidiary interdependence (see Andersson et al. 2007; Forsgren et al. 2005; Gupta and Govindarajan 1991; 2000; Young and Tavares 2004) and operational flexibility (see Buckley and Casson 1998; Kogut 1983; Kogut 1985; Song 2014). We conceptualise MNE as a dynamic differentiated network *of linkages*: between the headquarters and subsidiaries, and between the different subsidiaries. HQ-Subsidiary interdependence and operational flexibility are the distinctive characteristics of the MNE *network* and represent different types of linkages.

2.5.1. The Characteristics of the DDN

In this section, we address the characteristics of the MNE network. Through a systematic literature review, we have identified two factors that moderate MNE's perceptions of (internal and external) factors: headquarter-subsidiary interdependence and operational flexibility. The concepts of headquarter-subsidiary interdependence and operational flexibility represent the dynamic nature of the linkages in the network. There are two types of links: between headquarters and subsidiary (HQ-Subsidiary interdependence), and between subsidiaries (operational flexibility). These two concepts are included because they work as moderators. They can change (increase or decrease) the strength of the relationship between the internal environment and footloose

behaviour, between the external environment and footloose behaviour, and between internal and external environments.

2.5.2. Headquarter-Subsidiary Interdependence

MNEs operate as networks of differentiated subsidiaries. The network aspect plus the differentiation contradict the more traditional view of the hierarchically built organisations of various national subsidiaries with similar roles and responsibilities (Filippaios and Papanastassiou 2008; Malnight 1996; Pearce 2001). Diversified subsidiaries contribute to generating and building an intra-organisational learning system. In part, they do it by utilising and transferring the resources to foreign locations (Rugman et al. 2011b). Subsidiaries adapt new knowledge from the host environment, accumulate and transfer it across the MNE's network. Within these overseas divisions, different sets of skills and knowledge can be discovered. Therefore, subsidiaries are central elements of the value-added activities of MNEs, and their roles and activities are critical to the well-being of the entire network (Gupta and Govindarajan 2000, p.473).

The relationship between headquarters and subsidiaries is a topic that permeates the international business literature. This relationship poses a classic control problem (Birkinshaw and Hood 2001). Headquarters must coordinate the network and regulate subsidiaries' behaviour, but subsidiaries must have some degree of independence from headquarters' regulations to operate locally (Gurkov 2014; Kostova and Roth 2003). Therefore, headquarters must balance between giving the subsidiary space and simultaneously maintaining control. The control problem is aggravated even more by the subsidiary's superior knowledge of the local environment, which makes headquarters dependent on the subsidiary (Young and Tavares 2004). However, as part of the MNE's network, the subsidiary is dependent on decisions made by headquarters and on overall network operations. Considering the above set of points, the relationship between headquarters and the subsidiary involves mutual interdependence.

At this point, it may be useful to consider the definition of mutual interdependence. O'donnell (2000); Young and Tavares (2004) define interdependence as a condition in which a subsidiary relies on another subsidiary's activities or resources to execute its role effectively. Interdependence occurs because of the flow of tangible and intangible assets that link various activities between sub-units of the network (including

headquarters); these sub-units become dependent on one another for their activities and outcomes. Here we have two types of interdependence: HQ-subsidiary interdependence and subsidiary-subsidiary interdependence. In this section, we discuss the HQ-subsidiary interdependence. The interdependence between subsidiaries is conceptualised as operational flexibility and discussed in the next section.

Interdependence is critical for international competitiveness (Subramaniam and Watson 2006). Some of the MNE's competitive advantages are achieved by having diversified subsidiaries. Being internationally dispersed, subsidiaries frequently face the same competitors in the global market; hence, the knowledge that is developed in a subsidiary in one country can be helpful for other network units to compete with the same competitor in different markets (Gupta and Govindarajan 1991; Hedlund 1986; O'donnell 2000). Therefore, different international environments influence the development of differentiated and unique sets of abilities within various subsidiaries that add value to the entire MNE network. A subsidiary may develop unique knowledge of industry, technology, competitors and customers that might benefit other subsidiaries and a HQ (Hedlund 1986; Kogut and Zander 1993). Overall, the ability to utilise these resources and move them across the network creates competitive advantages for the MNE.

Increased globalisation and technological advancement triggered the rise in the level of interdependence among globally dispersed subsidiaries (Subramaniam and Watson 2006). Consequently, it also created the need for headquarters to reinforce control of network coordination, to mobilise unique assets and competencies within the MNE (Bartlett and Ghoshal 1989), and to support the development of the value-adding capabilities of individual subsidiaries (Bartlett and Ghoshal 1989; Kawai and Strange 2014). Therefore, headquarters' engagement in the operation of its subsidiaries continues to be a fundamental element for maximising the value of an integrated MNE network.

Because of differences in investment motivations, subsidiaries have diversified aims in the host location. Therefore, headquarters must decide how much control it should have over the subsidiary's business to benefit the entire network. Headquarters' engagement in the activities of its subsidiaries revolves around the concept of autonomy. Autonomy is defined as the extent to which managers of subsidiaries can make decisions without

headquarters' involvement (Kawai and Strange 2014). Too much autonomy might result in an out-of-control subsidiary and can lead, as a consequence, to losses, and footloose behaviour. Conversely, overly tight control by headquarters restricts the creativity and entrepreneurship in subsidiaries and limits subsidiaries' integration into the host country environment.

Unfortunately, not all organisations are successful in establishing the balanced and healthy relationship between HQ and subsidiaries. In some MNEs, the relationships are predominantly based on the subsidiary's dependence on the HQ's resources. In this case, subsidiary holds neither the competence nor legitimacy to operate somewhat independently or flexible (Nohria and Ghoshal 1997, p.35). Within this type of relationships, the value-added activities are focused in the HQ. Therefore, the subsidiary would have to rely on HQ's knowledge and expertise completely. Also, when HQ makes a decision without considering subsidiary, it creates a competitive disadvantage for the whole network. In this case, the footloose behaviour is quite possible because subsidiary's interests are neglected, and their knowledge regarding the host environment is not considered.

More important, in other extreme cases, a highly integrated, autonomous, resource-rich subsidiary can exercise the significant amount of influence on the headquarters. This situation is a reverse of what we have discussed in the previous paragraph but have similar consequences. So in the circumstances, the footloose behaviour is a possible option. Powerful subsidiary might start to follow its own goals; hence, the contribution to the overall network well-being can be limited. Therefore, headquarters would have to take the control back to avoid losses, or, possibly, adopt the footloose behaviour.

Contrary, in other cases subsidiary, enjoys considerable strategic and operational autonomy, while HQ exercises some degree of administrative and financial control (Nohria and Ghoshal 1997, p.36). In this line of reasoning, subsidiaries are the value-added units, not the HQ. In this case, HQ would rely on subsidiary's local expertise while subsidiary would be under the financial control of the HQ. This type of relationships promotes the balanced interdependence between HQ and subsidiary; thus, reducing the possibility of footloose behaviour.

Taking into account the discussion above, we suggest that there is always

interdependence in an MNE network, but the level of interdependence may vary based on differences in the flow of organisational resources (O'donnell 2000). Therefore, investigating the degree of interdependence between parts of the network can capture the 'weak elements'. These 'weak elements' may be of two different types. Firstly, some subsidiaries do not contribute to the value-creation in the network. Thus, these units are more likely to adopt footloose behaviour in order to re-establish the value-creation function. Secondly, some subsidiaries are not integrated into the network. These units are dependent on the HQ resources; thus, MNE may decide to be re-establishing the efficiency by adopting the footloose behaviour.

Because of the interdependency between units of the MNE (including headquarters), headquarters must control the network – and each subsidiary – to ensure that corporate strategy is executed fully and that each unit adds value to the network (Young and Tavares 2004). However, to operate locally, the subsidiary should have the ability to execute independently made decisions because local knowledge in possession of the subsidiary – which might be unknown to headquarters – reflects the unique characteristics of the host country (Kostova and Roth 2003). Therefore, headquarters must find a balance between giving a subsidiary adequate space to act locally and maintaining overall network coordination.

2.5.3. Operational Flexibility

When we examine the decision to invest, the most appropriate tool is Dunning's eclectic paradigm. OLI is one of the most influential bases explaining the willingness of the company to become multinational, through possessing three groups of advantages (Dunning 1988, 1993, 2001). A company can invest in foreign location if they possess ownership advantages, if they can utilise these advantages internally without involving a third party (Internalisation advantages), and if the location is beneficial for setting up production facilities (location advantages). Dunning's eclectic paradigm explains the motivation to invest by the intention to meet the needs of the foreign market. Therefore, this concept is less suitable for evaluating the configuration of a whole MNE's network that is established to generate efficiency in the overall production system.

Location factors are important determinates for the decision to invest. The literature emphasises the absolute advantages of individual locations (such as country's economy,

legal and political climate) as these characteristics regulate the level of fitness of a location as a destination for FDI (Enright 2009; Flores and Aguilera 2007). However, the location characteristics are determined by external circumstances; thus, they are not fixed, but dynamic. Therefore, if we assess the location appropriateness only once, during the investment process, we neglect possible future changes that can alter MNE's perception of the location's benefits.

The framework for explaining the factors that influence an efficient configuration of an MNE network is delivered by the concept of operational flexibility. Operational flexibility is regarded as a hallmark of the MNE network structure (Buckley and Casson 1998; Kogut 1983; Lukas 2006). It is the ability to relocate resources quickly and smoothly in response to environmental (internal and external) changes (Buckley and Casson 1998). Any individual FDI activity (investment, divestment or relocation) affects the whole MNE network. The level of operational flexibility will determine the series of sequential decisions regarding the resource transfer within the MNE network (Kogut 1983). Kogut (1983) argues that operational flexibility is a "primary *advantage* of the multinational firm" (p. 38) as it allows MNE "to benefit from being global" (Kogut 1985, p.27). In line with this argument, Buckley and Casson (1998) regard FDI as a sequential process that utilises the benefits of operational flexibility and allows MNEs to organise their networks of globally dispersed subsidiaries to increase efficiency. Operational flexibility represents a critical aspect of the MNE's production network as it allows to smoothly relocate production sites, reorganise the subsidiary roles or to benefit from global coordination of prices to win the competition, etc. (Kogut 1985). The principal argument behind these examples is that operational flexibility influences the perception of both the external and internal environments of the multinational. It works as a backup allowing a firm to be more prepared for either internal or external challenges (Lee and Makhija 2009; Song 2014; Tang and Tikoo 1999). Thus, operational flexibility can alter the possibility to adopt footloose behaviour by changing the perceptions of environmental (internal and external) factors.

When the MNE has a flexible production network, it makes it easier to maintain the business because every element of the production network is built in such a way that it can support the other components. Thus, the network is not just linked structurally (e.g. subsidiary roles) and strategically (e.g. efficient information flow in order to reduce the complexity of decision-making) (Buckley and Casson 1998).

Hence, any changes associated with a subsidiary that has links with other network units should be carefully evaluated. Operational flexibility allows the adjustment to change and may decrease the need for the changes (e.g. relocation). On the other hand, operational flexibility allows reconfiguring the allocation of resources smoothly; thus, it is easing the process of change (e.g. relocation). More important, operational flexibility can change the strength of the influence of the internal and external factors, making the footloose behaviour more or less possible. Operational flexibility captures the dynamic nature of an MNE's internal and external environments and can explain the behaviour of the MNE within these changing environments.

Although operational flexibility provides a lot of potential opportunities for the MNE to benefit from, the value of these opportunities has a relative nature (Kogut 1983; Lee and Makhija 2009; Song 2014; Tang and Tikoo 1999). An MNE is a complex network that is challenging and expensive to manage. Flexible operations require constant financial input to maintain operational linkages between network elements, such as by monitoring the potential mistakes and the opportunistic behaviour of a subsidiary's managers (Rangan 1998). Kogut (1989) notes that "having the potential to exercise flexibility is a far cry from having the management system to do it" (p.388). Therefore, an MNE benefits from having an operationally flexible multinational network if the value of the flexibility exceeds the financial inputs.

2.6. Conclusion

Footloose behaviour is a complex phenomenon that exists on the edge of interrelations between investment, divestment and relocation. Literature that we present in this chapter treats the activities of the MNE (investment, divestment and relocation) as completely separate unrelated activities. The factors that drive investment, divestment and relocation are depicted in the literature as the factors that drive only investment, divestment and relocation. We suggest that each theory presented above see the concepts of investment, divestment and relocation separately because they approach them from the subsidiary level. However, MNE is a network, and in the network, the units of this network are interconnected. Therefore, from the network point of view investment, divestment and relocation are interconnected. We argue that these factors on its own cannot help us to answer our research question. However, we can use the assumptions of these different theories to form a conceptual framework in order to find

out the combination of the internal and external MNE factors that affect footloose behaviour given the different motivations of the MNE by answering the research questions:

1. *What are the key factors that drive footloose behaviour?*

2. *How do these factors interact to augment or reduce this behaviour?*

3. *How does headquarter-subsidiary interdependence moderate the key factors that drive footloose behaviour?*

4. *How does operational flexibility moderate the key factors that drive footloose behaviour?*

3. The Conceptual Framework

3.1. Introduction

International Business (IB) literature looks at the ways a multinational enterprise invests through the prism of FDI motivations such as resource-, market-, efficiency-, and strategic asset-seeking (Cuervo-Cazzura and Narula 2015; Dunning 1998). This FDI motivation typology rationalises the choices that an MNE makes regarding the geographical allocation of their investments. Thus, the focus is on factors that *attract* the investment rather than on the phenomenon itself. In this light, IB literature conventionally perceives investments as a *new* or *initial activity* aimed at the development and expansion (see Dunning 1988b). However, we argue that the behaviour of the MNE is more complex to be only reduced to the investment concept. MNE is a company that invests, divests and relocates. These three activities are fundamental events that take place in the network; hence, they are linked.

We often observe that investments are neither 'new' nor 'expansion'. In fact, they are 'relocation investments' (Buckley and Mucchielli 1997; Pedersini 2006; Pennings and Sleuwaegen 2000) and involve the move of *existing* operations from one country to another with the intention to *rationalise* the allocation of the existing resources and strengthen the competitive posture[7]. Sleuwaegen and Pennings (2006) suggest that literature does not always make a distinction between the expansion investment (the initial investment) and relocation investment (the move of resources from one location to another) while evaluating MNE's aims in terms of particular 'investment'. This logic limits our understanding of both processes because the investment exemplifies the expansion related activity, but relocation exemplifies the move of production facilities from one country to another (Mucchielli and Saucier 1997), i.e. the divestment of the production facility and subsequent investment by means of relocation to another geographical area. Therefore, the notion of investment, as an academically accepted construct, may exemplify different types of MNE's behaviour without providing further clarifications. Thus confusing 'new investment' with 'relocation investment'. However,

[7]This kind of argument is applicable to any kind of ***established*** MNE, including Born Global. Regardless of the age, the established MNE has a network of subsidiaries scattered around the world. The larger the network –the more incentives MNE has to reorganise it efficiency-wise.

what is, even more disturbing, is that it is not the conceptual difference, which is important to show for the sake of clarity and rigour, but rather how 'new investments' and 'relocation investments' are interconnected in the MNE.

Literature, as we have seen in the literature review chapter (Chapter 2), ignores the interrelations and connections between different processes within the MNE because these processes are conventionally perceived to be separate from each other. In hierarchical MNE, the valued added component belongs exclusively to the headquarters. In vertical hierarchical organisations, the business of subsidiary A does not affect the business of subsidiary B because subsidiary A and B are only connected to the HQ. Thus, subsidiary A and B contribute their value added to the HQ, and HQ exclusively decides how to deal further with this value added.

However, the increasing complexity of business environment and growth of the MNE in terms of scale and internal diversity "strain the existing organisation to the point that the key features of the organisation must change if it is to continue to grow or perhaps survive" (Westney and Zaheer 2009, p.342). In other words, the vertical hierarchical structure cannot support the necessary changes. Possibly, it is an evolution of the Multinational enterprise from hierarchical organisations into the dynamic networks that generated the necessity to approach FDI behaviour holistically (Hedlund 1986). Thus, in this thesis, we highlight the importance of linkages between network elements and approach MNE as a dynamic differentiated network. The main goal of the MNE is to maintain the efficiency of the whole network. Therefore, a firm might decide to reorganise the resources in order to achieve the desired efficiency level. The MNE is a *dynamic* network because it can create new resources and move existing ones by means of investments, divestments and relocations.

Thus, we should consider investment as an outcome of various dynamic processes rather than a process *per se*. Ignoring the complex nature of investment greatly limits our understanding of the MNE behaviour because investment is a small fraction of possible actions, which takes place in the firm.

In this thesis, we explore one particular type of MNE behaviour –the footloose behaviour, i.e., the case where an organisation systematically divests from a host country and systematically relocates this activity to another host country. Footloose

behaviour is a small part of the geographical reorganisation of the MNE network. When we combine the three activities together and apply the systematic pattern of behaviour, we see the process of rationalisation that involves *repeated* cases of the efficiency-driven relocations. Hence, it signals the emergence of a new kind of FDI activity – footloose behaviour. However, it should be noted that the geographical reorganisation of the MNE network is a much more complex activity (compared with the footloose behaviour) where different concepts such as investment, divestment and relocation explain a small fraction of the issue, but not the phenomenon as a whole. In this thesis, we focus only on the footloose behaviour aspect, rather than on the whole issue of the geographical reorganisation.

As we have seen in the literature review (Chapter 2) there is no connection between investment, divestment and relocation. Thus, we need to establish their interrelations in the form of conceptual framework. To construct the conceptual framework we need to bring together main ideas, which contribute to the concept of footloose behaviour. The definition of footloose behaviour incorporates several concepts, which individually explain separate MNE activities – investment, divestment and relocation. These concepts are our principal theoretical points; thus, to combine them in the single model we need to bring these concepts to the common denominator. As many scholars identified and as we demonstrated in the literature review (see Benito 1997b; Boddewyn 1983b; 1985; Boddewyn 1979; Buckley and Casson 1976; Dunning 1988a; Dunning 1998; Dunning 1988b; 2001c; LampóN et al. 2015; Lee 2006; Vernon 1966) – there are two fundamental themes running through the history of the investment, divestment and relocation research –MNE as organisation and MNE's environment (Forsgren et al. 2005, p.2). MNE as organisation refers to the internal factors, which shape the company's behaviour from the inside. The second theme –the MNE's environment, suggests that there are factors located outside of the boundaries of the company, but can influence the MNE behaviour. In this thesis, we conceptualise them as the internal environment and external environment respectively. Thus, the internal and external environments are the common denominators for the concepts of investment, divestment and relocation. These two environments are thought to influence the behaviour of the MNE vis-à-vis the investment, divestment and relocation. However, it is not only existence of these environments that is important, but their interrelation is considered to be a vital factor.

When we analyse investment, divestment and relocation together, we observe a connection and interdependency between these activities. The triumvirate of interconnected activities creates a coherent model of footloose behaviour by accentuating the relationships between each activity. Our model of footloose behaviour brings out the overlap that exists between investment, divestment and relocation. This model or the conceptual framework, as we term it in this thesis, represents what is out there that we aim to investigate and how does it work (Maxwell 2013). The aim of this chapter is to present a conceptual framework that guides our study and synthesises individual concepts into the one coherent framework. Considering that literature treats investment, divestment and relocation as separate, unrelated activities combining them together, under the umbrella of the conceptual framework, highlights the interrelations between each piece of the puzzle creating the coherent whole. Our conceptual model highlights that activities of the firm *are* interrelated and shows *how* they are interrelated.

The purpose of the conceptual framework is not to establish an absolute knowledge or capture everything about the footloose behaviour but to make sense out of the phenomenon and answer the research question. The conceptual framework suggests *possible interactions* between three individual concepts of investment, divestment and relocation (rather than demonstrates the direct influence of these concepts to the footloose behaviour), and reveals the 'mechanism' behind the phenomenon. Therefore, what is important is that "how any particular theory or model is in understanding and dealing with the phenomena in question…[because] the criterion for evaluating a conceptual framework is how effectively it represents what really exists and is actually occurring" (Maxwell 2012, p.86)

This chapter is organised as follows: First, we discuss the individual theoretical constructs, which form the carcass of our conceptual framework. Second, we evaluate how each of the constructs influences the emergence of footloose behaviour. Finally, we evaluate how the relationships between the individual constructs influence the emergence of footloose behaviour and put forward propositions.

3.2. Underpinnings of the Conceptual Framework

Footloose behaviour –is a repeated relocation of the previously divested operations over a period of time. '***Repeated***' refers to the *systematic* character of the Dynamic

Differentiated Network (DDN) rationalisation motivation. The one-time relocation can refer to a random event, but when it happens more than once –it is a systematic behaviour (i.e. footloose behaviour). ***'Divestment'*** refers to a cessation of all or of a major part of existing active operations that reduces the presence in the foreign market (Belderbos and Zou 2006; Boddewyn 1979). We subdivide divestments into three groups[8]: **(1)** exit from the market; **(2)** closure of a subsidiary; and **(3)** organisational restructuring[9]. Divestment is termed as ***'relocation'*** when terminated activities in the subsidiary are relocated to another country: **(i)** by establishing a new subsidiary, and **(ii)** by increasing a market scope, product scope or value-added scope of an existing subsidiary (see White and Poynter 1984). In the concept of footloose behaviour, relocation should be seen as 'relocation investment' because it involves *the investment* to another country by means of the relocation.

Footloose behaviour aims to increase the efficiency of the MNE network. Efficiency is a distance between the current state and the future desired state of the firm. The shorter the distance between the current and the future desired state the better. MNE is always changing to do the multiplicity of factors; hence the level of efficiency is not static. In this thesis, we aim to find out what is the combination of the internal and external MNE factors that affect footloose behaviour giving the different motivations of the MNE. In order to achieve our aim, we need to adopt a framework that would allow accommodating the aforementioned research objective. We suggest that Contingency Theory (Donaldson 2001) is flexible enough to help us achieve the goal of the studies. In the following paragraphs, we discuss why we selected Contingency theory.

Contingency theory suggests that there is no 'one best approach' to the characteristics of organisational structure (Hamann 2017). In other words, every MNE is built in its unique way that should, ideally, maximise the efficiency of the MNE network. Contingency theory highlights that efficiency of the MNE depends on the fit between the characteristics MNE network and contingencies (Donaldson 2001; Hamann 2017; Hoffer 1975).

8 Please, consult the appendices 1 for the full definition of terms.

9 Organizational restructuring – "is a process that involves a change in the control of resources of the firm. The firm will continue to trade in the foreign market through a different organizational form, involving a reduced resource commitment" (Read 2001).

The characteristics of MNE network should reflect and match the contingences because if they do not match, the firm's efficiency declines. Contingency factors work as a moderators because "a contingency is any variable that moderates the effect of an organisational characteristic on organisational performance" (Donaldson 2001, p 7).

Contingencies do not arise from emergencies, but from routines (Hoffer 1975). Hofer argues that contingency factors are not situational, i.e. they are not unique to particular circumstances, and can be grouped into the three main categories (Donaldson 2001; Hamann 2017):environment, size and strategy. In other words, contingency theory argues that for every organisation the contingency factors would be drawn from these three categories. However, Donaldson (1987) further groups three contingencies as environmental (environment contingency) and intra-organisational (size and strategy contingencies).

The environment contingency reflects the uncertainty and the pace of change in the firm's environment. The uncertain environment that has a high pace of change requires MNE to be more flexible in the decision making and allow more decision making and innovation at the subsidiary level. The size contingency would affect the degree of centralisation and formalisation in the firm. The larger the firm, the more centralised and formal it should be in order to coordinate all activities. The strategy contingency impacts the degree of diversification in the firm. The more the firm is diversified, the more focus is needed to manage activities in their own markets by while coordinating activities across the MNE network.

We assume that when the efficiency of the MNE is at the optimal level, it means that there is a good fit between the characteristics of the MNE's network structure and contingencies (Hamann 2017). However, with time the level of contingencies can change either by the firm itself or independently, but the organisation will keep functioning as the change never happened, i.e. the characteristics of the MNE network remain unchanged. Hence, the efficiency will decline. If the efficiency drops below the satisfactory level, the firm will start the process of changing its structure to regain fit by "adopting new organisational characteristics that fit the new level of contingencies" (Donaldson 2001, p 2).

For example, the rate of the technological change in the industry will speed up and it would impact the ability of the MNE to keep up with the innovation. Hence, the firm would have to alter the characteristics of the network to maintain the ability to innovate. Also, the firm might decide to perform a new investment that would cause the change of the firm's size (i.e. expansion). Thus, MNE would have to adjust its characteristics in order to maintain the level of efficiency and a new size.

We argue that contingency theory is a useful tool for analysis of the footloose behaviour. Footloose behaviour is a response to the misfit between the new (changed) level of contingency and the old organisational characteristics. The goal of footloose behaviour is to maximize the efficiency of the MNE network by minimizing the misfit between the contingencies and the characteristics of the MNE network. Investment, divestment and relocation can be *a trigger* of the misfit and at the same time *a response* to the misfit. In other words, the investment (as a trigger) to one location may cause the need to divest or relocate (as a response) from another location in order to restore the level of efficiency. Following this logic, MNE "remains in fit temporary, until the surplus resources from the fit-based higher performance produce expansion. This increases contingency variables, such as size or diversification, leading the organisation into misfit with its existing structure" (Donaldson 2001, p 21). Thus, the process to regain fit starts again.

Contingency theory suggests that there are a number of factors in the internal and external environment of the firm that moderate the impact of the network characteristic on the efficiency. When these factors change, the MNE should alter the characteristics of its network in order to maintain the appropriate level of efficiency. Hence, engage in the footloose behaviour. In this thesis, we aim to find out what is the combination of the internal and external MNE factors that affect footloose behaviour giving the different motivations of the MNE. Hence, we use contingency theory as an overarching framework that enables us the find the combination of factors that drive footloose behaviour.

Now we proceed with a number of constructs in order to develop a conceptual framework tailored to the investigation of factors that affect footloose behaviour. Giving that the internal and external environments are the common leitmotifs in the FDI literature–we include them in our conceptual framework. We argue that the forces that

make a company invest, divest and relocate may impact the footloose behaviour. Scholars (Benito 1997b; Benito 2015; Boddewyn 1983a; 1983b; Dunning 2001a; LampóN et al. 2013) agree that the behaviour of the MNE is simultaneously affected by the elements of 1) the internal environment; 2) the external environment, and 3) by the interrelation of both environments. Therefore, we assume that footloose behaviour can be triggered by elements of either the internal or the external environment, or by the simultaneous interrelations between factors from both environments.

Hence, our first two research questions reflect the necessity to identify the factors in the internal and the external environments of the multinational that drive footloose behaviour. Thus, we put forward our first and second research question as follows:

- *What are the key factors that drive footloose behaviour?*

- *How do these factors interact to augment or reduce this behaviour?*

We establish the first two components of the conceptual framework –the internal and external environments. We argue that the factors of internal and external environments, or both, drive the reorganisation of the MNE's resources with the purpose to increase the level of efficiency when the misfit emerges.

Footloose behaviour serves as a proxy for achieving efficiency within the whole company; the individual cases of relocation do not. When MNE relocates a subsidiary to another host country, this particular subsidiary may, indeed, become more efficient. However, this kind of relocation does not promise more efficiency for the whole company because it does not take into account the benefit of other subsidiaries, or in other words, the benefit of the whole MNE network. If MNE would not restore the fit on the level of the network, this can lead to the loss of efficiency due to the increased misfit between the characteristics of the MNE network and new level of contingency. Thus, if relocation does not make other subsidiaries more efficient, it does not add efficiency to the company level either. Contrary, if relocation contributes to the efficiency of other subsidies, it also contributes to the efficiency of the company by creating the linkages between subsidiaries, i.e. increasing efficiency by adopting the network characteristics that fit the new level of contingency.

Efficiency comes to the company via links between all network elements. The MNE's structure that reflects our logic is the dynamic differentiated network. Within DDN we can examine how MNE changes over time and how linkages between network elements change. In other words, how MNE develops efficiency through systematic change. The nodes of this network –are diverse subsidiaries with unique roles and capabilities.

To address the question of the footloose behaviour drivers, we need to look at the network as a whole piece, because to achieve a desired level of efficiency, by the relocation of resources, these recourses should be interlinked. Hence, we look at the MNE from the perspective of the whole network. Therefore, we must take into account the network itself, which can affect the perception of the internal and the external environments. Literature, which we discussed in literature review chapter (Chapter 2), suggests that there are two network factors that can moderate the perception of internal/external environments. These factors are *HQ-Subsidiary interdependence* and *operational flexibility*. We formulate our third and fourth research questions in the following way:

- *How does headquarter-subsidiary interdependence moderate the key factors that drive footloose behaviour?*
- *How does operational flexibility moderate the key factors that drive footloose behaviour?*

As we discussed in the literature review, MNE's behaviour is affected by the elements of the internal and external environment. Thus, the interrelations of these environments shape the organisation and make it unique. MNE is also affected by the relationships between the headquarters and each subsidiary, and by the relationships between subsidiaries. To put it simply, the multinational enterprise is affected by the elements of its environment (internal and external) and the elements of its network.

The narrative, a conceptual framework is important to be articulated in the form of a concept map (Maxwell 2013) to ease the navigation and to enhance clarity of justification. A concept map is a visualisation of theoretical constructs that we depicted from the literature, and how these theoretical constructs explain the footloose behaviour. In other words, the concept map is a "model of research design" (Maxwell 2013, p.54). Employing the concept mapping allows seeing the conceptual framework at once. Miles and Huberman (1994, p.18) suggest that creating a theory relies on the broad central units or 'intellectual bins'. These comprehensive bins contain various

components and behaviours. Hence, *the process* of developing the intellectual bins, naming them, establishing their interrelationship and prioritising the variables inside of the bins lead the researcher to their conceptual framework (Miles and Huberman 1994, p.18; Ravitch and Riggan 2012, p.7). Therefore, we created the graphical representation of our conceptual framework (Figure 1). These main elements contain within them subcategories that have been informed by the literature and will be expanded further in this section. Figure 1 also highlights how each category of the conceptual framework shares interconnectivity, revealing the dynamic nature of the concept of footloose behaviour.

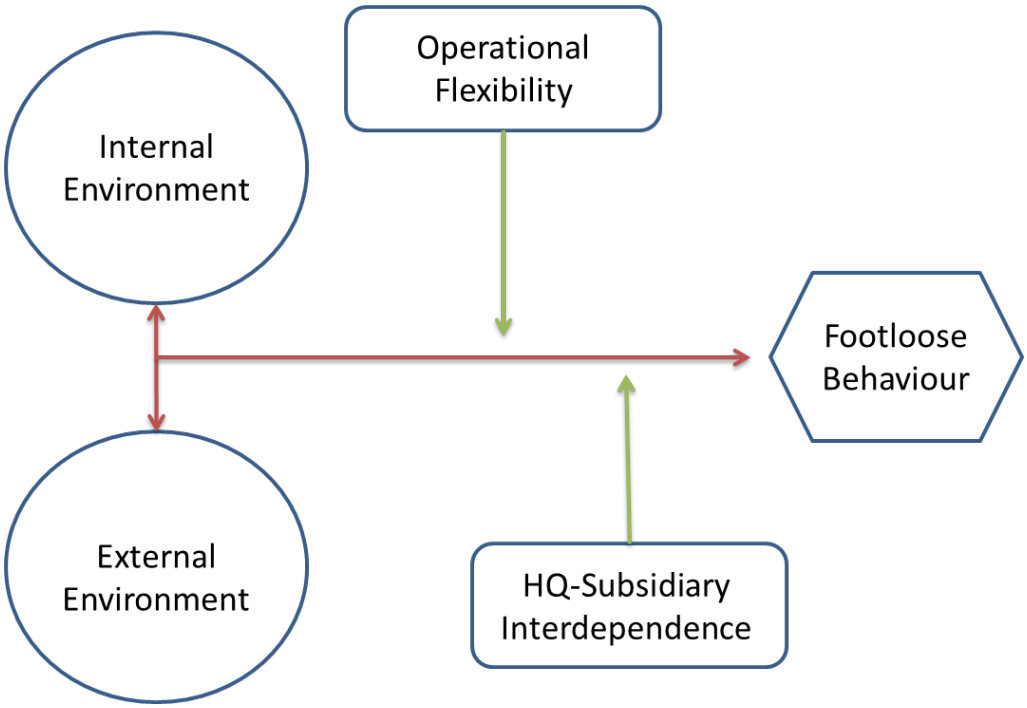

Figure 1 The Conceptual Framework

3.3. The Components of Conceptual Framework

In this section, we discuss the components of the conceptual framework. The chart below represents the narrative structure and sequence of the discussion (Figure 2), which take part in this chapter. Figure 2 serves as a building argument figure and should not be confused with Figure 1, which is a concept map.

Figure 2 shows two principal viewpoints of our discussion. The first viewpoint highlights the notion of single investment: the fit between internal and external environments. The second viewpoint recognises that MNE has multiple interconnected individual investments. Therefore, we discuss the investment concept in the light of the network, i.e. relocation investment. Also, we highlight the linkages between investments and focus on how these linkages can influence the internal and external environment.

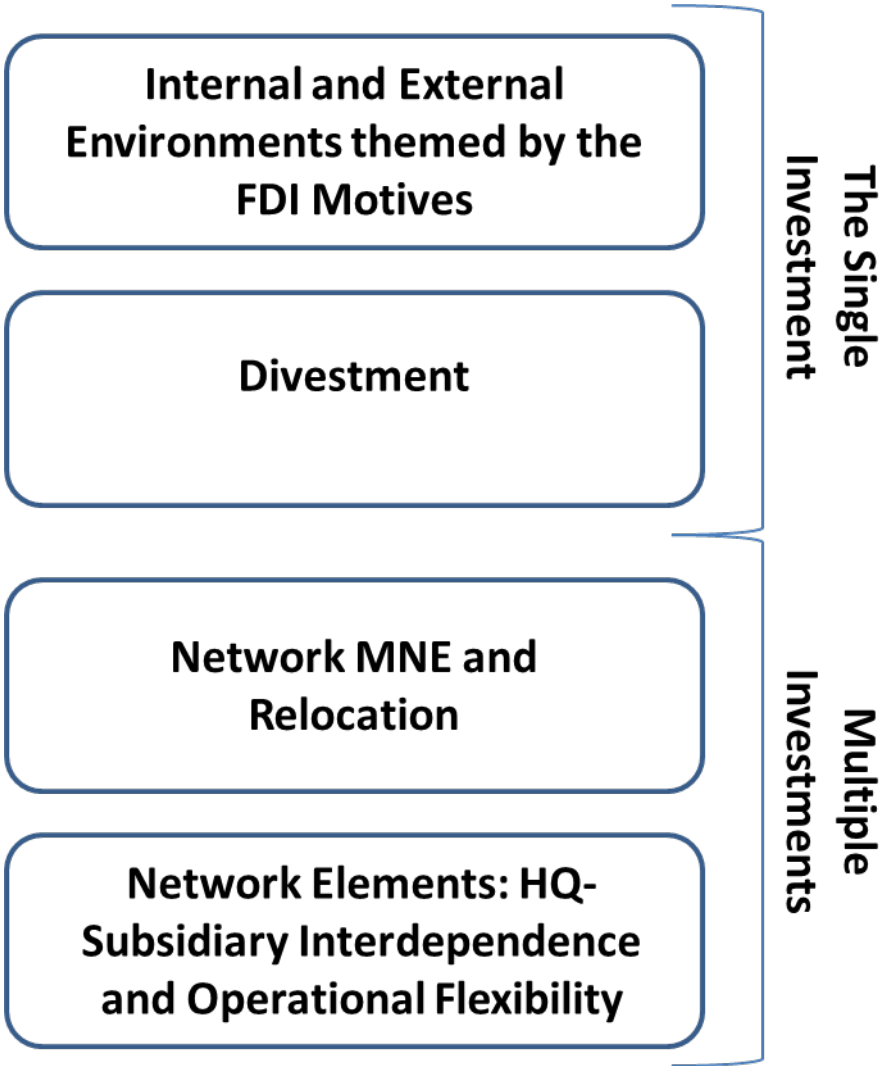

Figure 2 The Narrative Structure of the Conceptual Framework Chapter

3.4. The Single Investment

3.4.1. Investment Motives

Internationalisation is purposeful and goal-oriented activity. “Put differently, a company’s internationalisation – what it involves, how it unfolds, and how it is organised and managed – is inextricably linked to the motives underlying it. Motives seemingly define the essential nature of internationalisation”(Benito 2015, p.2). We argue that motivations for international production help to organise and manage our the understanding of internationalisation (Benito 2015).

As suggested by Dunning, the match between OLI variables provides the necessary condition for production abroad to take place. However, in order to make the condition sufficient, we need to add the relevant motivation for investment in the particular location. Motivations capture the desire of an organisation to internationalise. The MNE may have all the necessary elements available in order to make an investment, but there would be no desire to do it.

FDI motivations explain why a company would want to internalise abroad. Irrespective of the particular characteristics of the company (or industry), or even location (FDI types do not suggest anything about location, but infer what an MNE desires to achieve), the motivations can be grouped into the four segments: resource-, market-, efficiency-, and strategic asset-seeking (Cuervo-Cazzura and Narula 2015; Dunning 1998). However, each investment is unique and depends on the characteristics of the company and matching location features.

We argue that with time, the motivations, which initiated the particular FDI, may change. In other words, the contingency level can change making the location not suitable for the particular motive or making the reason for the investment redundant. The change of the motivations does not have to be *directly* associated with any particular investment. Perhaps, MNE may conclude that the goal itself has changed, or that existing goals in the region are achieved or no longer can be achieved. Hence, there is a misfit between the new level of contingency and the characteristics of the MNE that remained unchanged. Therefore, footloose behaviour might take place to restore the fit and, consequently, efficiency.

In this thesis, the main research question is approached from the position of the MNE. Thus, we aim to highlight the combination of the internal and external MNE factors that affect footloose behaviour taking into account the different motivations of the MNE. The main idea is that changes in the internal and/or external environment severely affect MNEs' business, affect their perceptions of investment motivations (FDI types) in a particular location. Thus, if the location is no longer able to accommodate the initial FDI motivations because of the emerged misfit between the new level of contingency and the old organisational characteristics, the footloose behaviour will become possible.

As we highlighted in the related section of the literature review (Chapter 2), the main line of reasoning is that some motivations are more vulnerable to changes and as the consequences are more prone to the emergence of footloose behaviour because the rationalisation momentum might emerge quicker. However, the element of change (i.e. the possibility of change) is not usually highlighted in the literature. The recent studies on the motivations emphasise the need to adopt a broader and more flexible view on the FDI motives and to consider them not as an isolated concept but as an appendage to the FDI literature (Benito 2015; Cuervo-Cazzura and Narula 2015). The FDI motivations may be cast away or altered with time because of the way MNE as an organisation has evolved.

We argue that the four FDI motives are nonspecific and serve as guidance for further analysis such as a search of particular investment-related factors. Motives per se are generic and out of context. In this thesis, we approach MNE as a network; thus, the network of the multinational enterprise is our context. Motivations, in our case, add value only if we evaluate them in the context of their fit to the MNE network. Also, investment motives are important for the analysis of divestments and relocations. For relocations or relocation investments, the necessity to take motives on board is straightforward because of the *investment* component. Divestments are linked with the preceding them investments; thus the argument is similar to the one with relocation, but with the added twist of retrospective question: "Are the investment motivations still relevant?"

The trends in the FDI research (Cuervo-Cazzura and Narula 2015; Dunning 2001a, p.227) reflect that the organisation of the MNE (i.e., the way a company organise itself, which we approach as a dynamic differentiated network) becomes a critical factor for the long-term survival of the firm (i.e. the ability of the firm to constantly move towards the fit between the new level of contingency and organisational characteristics).

The configuration of the network and strategic positioning of the resources are now more important than the availability of the natural recourses or cost-beneficial labour. The reason for such a shift is that "the quality and cost of the natural resources and semi-skilled labour, are replaced by the availability of a supportive and sophisticated physical and human infrastructure, and the ease of access to global markets" (Dunning 2001a, p.227). The common governance of the resources helps to achieve more efficiency in the creation, accumulation, utilisation and transfer of the intellectual capital through the network. Hence, there is a factor of the network, which influences the perception of the investment motives.

In order to strengthen our argument regarding changes of FDI motives, we propose additional dimension of product lifecycle. In the literature review, we provided a general overview of Vernon's (1966) product lifecycle. The main assumption of the PLC theory is that a product has stages of the life cycle; hence, it moves through the stages over time. This concept is crucial for the current research as it holds two main assumptions: the element of time and the element of rationalisation. We use these elements in order to estimate the time (i.e., how quickly the footloose behaviour emergence for the particular product or industry) and to estimate the appropriate moment when the footloose behaviour is the most logical step (i.e., this highlight the rationale behind the decision).

- *The element of time.* Each product has a certain length of the life cycle. The shorter the life cycle, the faster the product moves from one stage of development to another. Consequently, products with a short life cycle reach maturity stage faster than products with the long life cycle. Knowledge regarding the industry and product characteristics helps to determine the length of the life cycle. Products with short life cycle reach maturity stage quicker. Therefore, they become standard quicker. As the product becomes standard, it is rational to cut costs by relocating the production facility. Hence, with short life

cycle products, the footloose behaviour emerges more frequently. Contrary, products with long life cycle do not become the standard so quick. Thus, the footloose behaviour emerges less frequently.

- *The element of rationalisation*. When product matures, it is reasonable to relocate the production facilities because it allows cutting costs and increasing profits. Standard products are easier and more profitable for mass production. Firstly, the production line has already been established, refined and standardised. Therefore, if necessary, the production can be moved to another location without any loss of quality. Secondly, in the stage of maturity, the product acquires its final form. Consequently, there is a high probability that production line is not to be subject to change in the future. Thirdly, the standard product does not require a high degree of adaptation, so MNE can reach economies of scale through mass output. However, to make mass production possible the production facility would have to be moved to a cheaper location. Therefore, the transfer of production to more profitable location is quite rational during this stage. The above line of reasoning does not imply that the current host country is not cost-effective, but it implies that another location might be more profitable.

Footloose behaviour has a systematic character. Overall, there are two possibilities for the footloose behaviour. Through the maturity stage, the company relocates from developed to the less developed country. Through the decline stage, a company attempts to increase the efficiency by moving the production sites from less developed country to even the less developed economy. Hence, a footloose MNE will be looking at the countries that offer significant advantages relevant to the needs of the MNE. We argue that some motives are more vulnerable to changes and PLC can help to estimate the possible timing of the change; hence, make a more accurate prediction regarding the emergence of footloose behaviour. The relationship between motives and footloose behaviour is discussed in the following section.

3.4.2. The Internal and External Environments

The multination enterprise operates as an open system (Forsgren et al. 2005, p.2), which implies the existence of external relations, i.e. the organisation (internal environment)

interacts with the external environment. MNE is capable of evaluating the external environment properly and matching the factors from internal environments accordingly in order to achieve the most efficiency (Forsgren et al. 2005, p.2). In this section, we take the multiplicity of internal and external factors that are pivotal for respective FDI motivations in order to highlight the particular factors from each environment that can drive footloose behaviour.

We use FDI motivations as a tool to aggregate different internal and external factors. This view is also supported by the most recent IB (Cuervo-Cazzura and Narula 2015) research where FDI typology is expected "to be a guide to provide order to an increasingly complex universe". Thus, the FDI typology helps to create a thematic order of factors. Further, we proceed with the discussion revolving around the most important factors in the thematic order.

Resource-Seeking Theme

The common leitmotiv of resource-seeking motivation is availability and substitutability of the resources. The advantage in the price for labour can attract MNEs with the resource-seeking motivation. However, country's economic growth leads to the development in many areas including wages (Narula and Dunning 2000). Thus, labour price may increase. An investment that started with a resource-seeking imperative for cheap labour can be vulnerable in terms of footloose behaviour if the characteristic location change (i.e. the cost of labour increases) and/or if the MNE amends their investment motivation to the efficiency seeking. In this situation, the location cannot satisfy either existing or changed investment motivation and, thus, a firm may adopt the footloose behaviour.

Multinationals that are after unique resources, such as oil or rare earth metals, are less likely to leave this location (even if other location characteristics change) as they will not be able to find these resources elsewhere. Hence, the possibility of footloose behaviour is almost zero. On the other hand, in the case of natural resource-seeking motivation, either the depletion of resources or improvements in technology could make this motivation to be linked with footloose behaviour. For example, coal mining sector. Coal used to be an important fuel source in 1960-70's, but due to the changes in the technology, the significance of coal dropped (Macalister et al. 2015). Hence, some

regions were flourishing, growing and developing in the past due to the coal-mining sector, but nowadays these regions are in stagnation due to the depletion of coal. In this case, the relocation of activities may indicate footloose behaviour.

Product life cycle theory is not applicable to RS Investments. PLC component can predict neither the element of time nor the element of rationalisation. RS seeking investments depend on the availability of resources; thus, regardless the length of the product's lifecycle, until the necessity to acquire resources exists, MNE will stay in the location. Hence, we argue that timing aspect is not relevant for the resource-seeking investments.

Internal Environment

Natural Resource seeking motivation highlights the need to obtain resources that are not available or unprofitable to acquire at the home country. So, this necessity to acquire resources (Benito 2015) and the ability of the MNE to exploit these resources may become the main reason for performing FDI. Additionally, other elements such as the availability of technology that a firm can exploit abroad, the bargaining strengths and other complementary assets can support the investment.

Overall, the elements of the internal environment that drive RS motive suggest that MNEs are less likely to adopt footloose behaviour because a firm might be attached to the resources of the host country. For example, if location requires a tailor-made facility (i.e. specific technology that is not possible to use in another location) (Benito 2015), multinational will avoid extra losses and leave the country only if the loss of staying outweigh the loss of leaving. On the other hand, the advancement in technology can eliminate the need to use the tailor-made manufacturing, reduce the input price and create opportunities to find suitable resources in another location. Thus, footloose behaviour can emerge if the ability to exploit resources or necessity to acquire the resources becomes obsolete.

External Environment

Considering the importance of perceived location factors, we suggest that external environment, in the case of RS motivation, plays an important role in terms of footloose behaviour. MNE invests because the particular location can offer the abundance of

natural resources and suitable infrastructure to transport these resources (Castiglione et al. 2012; Wilson and Baack 2012). Hence, we determine the availability of required resources as a leading external factor. Additional, such factors as quality of resources (Wilson and Baack 2012),

There are two kinds of resources that we need to consider separately in order to evaluate the possibility of RS external environment to drive the footloose behaviour. The first type is natural resources. In this case, the footloose behaviour is unlikely to happen because a firm might not be able to find these resources anywhere else (Benito 2015). Hence, these investments tend to be 'location-sticky' (Lall and Narula 2004).

The second type is the cost-efficient resource. Perhaps, when a multinational invests abroad due to the availability of perceived cost-beneficial resources, the footloose behaviour seems possible if the resources are no longer cost-beneficial. For example, the economic development can lead to the increase of the input costs and as a consequence the higher price for the resources. Therefore, MNE may leave the location.

Contingency Change

We argue that for RS motive the level of contingencies is likely to stay the same as long as the resource at the location is required. The speed of the change in the level of contingency will depend on the nature and availability of the particular resource. Hence, we assume that the possibility of footloose behaviour is somewhat limited in this case.

However, if the RS investment was performed to obtain a cost-efficient resource the level of contingency might change relatively quickly if this resource ceases to remain cost-efficient. In this case, the RS motive is linked with the efficiency-seeking motivation, and the speed of the change in the level of contingencies depends on the efficiency component. We will discuss the ES motive in the relevant section of this chapter. Overall, we do not expect to see many cases of footloose behaviour with the RS Investments.

Market-seeking theme

Market-seeking motivation suggests that multinational is looking to increase the sales volume by entering a new market. Generally, in the case of market-seeking imperative,

subsidiaries are more integrated into the external environment of the host country and considered self-contained production units by the MNE (Dunning and Lundan 2008, p.67). Therefore, changes in location characteristics can influence MNEs' footloose behaviour if these changes lead to lost profits and if the subsidiary will no longer add value to the MNE. Multinational enterprise is a network of subsidiaries; thus, if the particular subsidiary does not bring value to the overall network, it is necessary to rationalise the allocation of existing operations in such a way that it will increase the efficiency gains of the differentiated MNE network. The process of rationalisation may involve footloose behaviour.

If we incorporate product life cycle into the market-seeking motivation, the adoption of footloose behaviour is possible. Market-seeking motivation plays a particular role during the growth stage of the product. However, during the maturity stage the product should become standard; hence, it eliminates the need to adapt this product for the particular market. In other words, the standardisation of the product takes away the market-seeking motivation. So, if a product requires adaptation in the early stages of development and has a short life cycle we expect to observe very opportunistic investments by the MNE. This is an extreme form of footloose behaviour.

Internal Environment

The main internal factors supporting market-seeking motive is the property rights, i.e. brand name, trademark or an innovative product (Benito 2015). When a firm possesses the brand name, for instance, it makes sense to expand into the new market in order to increase sales. In other words, the brand name will drive a firm towards the market-seeking investment. However, the factors such as the suitable amount of capital to kick-start the investment or the pool of human capital (Dunning and Lundan 2008) are also significant.

Within MS motive, we need to highlight the importance of local adaptation. When a firm invests due to the market-seeking imperative, it is important to consider to what extent the product should be altered in accordance with the local needs (Dunning and Narula 2010). Firstly, local adaptation may not generate any benefits for the overall MNE network. Thus, this kind of investment is vulnerable in terms of footloose behaviour. Also, the adaptation would require additional financial inflows compared to

more standard production, may require specific technology and knowledge. In this case, a firm may become deeply rooted in the external environment; thus, it reduces the chances of footloose behaviour.

We suggest that internal factors can lead to footloose behaviour if, for example, the ownership of brand name is lost or the product did not fulfil the expectations in terms of profit. Also, the inability to generate brand loyalty can be a significant internal driver of footloose behaviour. In other words, the internal factors that drive market-seeking investments are significant on their own to facilitate footloose behaviour. Thus, any actual or perceived changes associated with these factors are enough to drive the footloose behaviour.

External Environment

The market conditions such as size, geographical proximity to other markets, level of development, the availability of skilled labour force, and the appropriate price of labour – are some of the external drivers for the market-seeking motive (Benito 2015; Castiglione et al. 2012; Ramasamy and Yeung 2010; Wilson and Baack 2012; Wilson-Error and Williams 2012). Multinationals are looking for the market, which can accommodate their brands and services in the most profitable way.

If market-seeking investment is based *only* on the economy of scale, and there is a potential to increase the economy of scale further by producing in another market whilst covering the required market, MNE may adopt footloose behaviour (i.e., MNEs can relocate away from the core EU countries to another EU country, but still servicing the whole European Union from that location) (Filippaios and Papanastassiou 2008). Thus, market size and opportunities for future growth are found to be crucial (Akpansung 2013; Ramasamy and Yeung 2010), but MNEs prefer to choose the market size over the market growth. Hence, changes in market size may lead to the footloose behaviour.

If the host country market offers increased profits due to economies of scale and requires product adaptation – the possibility for the footloose behaviour is limited because product adaptation cannot be achieved through production in other markets. If there is a need to adapt the product locally it means that an MNE will not be able to

service that particular market in any other way; thus making it difficult for the MNE to leave that market.

We argue that some external factors can lead to the footloose behaviour. The quality of labour is a more important factor than a low cost for labour (Ramasamy and Yeung 2010). Market seekers tend to prefer regions with developed or developing educational systems (Wilson and Baack 2012). Footloose behaviour can be driven by the decrease of human capital in the region. Changes in government policy could reduce the profitability of the investment if it was an important factor for initial FDI. Additionally, changes in the purchasing power (Benito 2015) may drive firms out of the market. One of the key factors that drive MNEs to choose the market is proximity to other potential markets, i.e. regional integration. We suggest that with time, the potential benefit of the nearby market can outweigh the benefits of existing market; therefore, lead to the footloose behaviour. However, the last suggestion is related to the rationalisation of production and also linked with the efficiency-seeking motive.

Contingency Change

Footloose behaviour can emerge if the reason for that particular investment has disappeared or no longer sufficient. For example, the level of contingencies will change if the market prospects in this location are achieved, and further growth is not possible. Hence, we expect the level of contingency to change with time because the characteristics of the host location will inevitably change and the firm itself will change.

However, the speed of the changes in the level of contingency depends on several circumstances within MS motive. If the firm was initially attracted to the location because of the economy of scale as soon as the further growth and expansion are not possible, the contingency level would change, and in order to regain the sufficient level of efficiency, MNE might engage in the footloose behaviour. However, the pace of change for the level of contingency can be slower if the product requires adaptation to the particular market. Yet, as soon as the product becomes standard (the adaptation is not required), the pace of change will speed up. Overall, we expect to see some case of footloose behaviour within MS investments.

Efficiency-seeking theme

The efficiency-seeking motivation is a critical element for the analysis of the footloose behaviour. When MNE has already established a network, it is necessary to assess the efficiency level of the whole network. It is important to bring all operations to a common denominator, where each individual operation adds value, and when all the operations took together to create the highest level of the network efficiency that may be achieved in the circumstances. We need to acknowledge that a firm is a network, which is under the constant influence of external and internal factors[10]. Hence, this influence creates the dynamics in the network by forcing the company to systematically seek for new solutions to maintain competitiveness. Therefore, we argue that as soon as the location characteristics (external factors) change and the ways in which the MNE does business change (internal factors), it is rational for the company to adopt the footloose behaviour and leave the location. Hence, MNEs with very specific motivations might end up becoming footloose when their aims in the regions are achieved or are no longer supported by location characteristics.

If we incorporate product life cycle into the efficiency-seeking motivation, the adoption of footloose behaviour is expected. Efficiency-seeking motivation plays a critical role during the maturity and decline stages of the product. As we discussed before for the market seeking investment, standardisation of the product might take away the MS motive. Thus, if this happens MNE may decide to relocate the standard product to the country that is more efficient. However, this also means that efficiency may be related not to only cost-saving locations, but also to those locations, which would allow MNE to benefit from the common governance of diverse activities. MNE might relocate to the country where they already have some resources. This aspect is further accelerated with the decline stage that would force a company to relocate again into the even more cost-efficient location. In other words, if the investment is based purely on the cost-efficient production and the product has a short life cycle we expect to observe cases of repeated relocation with the goal to cut costs and increase efficiency for the whole company.

Internal Environment

[10] Multinational enterprise is a dynamic differentiated network.

The internal driver of the efficiency-oriented investments is the reorganisation of the MNE network. In other words, the investments are performed in order to build better (more efficient) production facilities, locate the production facilities in such a way that it increases the overall efficiency (specialisation or clustering) of the MNE (e.g. more efficient logistics) (Benito 2015). We can aggregate the internal factors that drive ES investments under one name- the benefits of common governance. Common governance can have two aims. The first aim is coordination of different activities in different parts of the world. The second aim is the coordination of same activity in diverse environments. Therefore, the higher need for coordination restricts the possibility for the emergence of footloose behaviour. Overall, the elements of the internal environment that drive ES motivation will push a firm towards the investments, which can increase the benefits of common governance.

The evaluation of footloose behaviour in the light of particular internal factors is challenging to predict. On one hand, if the subsidiary has an established (i.e. subsidiary is integrated to the network and has strong linkages with other subsidiaries) position in the network – it reduces the chances for footloose behaviour because the established position carries the efficiency component, and it is interlinked with other subsidiaries (Dunning and Narula 2010). On the other hand, less established subsidiaries might be a subject to the footloose behaviour because it is easier to manipulate with the location choice; thus, it is easier to achieve efficiency by adopting footloose behaviour. In short, the footloose behaviour can be driven by the internal factors if the network does not receive the desired level of efficiency from the investment.

External Environment

The external factors within ES motive highlight mostly the incentives location can offer to the firm. In other words, it is not only the factors of location (is ES motive the fundamental location factors are similar to the RS and MS), but it is the factors that can *attract* FDI particularly. For example, government involvement in removing trade restrictions (Wilson and Baack 2012), facilitation of infrastructure development (Benito 2015; Wilson and Baack 2012), development in the area of human resources (Wilson and Baack 2012), more favourable business environment such as government incentives, country's economic and political stability determine the investment. On the other hand, such government actions as removing of trade barriers or regional

integration do not attract the FDI on its own, because open borders do not imply that location can offer everything else (Lall and Narula 2004). Hence, the liberalisation of the market should go along with the development of strong local capabilities.

Another significant factor is the reasonable price for labour (Ramasamy and Yeung 2010) paired with reasonable purchasing power (Castiglione et al. 2012). Also, the factor of price-cost margin is an important component of ES motive. MNEs are willing to pay more for more qualified workers and promised market potentials (Castiglione et al. 2012; Ramasamy and Yeung 2010) if it increases efficiency. However, if the price for labour growth, but efficiency and profitability of investment do not follow –the footloose behaviour may emerge. Also, if the price for labour is unchanged, but another location seems more beneficial - the footloose behaviour may emerge.

We argue that external factors can contribute towards footloose behaviour, but the contribution is limited. The reason for that is that the reorganisation of the resources allocation depends on the existing network configuration. Therefore, if the factors of external environment change it does not mean that MNE adopts the footloose behaviour.

Contingency Change

We suggest that the speed of change for the level of contingencies within the ES motive might be rapid and cyclical. ES drives the desire of the MNE to organise the production in such a way that it creates the optimal resource allocation in the whole network. We assume that constant changes in the external and internal environments will inevitably facilitate the changes in the level of contingencies across the whole network. In case of the ES investment, the MNE would remain in the fit with contingences only temporary "until the surplus resources from the fit-based higher performance" (Donaldson p 21) create opportunities for further development of the firm. Hence, the particular ES investment might cease to remain efficient, and MNE would engage in the footloose behaviour. Overall, we expect to see any cases of footloose behaviour within ES motive.

Strategic asset-seeking theme

Even if the strategic asset-seeking investment is relocated to another country, it is not possible to explain with the rationalisation momentum of the MNE network. This kind of investment produces value within the course of time for other subsidiaries to exploit it. In other words, it is the 'engine' of the MNE network. Hence, the footloose behaviour is very unlikely to happen within the strategic asset seeking investment because MNE will not leave the location that is able to provide unique strategic assets. Failure to achieve innovation is a common event that is followed by other numerous attempts. Development of patents does not happen overnight and requires strong commitment and significant financial inflows. Hence, the inability to satisfy the particular needs of the MNE can lead to individual cases of divestment, but in the long term run, the footloose behaviour is counter-productive within this motive.

Product lifecycle is not applicable on the SAS investments because there is no timing and rationalisation aspect within strategic asset-seeking investments.

Internal Environment

The key difference between strategic asset seeking motive and the other three is that SAS is forward-looking and "it is about developing new resources and capabilities, that can generate future streams of revenue, not exploiting already existing ones" (Benito 2015, p.6). Hence, the key internal factors are those assets or components of valuable assets (R&D, customer service) (Wilson and Baack 2012) that firm can develop in a location. Strategic reasons drive MNE to pre-empt the competition by investing in the location. Also, a firm can be after some unique technology or knowledge that can be obtained only in the location.

The internal factors, more precisely the internal strategic factors, play a leading role in determining where MNE locate the resources. Considering that footloose behaviour is a systematic activity (repeated relocations) we argue that SAS internal factors cannot lead to the systematic relocations because of the nature of such investments (i.e. long-term investment excludes the possibility of footloose behaviour, but does not preclude the possibility of failure). We suggest that within SAS we can observe individual relocations, but those relocations are unlikely to be repeated because the aim is to

generate new assets, but not to increase efficiency. Moreover, MNE may even choose to sacrifice efficiency or profit to win the strategic position. “Companies that venture abroad for strategic asset-seeking motives are likely to prioritise control over their foreign operations, perhaps overriding other relevant concerns” (Benito 2015, p.8).

External Environment

The external environment should offer a number of factors in order to be attractive for SAS investment. First of all, the geographical dispersion of knowledge-based assets: country offers an ideal environment for a firm to position parts of their value chain (Wilson and Baack 2012). Additionally, a firm may decide to invest in order to increase the competitiveness of the business by becoming the first investor (the pre-emption of competition) (Benito 2015).

We argue that similar to the internal factors changes in the external environment can lead to individual cases of divestments and relocations. However, we suggest that external factors are unlikely to drive footloose behaviour because SAS involves long-term, forwards looking investments, which should depend on the general competitiveness and generation of new assets, not immediate profit. Footloose behaviour is about the creation of efficiency, not generation of new transferable assets.

Contingency Change

We suggest that the level of contingencies for SAS motive will change very slowly compared to other types of investment. The reason for that is that SAS investments do not pursue any temporary goals or the goal that can increase the efficiency of the MNE at present. The only reason a firm would perform SAS investment is the likelihood of creating a value-added *in the future*. Hence, the changes in the level of contingencies today might not have an impact on this kind of investments. Therefore, we do not expect to see cases of footloose behaviour within SAS investment motive.

So far we review the particular factors that drive different investment motivation and discuss the possibility of these factors to drive footloose behaviour. We suggest that at the time of investment the MNE is in fit with the level of contingencies, but as time passes the contingences levels will inevitably change. However, in the discussion above

we highlighted that for the different motivations the pace of the change would be different.

The Concept of Divestment

Whenever multinational starts the process of internationalisation, it should anticipate the possibility of divestment because the circumstances (internal and external) may change (Boddewyn 1983b; Mcdermott 2010). Although we accept the argument that some divestments are associated with a deficiency or business failure, it is not true for all divestments (O'connell et al. 2015). Divestment, as a part of footloose behaviour, should not be associated with failure, but with the intention to strengthen MNE's competitive position by eliminating the subsidiary that does not add value to the network. In other words, divestment is the way to regain fit between the new level of contingency and organisational structure. We propose that, in a nutshell, divestment is a normal part of the MNE's life cycle, where subsidiaries are born, mature and die (Boddewyn 1983b; Fubini et al. 2013; Mcdermott 2010). The anticipation of future divestment is an integral part of planning various scenarios, which contribute to the success of the business and increase in the overall efficiency of the MNE network. Therefore, it is an essential element of development and should be first of all associated with different goals that multinational may follow or may decide to follow in the future.

It is reasonable to facilitate the discussion regarding the status, the perception, of divestment in the IB literature (Hamilton and Chow 1993; Mcdermott 2010; Pedersini 2006) because it affects the perception of the footloose behaviour. Scholars suggest that divestment is often associated with failure. Hence, it is not a surprise that a decision to withdraw is a hard one to make (O'connell et al. 2015). Nevertheless, whatever reason keeps the unprofitable or unsuitable operations intact may bring more damage to the MNE than divestment because the existence of any operation is justified by the value it adds.

We argue that divestment is a value-adding activity (Boddewyn 1983a; 1983b). When a multinational enterprise does not consider a diversion of investment as a part of routine or necessary urgent event that aims to increase the well-being of the whole company, the operations, which are left intact, may drain the resources of the MNE. It is assumed that when MNE divests –it loses some valuable resources. However, we argue that it

also raises the capital, which can support other operations (Østbø et al. 2009). As suggested by Mcdermott (2010), this point is usually not discussed in the literature because of the stigma attached to the divestment. He argues that it is hard to obtain the relevant data from managers because divestment is regarded as a sign of personal inefficiency. However, divestments are important elements of a strategy to increase the efficiency by rationalising the existing resources (Berry 2010). "The opportunity to invest in cheaper production can provide firms with better use of existing firm resources if less efficient operations are divested or contracted" (Berry 2010, p.381); thus, it is important to raise the issue.

If the individual investment is a positive expansion related activity, we propose that divestment, as a part of footloose behaviour –is a value-adding activity, which is necessary to implement in order to keep the operations working in conjunction with the rest of the MNE network. In short, divestment means that "a company is no longer the best owner of one of its businesses" (Fubini et al. 2013, p.1). This implies that there is no failure attributed to the divested operation, but that this business does no longer suit the MNE. We argue that divestment as a part of a normal life cycle of the MNE is related to the changes of the OLI variables. The anchor point is that the OLI equilibrium, which makes an investment possible, is broken. Thus, the MNE is no longer able to generate the value for the operation. From the contingency perspective, divestment might be an answer to the misfit.

Boddewyn (1983b) suggests that OLI is a not a theory of foreign direct investment. Instead, it is a framework of "international production where foreign direct investment serves as a proxy" (Boddewyn 1983b, p.346). The withdrawal of the FDI from the location –is a foreign direct divestment. Therefore, the FDI component presented in both investment and divestment activities. Hence, Boddewyn (1983a; 1983b; 1985; 1979) suggests that the factors responsible for the investment may also be responsible for the diversion of this investment. In our study, we adopt the Boddewyn (1983a; 1983b; 1985) view regarding the possible triggers for divestment. Although Boddewyn's "proto-theory of foreign direct divestment" (Boddewyn 1983b, p.347) was introduced more than thirty years ago, it is relevant today, and it is interrelated with the eclectic paradigm (Dunning 1988b). The following segment offers the discussion of divestment in the light of misbalanced OLI variables.

The first trigger suggests the MNE changed or lost elements of the internal environment; hence, it cannot effectively compete with the firms of other nationalities (Boddewyn 1983b). In other words, the internal environment does no longer contribute to the internalisation of investment, i.e. does not bring the certain level of desired value in that location. Hence, there is a change in the level of contingency that reduces the efficiency. This implies that keeping the operation may be less profitable compared with divestment (Siegfried and Evans 1994). The concept of elements of internal environment implies that a firm can benefit from the utilisation of these elements in the foreign location. Therefore, the elements of internal environment do not bring any value if they are not actively exploited, i.e. they add or generate value (Boddewyn 1983b).

In other words, if the elements of internal environment do not contribute to the value-added - they decrease the value because there are no incentives to internalise the advantage if a firm cannot benefit from doing so. Internal environment consists of specific ownership advantages; thus, "The possession of ownership advantage is a necessary pre-requisite for foreign involvement. But the presence of internalisation advantages suggests that enterprise will exploit these advantages by way of exports or foreign direct investment rather than by contractual resource exchanges" (Dunning 1981, p.32). So, considering that elements of the external environment must also be in place, there is a greater chance for divestment if there is no benefit continuing the active exploitation of element of the internal environment.

The footloose behaviour may emerge because there is a misfit between the new level of contingency and the old organisational characteristics. In other words the internal environment changed and it does no longer match the external environment in the way that it creates the benefit to internalise the investment (i.e. the level of efficiency is not sufficient). As we demonstrate in the previous section, the different factors of internal environment drive different investment motives. Consequently, some internal factors are more prone to footloose behaviour. The possible illustration may be drawn from the market-seeking motive, which is driven by the brand name –a new competitor enters the market with a similar low-priced product forcing the original producer to re-evaluate the performance (Benito 2005). The original producer should decide whether the changed level of environmental contingency is still suitable and act if needed accordingly (e.g. to

leave the operation intact, decrease the price of the product or divest[11]). Thus, there may be an incentive to divest which outweighs the desire to stay in the location. This incentive to divest emerges when current profit or expected profit over the relevant period of time does not meet the satisfactory rate of return in accordance with budget or industry (Benito 1997b) However, with regards to the footloose behaviour, in particular, divestment and the following relocation to the more profitable market is reasonable. If the business is valuable in the long-term –divestment and subsequent relocation can increase the efficiency of the whole company. If another market offers cost-effective production, the profit can be made by means of the economies of scale. Although the example here revolves around internal factor that drives market-seeking motive, the logic for evaluating internal factors within other investment motives is similar.

The second trigger suggests that it is no longer beneficial to have a presence in the current location (Boddewyn 1983b). We discuss this trigger as the external environment in the previous section. Perhaps, the change of the elements of the external environment is the most reviewed one within the IB literature (Mucchielli and Saucier 1997). With time, any location changes (Narula and Dunning 2000) and divestment can be the consequence of the change that aims to restore the misfit. One of the common examples is the evolution of location and subsequent increase in the cost of production, or changes in the demand in that particular location (Benito 2005). In this case, footloose behaviour path implies that divestment and subsequent relocation are suitable chains of activities because MNE can restore the fit between the contingency and network characteristics fit in another host market. Whenever MNE engages in restoring the fit in another location (i.e., the repeated divestments and subsequent relocations) –we detect a footloose behaviour.

The third trigger suggests that competitive advantage is no longer practical to utilise 'in-house', i.e., internalise it (Boddewyn 1983b). This argument is linked with the internalisation advantage. When MNE loses the internalisation advantage, it means that foreign direct investment, as the most appropriate mode of entry, lost its relevance and now is in misfit with the contingency-structure dilemma. In the case when internalisation is unnecessary (i.e., other forms of investment can suffice, and profit remains acceptable) –there are no incentives to inject additional capital to support FDI.

[11] In case of footloose behaviour, divestment is followed by relocation.

In this case, the changed level of contingency makes internalised operation inefficient. Divestment of the operations and possible substitution with another form of investment may be reasonable. In the light of footloose behaviour, the divestment and subsequent relocation to the region, which makes more sense regarding in-house production, can increase the network efficiency in the long run. For example, a firm can upgrade the role of an existing subsidiary in another region, which can support a new production line (Belderbos and Zou 2006; Pedersini 2006).

The footloose behaviour is a complex dynamic concept and is largely influenced by the dynamics of other concepts. Hence, the static subsidiary-related factors of divestment cannot enrich our understanding of the footloose behaviour. Contrary, the dynamic approach that welcomes the interrelations to occur should suffice. Hence, the 'eclectic' framework of foreign divestment, which does not restrict the emergence of the interdependent factors, is suitable for this study.

When MNE has multiple investments, these two academic constructs (investment and divestment) has limited power in showing how different investments are interrelated. In order to see the relations and linkages that exist between different investments, we need to employ a broader picture- the MNE network. When we look at the MNE in the perspective of the network, we can see the linkages between investments and study their interdependence.

3.5. The Network Multinational

The Concept of Relocation

When MNE relocates, it engages both in divestment and investment. Relocation indicates that MNE seeks to reorganise the allocation of existing resources. The reorganisation implies that the process is repetitive, systematic because it requires to constantly monitoring the opportunities for reorganisation and taking actions. When the relocation is systematic –it is a footloose behaviour. Relocation is a "complex phenomenon and should be considered as one of the effects of other dynamics rather than a process in its own right" (Pedersini 2006, p.12). We need to trace the presence or the absence of links between divestment, relocation and investment (Belderbos and Sleuwaegen 2005). The same logic applies to the footloose behaviour, which is a

repeated relocation. Thus, relocation and footloose behaviour should be studied from the investment and divestment points of view; and from the network perspective, rather than from the position of the individual subsidiary. Without the inclusion of the network aspect, we cannot see the difference between new investment and relocation investment. Further, we proceed with the discussion revolving around the MNE network structure and relocation's place in it.

In the previous segment, we discuss the behaviour of the firm with regards to the single investment. However, multinational enterprise holds multiple investments. These multiple investments are interconnected, and, therefore interdependent. As we discussed earlier MNE has a portfolio of different investments; thus, it implies that a firm should coordinate and manage subsidiaries in various markets (Sengul and Gimeno 2013). When MNE with only several investments does not require a high degree of coordination, but when a firm has established multiple investments (i.e. MNE has matured) and its subsidiaries grew in size and capabilities (Roth and Nigh 1992), the picture is rather different. With maturity comes a need to align the structure and processes of the firm with the purposes for which the firm exists (Galbraith 1977; Sengul and Gimeno 2013). We argue that alignment of MNE's structure and goals can be seen in the light of differentiated networks. We regard this type of structure as a dynamic differentiated network of linkages of the MNE.

Multinational enterprise exists within the internal and external environments simultaneously. We argue that taking into account only factors from external or internal environments limits the understanding of the footloose behaviour drivers because there are factors that belong to the network level and influence the elements of internal and external environments.

Subsidiaries are embedded in the business network that includes other internal and external actors (Andersson and Forsgren 1996; Westney and Zaheer 2009). The external actors, customers, suppliers and competitors, are outside of the MNE network. The internal actors are other subsidiaries, which are inside the MNE network. In other words, the way subsidiary behave is not solely determined by MNE's internal and external environment. The business connections that a particular subsidiary is embedded in can shape and drive the business, and influence the MNE network. The most

important aspect of subsidiary's embeddedness for this thesis is the relationships between subsidiaries, which can be visualised as linkages.

MNE, structure-wise, consists of linkages between different units. Thus, if we would not incorporate the elements of the network to our analysis we reduce the analytical strengths of our arguments to separate individual cases. These separate cases are irrelevant to the explanation of footloose behaviour drivers because they do not highlight the question of efficiency on the level of the whole company. However, if we connect the individual cases – we get the much broader picture, which is on the level of the whole company. The goal of footloose behaviour is to increase or to maintain the desired efficiency level within the entire company. Therefore, it is vital to incorporate the elements of the network to the discussion in order to connect individual cases of MNE's behaviour, see their interrelations and combine them into the footloose behaviour.

We argue that MNE has evolved over time from hierarchical organisations to the large diversified networks (Andersson and Forsgren 2000; Kostova et al. 2016; Rugman et al. 2011b). The evolution was mainly driven by the goals of the MNE and changing the economic climate (e.g. the integration of economies), and their simultaneous effect of each other. In order to compete, MNEs had to search for better and more efficient ways of managing their assets –this is how the network structure emerged. It allowed the exploration, accumulation, utilisation and transfer of knowledge through the entire company (Andersson and Forsgren 2000; Birkinshaw et al. 2000).

The same evolution, which made MNE become a network, changed the way multinationals compete. Undeniably, the traditional approach to cost reduction and economies of scale is still valid and fully applicable. However, over time there will be fewer opportunities to exhibit this competition patterns. Nowadays the global economic development force MNEs to relocate from countries than years ago (i.e. during the initial investment phase) were considered as cost beneficial for production. We argue that footloose behaviour is the new way of competition –the repeated relocation, which seeks to create more efficiency internally within the network, rather than externally within decreasing numbers of potential locations.

The repeated relocations take into the account the internal and external environments and the characteristics of the network. Without the inclusion of the network elements relocation indicates another investment, because relocation implies that the particular investment was transferred from one location to another. In this section, we provide the conceptual explanation regarding the linkages that exist in the MNE network: headquarters-subsidiary interrelations (Andersson et al. 2007; Forsgren et al. 2005; Gupta and Govindarajan 1991; 2000; Young and Tavares 2004) and operational flexibility (Buckley and Casson 1998; Kogut 1983; 1985; Song 2014). We assume that these linkages are characteristics of the network. They do not directly affect the drivers of the footloose behaviour, but they change (i.e., moderate) the perception of the internal and external environments and their interrelations.

The roles of subsidiaries, which we discussed in the literature review (Chapter 2), are an important 'supportive' for highlighting the particular peculiarities of relationships between network units (Birkinshaw et al. 2000) and suggest the place a subsidiary has in the network. Also, roles of subsidiaries may provide some more insight regarding the motivations of the MNE in the particular location because FDI types are lined with roles of the subsidiaries (Filippov and Kalotay 2011). Hence, some subsidiary types are more prone to footloose behaviour than others.

The necessity to take the roles into account is also grounded in the definitions of our pivotal point of analysis – the notion of relocation and the footloose behaviour. Relocation implies the move of resources from one place to another (Buckley and Mucchielli 1997, p.5). Hence, there is an element of divestment and element of investment within the process of relocation. Divested activities in the subsidiary are relocated to another country: **(i)** by establishing a new subsidiary, and **(ii)** by increasing a market scope, product scope or value-added scope of an existing subsidiary (see White and Poynter 1984). Hence, the reconfiguration of resources can be done via several scenarios (Figure 3): **1)** the first one (figure 3 corner A) implies that MNE completely divests from the location and relocate the devised operation keeping the role intact *(New subsidiary –Existing Role).* **2)** The second one (figure 3 corner B) MNE may fully divest, but the role of the relocated subsidiary may be changed in accordance with the overall network requirements and the requirements of the new location *(New subsidiary-New Role).* **3)** The third scenario (figure 3 corner C), when a fully divested subsidiary is merged with already existing subsidiary; thus, the role is upgraded or

downgraded *(Existing subsidiary-New Role)*. 4) The three scenarios above are applicable to the partial divested subsidiary with one extra scenario (figure 3 corner D): if divestment is partial, the relocated subsidiary gets the 'another half' role in the new location *(Partially New Subsidiary-Partially Same Role).* The four corners of Figure 3 represent four different scenarios of MNE's reconfigurations. However, there are also possibilities for other scenarios in between the corners.

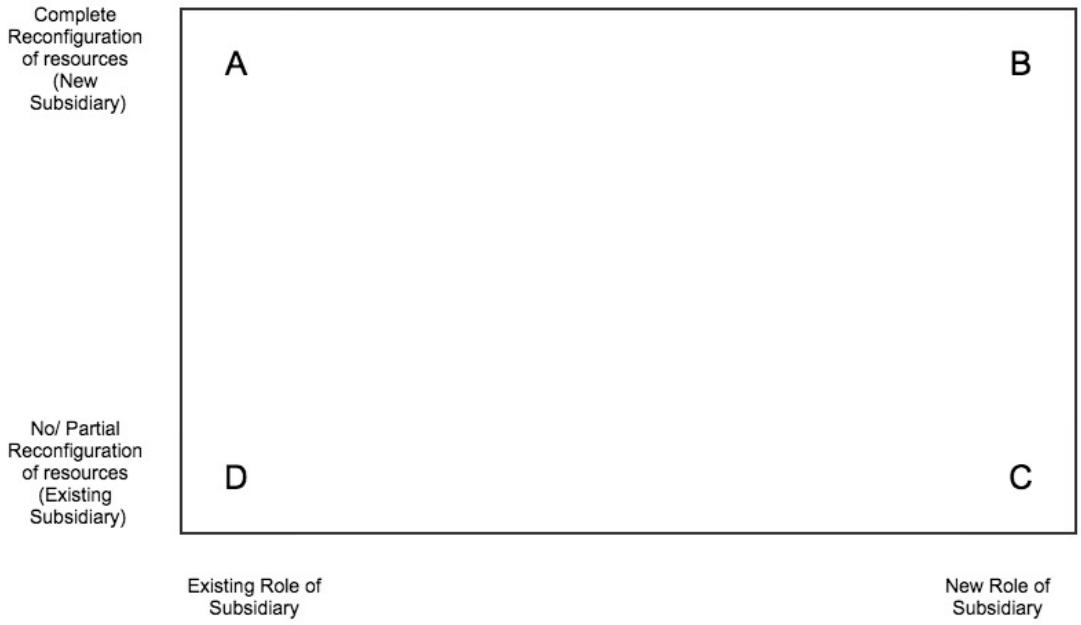

Figure 3 Reconfiguration Scenarios Matrix

The establishment of balanced relationships between HQ and subsidiaries and between subsidiaries is an important tool for increasing the efficiency of the business. In some MNEs, HQ takes the dominant position and assign tasks for all subsidiaries; thus, making it impossible for subsidiaries to create linkages with other units or efficiently communicate with HQ. In this case, a particular subsidiary holds neither the competence nor legitimacy to operate somewhat independently or flexible (Nohria and Ghoshal 1997, p.35). Within this type of network relationships, the value-added activities are focused in the HQ. Therefore, the subsidiary would have to rely on HQ's knowledge and expertise completely. However, this does not necessarily lead to footloose behaviour as long as this subsidiary adds value to the whole network, and fulfils the requirement for its role.

On the other hand, the exclusion of a subsidiary from the decision-making process might create a competitive disadvantage for the whole network if subsidiary generates value only for the HQ. In this case, *the headquarters knows best* syndrome (Bouquet et al. 2016; Delany 2000) can limit the HQ understanding of the subsidiary's host country environment, i.e. the HQ business strategy may be seen as irrelevant by the subsidiary in the light of the host location institutional pressure (Boussebaa 2014). In this example of relationships, the footloose behaviour is quite possible because subsidiary's interests are neglected, and their knowledge regarding the host environment is not considered, and not transmitted to other subsidiaries.

The example of a fully dependent subsidiary is a miniature replica. This type of subsidiary is likely to follow footloose behaviour or be modified if MNE decides to change the approach to competition in the particular market. In case miniature replica is transferred to another location, we argue that after the relocation subsidiary may be given a new role (e.g. rationalised product subsidiary). Hence, the adoption of footloose behaviour helps to integrate the subsidiary into the network and increase the overall efficiency. This is line with Dunning's argument regarding the increasing importance of intellectual capital generation within the subsidiaries (Dunning 1998; 2001a). Some subsidiaries do not contribute to the MNE network because they merely follow the HQ instructions; thus, do not create knowledge regarding their unique environment. Knowledge is a 'sticky' asset, which is hard to transfer across and integrate to the network due to the human (factor) limited rationality and extensive network size (Birkinshaw et al. 2000).

Perhaps, this type subsidiary may disappear, but not completely, over the course of time or TMR's model may undergo some changes (Filippov and Kalotay 2011). This is due to the fact that MNEs nowadays has more complex needs than to merely overcome export barriers, which was the initial idea behind the TMR creation. Currently, MNEs do not have to create a TMR in order to tap into the new market because the potential market can be served with other types of subsidiaries, which are more integrated into the MNE network. The reason for this is that MNE puts emphasis on the overall efficiency rather than the efficiency at the level of the individual subsidiary. Hence, in order to improve or maintain the appropriate efficiency level, MNE requires highly integrated subsidiaries that work like clockwork harmonious. TMR has a low level of integration into the network of MNE (Pearce 2001). In other words, efficiency-driven

relocation of TMR with the intention keep the role intact is logically flooded. Consequently, in order to increase the efficiency (i.e. get rid of excess (costs) and increased profits (finding more financially attractive countries) multinational needs to reconsider the necessity to keep this type of subsidiary. Therefore, the relocation of this type of subsidiary may be a first step towards the footloose behaviour (subsidiary would be modified, and if it is modified again, we see the footloose behaviour).

In other extreme cases a highly integrated, autonomous, resource-rich subsidiary can exercise the significant amount of influence on the headquarters and on the network. World/Regional product mandate is an example of a subsidiary that is less sensitive to relocation or footloose behaviour due to their position in the network. The high level of integration to the network creates linkages with other subsidiaries; hence, it makes it difficult to relocate WPM/RPM. This type of subsidiary creates value that is later distributed across the network. Hence, we argue that footloose WPM/RPM is only to be relocated when their whole network of the MNE is in danger (Filippov and Kalotay 2011). In this case, we argue that repeated relocation is extremely unlikely.

The Rationalised Product Subsidiary (RPS) reflects another type of relationships between HQ and Subsidiary. HQ directly controls the RPS, which is similar to the argument in the TMRs, but, in contrast with TMRs, RPS is highly embedded in the MNE network. This unit pursues an efficiency-seeking motivation and intended to optimize the costs of different locations producing a limited range of products (Pearce, 2001). RPS takes the full advantage of the economy of scale and exploits those production factors in which a host country has a comparative cost advantage (Filippov and Kalotay 2011). RPS is a part of the global strategy (wide market scope) of the MNE and focuses on the production of specialized or complementary goods (narrow product scope). Hence, it creates a high level of integration to the network forming strong ties between RPS and other subsidiaries that rely on the supply from RPS). The functional scope of this type of subsidiary is, however, limited.

RPS is a candidate for the footloose behaviour as it chases the efficiency-seeking motivation. Also, RPS is a most provocative type of subsidiary regarding the evaluation of footloose behaviour drivers. *High dependence on the HQ (or low HQ-Subsidiary interdependence) should increase the footloose behaviour, but high network integration should decrease footloose behaviour.* Due to the high level of integration into the MNE

network, the manipulation with this subsidiary can help to maintain/increase the efficiency. Footloose behaviour is most likely in the following cases. First, the host country loses its comparative advantage for the production factors. This comparative advantage is an essential element for establishing RPS. However, it does not mean that current production country becomes more expensive; it is possible that the price will be more competitive somewhere else; hence, it may trigger the footloose behaviour. Second, it is efficiency losses at any phase of the production chain. The problem may arise within one subsidiary, but in order to overcome the issue, MNE would relocate to another subsidiary. Again, it is related to the overall efficiency level, which is a key. Third, the footloose behaviour might happen without any other reasons except for the need to increase the overall network efficiency and restructure the network.

Overall, the relocation and footloose behaviour are not one-off decisions. Instead, they are complex, long-term processes. Thus, if MNE chooses to relocate the subsidiary (or adopt footloose behaviour), the final decision is taken based on the characteristic of the remaining network. The overall efficiency is more important than losses from troubled subsidiary; therefore, if the network cannot 'support' the relocation/ footloose behaviour, MNE seeks other ways to help with the situation.

We suggest that there is always interdependence in an MNE network, but the level of interdependence may vary based on differences in the flow of organisational resources (O'donnell 2000). Therefore, investigating the degree of interdependence between parts of the network can capture the 'weak elements'. These 'weak elements' may be of two different types. Firstly, some subsidiaries do not contribute to the value-creation in the network. Thus, MNE might adopt a footloose behaviour in order to re-establish the value-creation function. Secondly, some subsidiaries are not integrated into the network. These units are dependent on the HQ resources; thus, MNE may decide to be re-establishing the efficiency by adopting the footloose behaviour.

HQ-Subsidiary interdependence

So far we discussed the roles of subsidiaries in terms of: product scope (product line extensions and new product areas), market scope (range of geographic markets available to the subsidiary) and value-added scope (range of functions performed by the subsidiary – development, manufacturing, marketing) (Filippov and Kalotay 2011;

Pearce 2001; White and Poynter 1984). However, as noted by Birkinshaw et al. (2000) the academic titles for the subsidiarity roles "are rarely used in the real world and even if they are, they are not defined according to clear objective criteria. As a result, there appears to be great potential for 'perception gaps' to emerge in the definitions of subsidiary roles" (p.324). Hence, we propose several additional elements (adapted from Nohria and Ghoshal (1997) approach), which should explain the nuances of HQ-subsidiary relations: **centralisation, formalisation and normative integration** (Nohria and Ghoshal 1997, p.97- 105).

Centralisation "refers to a governance mechanism whereby decision-making process is hierarchically organised, with the headquarters often making most of the crucial strategic and policy decision" (Nohria and Ghoshal 1997, p.98). We assume that high level of centralisation can negatively affect the subsidiary's ability to innovate because the decision-making power belongs exclusively to the HQ. In this case, HQ is in danger to "mistake global footprint for a global mindset" (Bouquet et al. 2016, p.66). High level of centralisation, which can limit the subsidiaries ability to fulfil the expectation, might force subsidiary to oppose the HQ directly (Boussebaa 2014). In this case, subsidiary management may feel like "at the end of a long rope" (Bouquet et al. 2016, p.60) unable to communicate the message to the headquarters.

The issues for subsidiary can arise from human factor as managers may feel untrusted and uninvolved and from the incomplete information about the host country environment, which HQ does not address adequately (Bouquet et al. 2016; Boussebaa 2014; Delany 2000; Sengul and Gimeno 2013). In this circumstances, the local subsidiary is fully dependent on the headquarter resources and imposed decisions, which do not necessarily match the local needs of the subsidiary. The subsidiary may even challenge the HQ's imposed control by behaving opportunistically, which can lead to the footloose behaviour. Also, even if subsidiary submits the HQ central decision-making, the footloose behaviour is still highly possible because subsidiary might end up bringing value only to the HQ, but not to the network. We assume that industry that does not require a high level of cooperation would facilitate the high level of centralisation between HQ and subsidiary; thus, the level of interdependency between HQ and subsidiary would be low. Consequently, it can lead to the footloose behaviour. The challenge of going global is not just to sell your product everywhere but capture and benefit from the ideas that emerge on the go. The best growth strategies often

emerge in the subsidiaries by managers who are close to the customers and least attached to the procedures of the home office" (Birkinshaw and Hood 2001, p.131).

The miniature replica and rationalise product subsidiary are types of subsidiaries with the top-down decision-making process. We suggest that footloose behaviour is expected to emerge here. Why would MNE want to leverage assets that they already possess (Bouquet et al. 2016)? It is much more valuable to combine the exploitation of existing assets with new opportunities. TMR and pure RPS with high centralisation cannot allow this; therefore footloose behaviour can be reasonable. Contrary, WPM/WRM has a low level of centralisation due to the "due to the permission to take responsibility for the creation, production, marketing and further development of a product" (Pearce 2001, p.51). Thus, the emergence of footloose behaviour is unlikely.

Overall, all subsidiaries have knowledge about their host country environment; thus, it is critical to take advantage of possible opportunities that might emerge. It does not mean that HQ should give all the decision rights to the subsidiary, but at least not restrict the innovations within subsidiaries. If HQ decides to impose the rules of strict centralisation, it inevitably limits subsidiary's legitimacy, expertise, and much needed flexible decision-making process in the complex local environment. It created the competitive disadvantage for the whole network because the subsidiary is not able to generate value-added (but given the resource it owns, it is expected to produce the value-added elements for the entire MNE). Here, the HQ and subsidiary should have a dialogue rather a monologue to promote the best practice and the most profitable outcomes. Otherwise, footloose behaviour might be the only result of the highly centralised relationships.

Formalisation "represents decision-making through bureaucratic mechanisms such as formal systems, established rules, and prescribed procedures; it may be interpreted as the routinization of decision making and resource allocation" (Pearce 2001, p.57). Formalisation implies the set impersonal bureaucratic rules and procedure that weakening the positions of both HQ and subsidiary. From one hand formalisation is similar to the centralisation due to the host country factor involved. However, if centralisation limits the power and resources of a subsidiary, formalisation restricts the speed of subsidiary actions. The difference in institutional rules (e.g. business rules, laws and processes) at home and in the host country can result in the creation of specific

formal procedure, which can harm the business of subsidiary. “Host country institutional pressure can lead them [subsidiary managers] into seeing the requirements and control systems of headquarters as inappropriate, or inefficient in, their local context” (Nohria and Ghoshal 1997, p.99). In case, when subsidiary operates within the complex host country environment that *requires* operating flexible and reactive, the high level of formalisation may be a disadvantage. Bureaucratic procedures often take a considerable amount of time. Therefore, the degree of formalisation should be loose if it HQ expects subsidiary to be reactive and autonomous in the complex environment. Sometimes too much monitoring and the tight bureaucratic process can prove as damaging as neglect (Boussebaa 2014, p.2), leading to footloose behaviour.

However, formalisation can be mutually beneficial. The formalisation is likely to be used by headquarters in order to control the resource-rich subsidiary. In this case, the subsidiary would willingly exercise these formal rules and procedures. On the other hand, the headquarters would also have to follow the same rules; hence, it can decrease its power position. However, the decrease in the HQ’s position should allow the dialogue with subsidiary because both actors would rely on each other. As suggested by (Bouquet et al. 2016) “formalisation thus provides a mechanism for headquarters to prevent a resource-abundant subsidiary from freely pursuing an independent course of action while at the same time recognising the realities of internal power distribution in the company".

Footloose behaviour may emerge in highly formal HQ-subsidiary relations because subsidiary would not be able to operate efficiently. This includes TMRs and RPS, which are highly formalised. On the other hand, low formalisation also can lead to footloose behaviour if subsidiary behaves inappropriately, i.e. *cuts away the sharp corners* and take advantage of specific host country institution, which might be illegal at home. WPM/WRP has moderate to low level of formalization; thus, the opportunistic behaviour of this subsidiary can lead to the footloose behaviour. Overall, formalisation helps both the headquarters and subsidiary to establish formal rules, which help to promote a balanced interdependence. Within this regulation and procedures, HQ and subsidiary should be able to operate flexibly, whilst respecting each other's needs.

Normative integration “involves socialising the members of the organisation to have a common set of values that minimises divergent interests, emphasises mutual

interdependence, and leads to domain consensus" Nohria and Ghoshal (1997, p.99). Shared values facilitate a higher degree of commitment to the business. Hence, irrespectively of the status within the organisation, all its actors (who share common values) would willingly contribute to the benefit of the whole network. Hence, footloose behaviour has fewer possibilities within highly integrated networks.

However, HQ cannot directly impose the integration or communication. Shared norms should be accepted in the subsidiaries not because they were told to accept them, but because they resonate with their individual values. Free communication and knowledge exchange between subsidiaries help to create a strong bond between them and increase their interdependence (Nohria and Ghoshal 1997, p.100). In this case, interdependence means control because it is easier to control a subsidiary via 'cultural' means such as training and socialisation (Bouquet et al. 2016). On the bigger scale of the whole network, the integration between subsidiaries and HQ boosts the MNE business success, because managers are encouraged to link their goals and desires with the aim of the MNE (Boussebaa 2014). Additionally, normative integration reinforces the position of the headquarters in the subsidiary's point of view providing further opportunities for dialogue and subsidiaries grows (Sengul and Gimeno 2013).

Overall, network integration promotes the strong commitment to the network goals increasing the overall efficiency. We argue that high level of normative integration limits the possibility for footloose behaviour (because HQ and subsidiary *share* interests), but not eliminate them completely. This is a case of WPM/RPS and RPS where both types of subsidiaries are highly integrated to the network. HQ might still decide to adopt footloose behaviour if this action benefits the network. On the other hand, the inadequate level of communication is expected to facilitate footloose behaviour. Also, when a subsidiary is designed to be independent of other subsidiaries in the network, such as TMR, it can lead to the footloose behaviour.

The table below (Table 1) summarises the discussion above regarding the effect of centralisation, formalisation and normative integration factors on the footloose behaviour within the thematic order of subsidiary roles. We argue that the higher level of centralisation limits the subsidiary ability to make strategically important decisions and propose adequate actions to address complex issues in the location. Hence, the possibility of footloose behaviour is high if the centralisation level is high. In case of

high formalisation subsidiary is not able to address the local problems in timely manner. Hence, efficiency of this subsidiary might decline and footloose behaviour can emerge. The normative integration suggests the extent to which a subsidiary shares the interests and values of the whole MNE. In other words, if subsidiaries interests are aligned with the interests of the whole MNE the efficiency increases. Hence, in this case, the higher level of normative integration reduces the possibility of footloose behaviour.

Table 1 summarises the arguments regarding footloose behaviour possibility within different types of subsidiaries and based on the recent literature developments (Bouquet et al. 2016; Boussebaa 2014; Gurkov 2014; Rugman et al. 2011b; Sengul and Gimeno 2013) In case of Miniature Replica the centralisation is expected to be high, the formalisation low and normative integration low. Therefore, for these reasons we assume that possibility of footloose behaviour to be high (Table 1). In the case of Rationalised Product Subsidiary the centralisation is high, the formalisation is low and normative integration is moderate (Table 1). Hence, there is a high chance of the footloose behaviour. For the World/Regional Product Mandate the centralisation is expected to be low, the formalisation moderate/low and normative integration is high. Hence, there is a low possibility of footloose behaviour (Table 1).

Type	Centralisation	Formalisation	Normative Integration	Footloose behaviour possibility
Miniature Replica	High	High	Low	High
Rationalised Product Subsidiary	High	High	Moderate	High
World/Regional Mandate	Low	Moderate/Low	High	Low

Table 1 HQ-Subsidiary Interdependence

The Operational Flexibility

In the previous segment, we discuss the relationships, which exist between the headquarters and subsidiary. We established that the level of interdependence varied due to the number of factors or particular linkages. However, this discussion cannot be fully applicable to the level of the network because the linkages between HQ and subsidiary do not explain the subsidiary's position in the network (and how it can affect the internal and external environments). Hence, in order to highlight the subsidiary's position we need to include the notion of network integration into the discussion. The integration to the network explains what kind of relationship a subsidiary has with regards to other subsidiaries, i.e. what kind of linkages exist between subsidiaries.

The linkages between subsidiaries we conceptualise as operational flexibility. Operational flexibility is a hallmark of the MNE network structure (Birkinshaw and Hood 2001). Operational flexibility –is the ability to relocate resources quickly and smoothly in response to environmental (internal and external) changes (Buckley and Casson 1998; Kogut 1983; Lukas 2006). Hence, footloose behaviour simultaneously

requires some degree of operational flexibility (to perform relocation) and generates it (flexibility) creating more linkages and interdependences.

Any type of MNE activity (investment, divestment or relocation) affects the whole MNE network. Therefore, the level of operational flexibility will determine the series of subsequent decisions regarding the resource transfer within the MNE network (Baek and Neymotin 2015; Buckley and Casson 1998). (Kogut 1985) suggest that operational flexibility is a key factor that influences the ability of the MNE to relocate production facilities. Therefore, we regard operational flexibility as one of the critical factors augmenting or reducing the footloose behaviour.

When the MNE has a flexible production network, it makes it easier to maintain the business because every element of the production network is built in such a way that it can support the other components. LampóN et al. (2013) argue that subsidiaries are "fundamental building blocks" Christodoulou et al. (2007) of the MNE network. Plants hold particular roles and set of unique capabilities to share with the rest of the MNE. We suggest that the better 'fundamental blocks' are integrated into the network – the more efficient the network becomes. Thus, high network efficiency reduces the possibility of footloose behaviour.

There are several types of linkages in the network: structural linkages (e.g. subsidiary roles and as shared production facilities), strategic linkages (e.g. efficient information flow in order to reduce the complexity of decision making) (p.5)

- **Structural links**. The roles of subsidiaries underline various duties that subsidiary should fulfil. It is crucial for all network units to have a clear defined role (Chacar et al. 2010; Kogut 1985; Song 2013) because subsidiary's capabilities and position within the network shaped mainly by its role rather than by its internal and external environment (Christodoulou et al. 2007). The role of the particular subsidiary might require it to share the resources with other subsidiaries (e.g. product development, marketing, etc.) generating linkages and increasing interdependences between subsidiaries. Hence, deep integration with the network (linkages between subsidiaries) restricts the possibility of footloose behaviour. On the other hand, the less integrated units can go footloose to facilitate the integration and increase network efficiency. These type of feasible

linkages helps to ensure the most efficient configuration of the resources (Buckley and Casson 1998).

- **Strategic links**. Operational flexibility allows multinational to deal with uncertainty. In other words, flexibility is like an airbag in the car; no one wants to have an accident, but it is good to take precautions. Subsidiaries can significantly reduce the level of uncertainty by the means of communication and information sharing. As suggested by Buckley and Casson (1998) flexibility allows to 'by time' and adjusts to the possible changes in the future. Subsidiaries create a strong strategic bond by collecting, storing and analysing information. This kind of linkages between subsidiaries helps to reduce the cost of future changes significantly. Hence, it is cheaper to recognise the need to amend something early than when the change has already happened. We argue that strategic linkages are vital elements for MNE existence because they help to promote mutually beneficial relationships between subsidiaries for the purpose of achieving a unified goal (Andersson and Forsgren 2000). We argue that strategic linkages are the key elements of the efficient network structure. If subsidiary does not hold any strategic links with the rest of the network –it limits the subsidiary's contribution to the network, perhaps, leading to the footloose behaviour. On the other hand, some subsidiaries can be so strategically important that their value for the network exceeds their financial performance (Roth and Nigh 1992). In this case, the footloose behaviour is less likely to happen because the key element is a contribution to the network.

We argue that investigating different types of linkages that exist in the MNE network help to uncover how the structure of the MNE increase or decrease the footloose behaviour. The search for network efficiency, or network rationalisation, may force MNE to adopt footloose behaviour in order to sustain or increase the competitive position. We argue that when an industry (or product) reaches the end of the growth phase or enters the standardisation phase, there is a greater need to straighten the competitive position by relocating to the market, which may offer the most efficient position of the investment relative to the rest of the network. This argument is supported by Vernon's (Roth and Nigh 1992) Product Life Cycle concept.

If we look at the location of the existing investments in isolation –we neglect the possible connections, which exist between the investments. These connections can influence MNEs perception and, consequently, influence the possibility of footloose behaviour. So, in order to take these connections into consideration, we bring the network element into the equation. The geographical reorganisation of the network resources helps to reduce the cost and make the whole organisation more efficient. Hence, the footloose behaviour is subject to the moderation of the rest of the network. If the relocation is beneficial for the entire network – footloose behaviour is possible. However, if the relocation does offer benefits for the particular investment but does not increase the efficiency gains for the network –the footloose behaviour is unlikely to happen. For example, if the potential location is cost-effective, but the relocation is more expensive and operationally it is not convenient to transfer these resources – the footloose behaviour is unlikely to happen.

The Table below (Table 2) summarises the discussion above regarding the effect of the elements of operational flexibility on the footloose behaviour within the thematic order of subsidiary roles, and this discussion is based on the resent literature developments (Chacar et al. 2010; Lampón et al. 2013; Song 2014). Structural links and strategic links suggest the degree of subsidiaries integration into the network. The higher number of these links suggests the deeper level of the integration to the network. Hence, in this case subsidiary is interconnected with other subsidiary that declines a possibility of footloose behaviour.

In the case of Miniature replica, the degree of both structural links and strategic links is low. Hence, this type of subsidiary is not integrated to the network enough. Therefore, the possibility of footloose behaviour is high. The Rationalised Product Subsidiary has a low degree of structural links, but a moderate degree of strategic links. Therefore, the possibility of footloose behaviour is still high due to the low level of the network integration. In case of World/Regional Mandate the degree of both structural links and strategic links is high. Hence, this type of subsidiary is fully integrated to the network. Therefore, the possibility of footloose behaviour is low.

Type	Structural Links	Strategic Links	Footloose behaviour possibility
Miniature Replica	Low	Low	High
Rationalised Product Subsidiary	Low	Moderate	High
World/Regional Mandate	High	High	Low

Table 2 Operational Flexibility

3.6. Conclusion

In this chapter, we have put forward a conceptual framework that should help us to identify the combination of internal and external factors that affect footloose behaviour giving the different motivations of the MNE. During the discussion in this chapter we have identified some of the factors that might impact footloose behaviour. However, we also suggest that the pace of change in the internal and external environments depends on the specific characteristics of the investment motive. Hence, we made an assumption that some motivations are more prone to footloose behaviour than other.

Although we have discussed some of the assumptions that we made, we have not developed any propositions as we want to keep our options open and do not restrict ourselves during the data analysis process.

We believe that conceptualisation itself is a valuable theoretical contribution. Therefore, we contribute to the theoretical knowledge with the definition and conceptualisation of footloose behaviour.

4. Methodology

In this chapter, we discuss the research design of the current study. The remainder of this section will be structured as follows. First, we will discuss the implications of prior studies for the development of our thesis. Second, we will explain the methodology underlying this thesis. Third, we will look at the appropriate context for our study. We conclude this chapter with the data collection and data analysis approach.

4.1. Implications of Prior Footloose Behaviour Literature Studies

A limited number of studies address the issue of footloose behaviour (see Blanchard et al. 2012; Görg and Strobl 2003; Mata and Freitas 2012; Van Beveren 2007). The focus of the aforementioned research is on the divestment component of footloose behaviour that has a negative impact on the host country's economy. The main goal is to identify whether foreign ownership of the MNE impacts the adoption of footloose behaviour (see Görg and Strobl 2003; Van Beveren 2007), or to estimate how quickly an MNE would react to negative changes in the external environment of the host country (see Flamm 1984). Prior studies focus on single country data and use quantitative tools, such as survey data analysis and various statistical models to address their research questions. The principal aim of this set of literature is directed towards developing a number of quantifiable indicators that can yield clear results and implications for a particular host country economic development and suggest possible ways to retain FDI.

As it can be seen, there is no consistency in the definition of footloose behaviour. The studies focus only on one aspect of divestment and on a single country. We, therefore, argue that prior footloose literature has a number of limitations. First, the literature does not define footloose behaviour, and this leads to confusion in the terminology. Footloose behaviour is a complex phenomenon that consists of investment, divestment and relocation. The prior literature considers only the aspect of divestment, but according to the definition developed in this thesis, divestment is not footloose behaviour. Second, the single country setting limits the comprehension of footloose behaviour. What is actually observed is the divestment, which may or may not be a part of a footloose behaviour, because the footloose behaviour is a systematic activity; thus, a single case of divestment cannot support the argument that the multinational is

footloose. The prior literature takes into account some characteristics of the MNE such as age, size or number of employees. Although these characteristics are relevant, we suggest that, on their own, they cannot answer the question of footloose behaviour. We argue that footloose behaviour is a strategic action taking by the multinational enterprise as the organisation; hence, the study of footloose behaviour should take into account the elements of the structure of the organisation.

Prior 'Footloose' literature emphasised that footloose behaviour emerges *only due* to the adverse shocks in the host country; thus, these studies largely ignored the characteristics of the firm, which may also drive footloose behaviour. Moreover, apart from divestment, footloose behaviour includes relocation and investment concepts. Therefore we need to look at the footloose behaviour through the lens of a much wider international business literature. Currently, the literature focuses only on the impact of footloose behaviour and does not theoretically explain the precise mechanism that triggers the phenomenon. Also, literature does not provide the exact definition of the footloose behaviour. Hence, it limits the applicability of the methods that are adopted in 'footloose literature' to our research.

In this thesis, we aim to identify the drivers of footloose behaviour that contribute to the theoretical justification of the issue. We argue that footloose behaviour is new kind of FDI activity. It is an outcome of the motivation to rationalise the allocation of existing resources, which involves *repeated* cases of the efficiency-driven relocations. Hence, we focus on the multinational enterprise itself. Our choice of methodology, which is a qualitative case study, follow the nature of the research questions and allows us *to explore* the drivers of footloose behaviour; thus, enhance existing quantitative methodology. This decision was influenced by the fact that conventional quantitative methods do not offer reliable tools for the analysis of the phenomenon that is yet to be extensively explored. Further, our study setting is the European Union, which consists of 28 member states. Using it as a study context, we can counteract the limitations of the previous research that examine the phenomenon within the single country context. All aforementioned aspects are discussed in the following sections of this chapter.

Overall, prior literature mainly focuses on the divestment component of footloose behaviour. However, as we show in the conceptual framework section, the concept of footloose behaviour is grounded in the ability of the MNE to invest, divest and relocate.

Although all three concepts are well developed, individually there is no research, which approaches them together. We argue that footloose behaviour exemplifies the new approach to MNEs' competitiveness. Hence, to uncover the drivers of footloose behaviour we need to look at the assumptions of the key concepts that explain the behaviour of the MNE in general, i.e., investment, divestment and relocation. Also, we need to highlight how uncovering and integrating these assumptions to the research helps to study the drivers of footloose behaviour.

The literature of the investment, divestment and relocation concepts suggests some internal and external factors that drive that particular MNE activity. Although, these drivers may be true for the individual concepts we argue that those factors on its own are unlikely to drive footloose behaviour. The reason for that is that the footloose behaviour is on the edge of the interrelations of investment, divestment and relocation. Additionally, we argue that footloose behaviour is on the level of the MNE, but the factors depicted in the literature are often considering only the subsidiary level. Thus, we need to engage in the exploratory study in order to make a conclusive analysis of the combination of internal and external factors that drive footloose behaviour by answering the following research questions:

- *What are the key factors that drive footloose behaviour?*
- *How do these factors interact to augment or reduce this behaviour?*
- *How does headquarter-subsidiary interdependence moderate the key factors that drive footloose behaviour?*
- *How does operational flexibility moderate the key factors that drive footloose behaviour?*

We developed a conceptual framework to study holistically and systematically the phenomenon that has been analysed in an unsystematic way in the literature before. We develop a conceptual framework that relies on the introduction of concepts describing the structure of the organisation (HQ-Subsidiary interdependence and operational flexibility). We want to identify ways through which multinational treats those concepts and these why we opt for the qualitative approach. We would like to go back to ground zero and look from the perspective of MNE how those concepts could be captured.

4.2. Research Philosophical Grounds

The research philosophy is an essential part of every research project because it demonstrates a researcher's assumptions about the reality. Implicitly and explicitly, these assumptions navigate the way the research project is carried out (Saunders et al. 2007). Ontology, epistemology, methodology and axiology are the four domains that scaffold the research philosophy (Delanty and Strydom 2003; Guba 1990; Mingers 2014a). *The ontology* describes how research views the reality, i.e. does the reality exists independently of us, or whether the reality depends on the researcher's interpretations. Ontology "raises questions about the assumptions researchers to have about the way the world operates, and the committee held to particular views" (Saunders et al. 2007, p.108). It also raises the question: "What elements are taken to exist and be subject to research?" (Mingers 2014a, p.5). *Epistemology* is defined as "what constitutes acceptable knowledge in a field of study" (Saunders et al. 2007, p.102) or, it is described as "general set of assumptions about the best ways of inquiring into the nature of the world" (Easterby-Smith et al. 2004, p.31). Epistemology asks: "What form does knowledge take and how it is validated?" (Mingers 2014a, p.5). *Methodology* shows the most appropriate methods for gaining knowledge (Mingers 2014a). *Axiology* emphases the ethical side of the research, i.e. knowledge may have or may not have a value attached to it. Here we ask: "What is the purpose of science?" and "How we should use our knowledge?" (Mingers 2014a, p.5).

A researcher's philosophical assumptions about the reality combined together represent a philosophical paradigm. Thomas Kuhn introduced the term "paradigm' in his book "The structure of the scientific revolution" (see Kuhn 1996). However, despite that the book was published in 1962, academic and philosophic communities still haven't reached an agreement regarding the exact definition of the word "paradigm". Thus, in this thesis we approach the term "in its most common and generic sense: a basic set of beliefs that guides actions, whether of the everyday garden variety or action taken in connection with a disciplined inquiry" (Guba 1990, p.17).

In international business literature, the organisation such as MNE is a complex social phenomenon that has specific structures and powers (i.e. properties). Multinational enterprise exists in its own reality, independently from the researcher. Regardless of how accurate or inaccurate our knowledge about MNE is, the researcher cannot affect

this reality. Besides, all properties of the organisation might stay unexamined. Therefore, our existing knowledge does not exhaust what could be possibly recognised in the future (Sayer 2000). However, we can imagine different properties and structures of the multinational enterprise and hypothesise how they work, acknowledging the limitations of our acquired knowledge regardless whether our assumptions are confirmed or rejected. Hence, we suggest that the appropriate way to obtain knowledge is to have a some preconceived idea about the particular structures and powers of the multinational enterprise, and how these powers and structures (if they exist) would create a cause that we explore in this research (Mingers 2004). In this line of reasoning, acquired knowledge (our findings) will inevitably be restricted by the available descriptions and discourses (Mingers 2014b; Sayer 2000). However we do not want to restrict ourselves in terms of what we can potentially find, we want to keep an open eye for patterns that emerge through the data analysis.

We aim to find out the combination of the internal and external factors that affect footloose behaviour taking into account different motivations of the MNE. Thus, this study is exploratory and inductive in nature. We have developed a conceptual framework to guide our search, but we do not constrain ourselves with the predefined propositions and outcomes. We are open to the emergence of new elements during the analysis stage. Hence, this reflects the inductive nature of the research.

4.3. The European Union as a Study Context

This section of the methodology chapter emphasises our goal of selecting the appropriate context for our study. Footloose behaviour is an outcome of an MNE's operation as a dynamic differentiated network. The research context must reflect the dynamic element of the MNE network; it must change and evolve with time. Additionally, the context of the study should overcome the limitations of prior research in terms of single country selection. We are looking for a region of several countries to eliminate the host country environmental factor on its own and allow patterns to emerge in a cross-case analysis. In this section, we provide the factors involved in the selection process of the appropriate context, and the full empirical application is provided in Appendix 2.

To capture footloose behaviour, we must study MNEs in an environment that would allow them to act freely and conduct business as they choose (Thomsen 1995). Therefore, regional trade agreements (RTA) can fit the purpose as we will observe the natural evolution of MNEs. The emergence of RTAs is explained by the process of regional economic integration that implies different grouping countries into large trading blocs; the main objective is to remove all trade barriers to facilitate cooperation and coordination among members through the creation of common policies (Dennis and Yusof 2003; The World Bank 2008).

We suggest that higher level of integration in the market would allow MNEs to engage in the network efficiency search more easily. Within an integrated economy a firm does not have to have a presence in all countries in order to serve the entire RTA. Within the integrated market, multinationals can choose the most suitable location at the time of investment and relocate to another country within the RTA later if necessary. MNEs treat the integrated RTAs as one single country; hence, they can freely choose the most suitable location at any time.

According to the World Trade Organisation Regional Trade Agreements Information System (Wto 2014), there are four main types of RTAs: Partial Scope Agreements (PSAs), Free Trade Agreements (FTAs), Customs Unions (CUs) and Economic Integration Agreements (EIAs). We based our selection on FTAs and CUs, as these are the most common.

We use the World Trade Organisation Regional Trade Agreements Information System (Wto 2014) to select RTAs. Figure 4 below illustrates the process of the selection step-by-step. Step 2 is to select only RTAs in which members have physical links with one another because proximity can facilitate integration. Additionally, an RTA should consist of at least three members. For the second step, we select only RTAs that are free trade agreements or customs unions because doing so allows more opportunities for integration. For step 4, if there are several suitable RTAs, we select the one with the highest GDP.

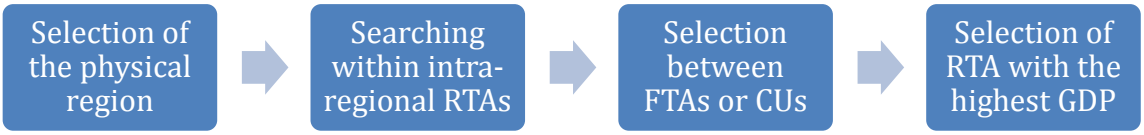

Figure 4 The Illustration of the initial RTAs selection

Therefore, the following regional unions have been identified (Figure 5): North American Free Trade Agreement (NAFTA), European Union (EU), Southern Common Market (MERCOSUR), The Asia-Pacific Trade Agreement (APTA) and the Southern African Development Community (SADC).

A note on China. To include an RTA in which China has full membership and which consists of more than two members, we selected APTA. Although APTA has a lower integration level (Partial Scope Agreement), we felt it was necessary to include an RTA with China because it is the second largest economy in the world with an average GDP growth rate of 7.60 % in 2013 (Unctad 2015).

Union Title	Union Type	Member Countries	Region
NAFTA	Free Trade Area	**Canada; Mexico; United States of America**	North America
EU (28)	Customs Union	**Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovak Republic; Slovenia; Spain; Sweden; United Kingdom**	Europe
MERCOSUR	Customs Union	**Argentina; Brazil; Paraguay; Uruguay; Venezuela**	South America
APTA	Partial Scope Agreements	**Bangladesh; China; India; Republic of Korea; Lao People's Democratic Republic; Sri Lanka**	Asia
SADC	Free Trade Area	**Angola; Botswana; Lesotho; Malawi; Mauritius; Mozambique; Namibia; South Africa; Swaziland; Tanzania; Zambia; Zimbabwe**	Africa

Figure 5 Selected RTAs (source: Unctad 2012; Wto 2014)

4.3.1. The Selection Framework

We aim to select the most integrated RTAs that attract substantial FDI and that are moving toward further integration. With the support of the literature (Harrison 2003; Hine 1999; Mattli 1999; Phelps and Alden 1999b; Phelps 1998; Stoian 2013; The Conference Board of Canada 2014; The World Bank and The Imf n.d.; Thomsen 1995; Whalley 1998; Young and Brewer 1999) and consultations with supervisors, we have identified the five core elements that will guide our selection process (see Figure 4 below). These elements highlight the dynamic nature of MNEs' investments in RTAs.

We will look for FDI inflows into RTAs because it will show the attractiveness of the RTA to foreign investors. Additionally, if inward FDI is expected to be beneficial for the RTA economy, we will look for a link between FDI and the RTA's development (the investment development path), thus highlighting the extent to which the particular RTA is developed. We will also look at the diversity of the location determinant and

motives underlying the formation of the RTA. Also, we will look at the inward FDI performance index that reflects the proportion of the RTA's share of the world inward FDI and the RTA's share of the world GDP. This index highlights the RTA's success in attracting inward FDI on a relative basis.

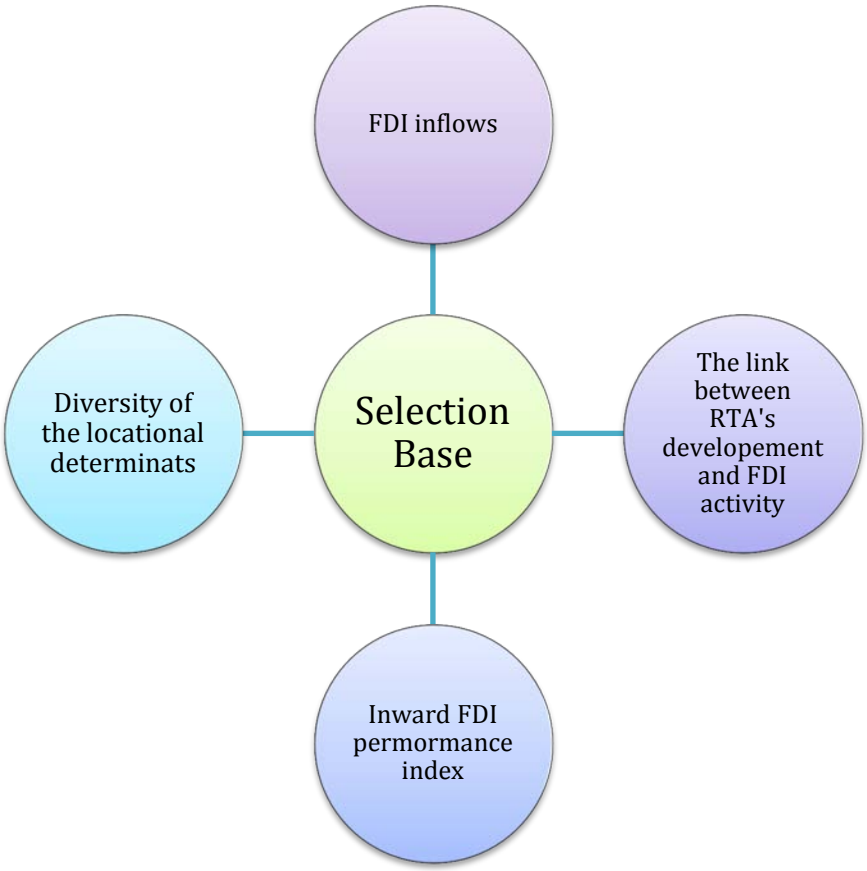

Figure 6 Indicator of the Selection Framework

As a result of the empirical application of all criteria, we have come to the conclusion that the EU is the most suitable context for the proposed research because it allows us to capture the dynamic nature of the MNE network. A summary of the EU as a study context is provided below.

4.3.2. Historical overview of the European Integration Motivation

After two, the devastating war conflicts, in 1951 Treaty establishing the European Coal and Steel Community has been put into force. The goal was to establish control over

coal and steel that would prevent the country from mobilising its military forces secretly (European Union 2012). Later, the creation of European Economic Community (EEC), with signing the Treaty of Rome in 1957, manifested itself the need for the major changes in trade and competition policies in order to facilitate cooperation.

The main idea was to create a *competition policy* on the supranational level, rather than *trade policy* on a national level (Raines and Wishlade 1999). Hence, the policy was able to help to solve various conflicts between EEC members, national and regional interest (Raines and Wishlade 1999). Moreover, the global competition also puts tensions to the EEC policy as it was needed to regulate investments between the EEC as a trade bloc and other major investors, such as US and Japan. Therefore, growing FDI inflows created the need to develop FDI policies in order to tackle the issue of global investment rules, modify the attractiveness of the EEC in the battle for the FDI, and govern the FDI competition between each of the EEC members. As each of the country members considered FDI as a major source of economic and employment development inward.

In 1992, the Maastricht Treaty (Treaty of European Union) was signed. It was done in order to prepare EU for becoming a political union. Hence, these three treaties discussed above underlined the process of EU integration. “In no other regional trade arrangement have sovereign states so comprehensively pooled their national interests or subjected themselves to a supranational authority police their respect to the rules” (Raines and Wishlade 1999p. 71). Now, in 2015, the EU consisted of 28 members and is opened for the new ones. Therefore, European Union is considered the most suitable region for the current investigation because it has achieved the deepest level of regional integration. The next part will provide a brief case study on the EU as a study context.

4.3.3. The European Union as a study setting

Footloose behaviour is an outcome of the MNE that operates as a dynamic differentiated network and seeks to rationalise existing operations. Rationalisation is a dynamic *process* and aims to maintain the competitive position of the MNE in the changing global arena. In order to observe and track the dynamic *process* of rationalisation, we need a region where initial FDI projects motivations were transformed with time due to the environmental (internal and external) changes, which influenced the behaviour of the MNE. Hence, we can observe the evolution of the

multinationals. The European Union is an appropriate example of such a region. Over the course of time, regional integration of Europe transformed separate markets into one single market, and multinationals start to restructure their existing operations in response to the on-going integration and expansion of the EU.

After WWII, when the FDI theories started to emerge, the long-term capital commitment was a rare case. "The economic sovereignty of the nation-state was high, where barriers to trade, investment and knowledge flows were difficult to overcome" (Narula 2006). In the 1950s, the investment to the foreign location was a tiny fraction compared to the home county operations (Dunning 1997b, p.239). These rare cases of the first FDI activities took place because it was the *only* way to serve the particular market or to get access to the unique resources of the foreign location (Dunning 1997b, p.239). Thus, arguably market seeking and resource seeking motivations were dominating at that time. This does not imply that ES and SAS did not take place, but it suggests that MS and RS were more frequent cases. Perhaps, main motivations (MS and RS) were complemented with possibilities to reach for ES and SAS after the investment took place. For example, in the 1950s the European market offered great prospects for the realisation of the US products (Dunning 1997b; Filippaios and Papanastassiou 2008; Phelps 1998). However, Europe's level of economic sovereignty meant that export and non-tariffs barriers were so high that foreign direct investment was the only route to conquer 'Fortress Europe'(Dunning 1997b; Filippaios and Papanastassiou 2008; Neary 2002). Overall, the engagement in the FDI not only facilitated the growth of the firms and made them multinational, but also allowed their physical presence in the desired market.

In turn, the physical presence in the foreign location changed the 'mindset' of the MNEs because it opened up the new possibilities for development. When multinationals finally got access to Europe's markets they had to face the local firms. In order to compete with rivals, MNEs had to find the ways to the most efficient internalisation of their competitive advantages. The best way to do it was by bringing the managerial practices, innovative production methods, financial regulations etc., which made these companies strong enough at home and enables to become multinationals. In turn, this move triggered the positive economic changes within Europe. Whatever asset multinationals brought to Europe steamed from the ownership advantages of these multinationals. Because the ownership advantages are unique and the OLI configuration is unique to

every particular case, each multinational contributed to the simultaneous development of European market in a variety of ways, i.e., the education, the technological advancement, knowledge exchange, consumer behaviour, legal practices etc. (Phelps 1998, p.13).

In its turn, the integration of the European Market has facilitated multinationals to change the existing perceptions of the competitiveness. Within the integration in the European Union, we can highlight the rise of a rather different kind of MNE activity, the purpose of which is to rationalise and restructure the existing FDI projects that were launched in a more restricted business environment (Barrell and Pain 1999; Dunning 1997b; Filippaios and Papanastassiou 2008). While enter to the European market was still an important FDI motivation, those MNEs that had already established operations in Europe started to enjoy the benefits offered by the integration process. The formation of the common market removed all tariff barriers between member countries, which led MNEs to reconsider the structure of their existing operations the EU in order to enhance profitability (Dunning 1997b; Filippaios and Papanastassiou 2008; Hine 1999; Mattli 1999). After implementing the single market plan, Europe was no longer a collection of different economic fortresses (Dunning 1997b). Hence, MNEs began to treat it accordingly –as one single market. Multinationals rushed to take advantage of the free-trade area and to exploit the economies of scale by organising more centralised production facilities (Barrell and Pain 1999; Filippaios and Papanastassiou 2008) and relocating to the other EU countries (Buckley and Mucchielli 1997; Phelps 1998).

Within an integrated market there is no need to invest in every single country in order to serve all the desired locations; instead, it is enough to reconfigure the fit between OLI. It is more rational to transfer the existing operations to the location (within the integrated economy), which creates a *better* fit between OLI, compared to the current host country OLI configuration. More important, the economic integration is a continuing longitudinal process; thus, there is high chance that after the relocation of production MNE would want to relocate it again chasing new more attractive OLI match.

At this point, multinationals were free to choose, which location within the EU is the most profitable regarding their unique investment requirements. MNEs' relocations to more prospective countries changed the behaviour of local companies. The EU-based

multinationals, which remained attached to their existing locations as centres of consumption, were challenged by the external competition from foreign MNEs. EU investors began to restructure their production networks and change business strategies to improve their competitive performance (Phelps 1998), which made the EU a highly competitive and dynamic environment for business (Phelps 1998; Thomsen 1995).

The integration of the EU has changed a comparative advantage of countries by revealing unique characteristics of each member state, and by underlying the role of national institutions and capabilities in location decisions of the MNEs (Barrell and Pain 1999). However, integration also has spread the effects of economies of scale unequally over EU members, shaping the location determinants and affecting central and peripheral countries in a diverse way (Filippaios and Papanastassiou 2008). Integration produced a 'polarisation effect' that increased and emphasized the gap of real incomes between member states (Robson 1987). This argument suggests that less advanced countries may not obtain the benefits of the integration in terms of increased efficiency and welfare as in order to attract MNEs they would have to offer their location advantages cheaper compared with the core EU countries (Filippaios and Papanastassiou 2008; Phelps 1998).

On-going EU's expansion towards the East, including the biggest-ever enlargement of 2004 with Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia became the Member States, the 2007 accession of Bulgaria and Romania, and 2013 accession of Croatia, brought together the total number of 28 Member States (European Union 2013) provide a dynamic setting for the study. The enlargement of the EU created a great deal of speculations about whether MNEs would relocate from other EU states to take advantage of new locations that offer a cheaper but well educated and trained labour force, with a strong science and technology base (Filippov and Kalotay 2011; Mata and Freitas 2012). Hence, within a dynamic context of the EU we can track how multinationals will react to the location benefits offered by new EU members.

Dunning (2001b) argues that "firm-specific assets have become mobile across natural boundaries" (p.45); therefore, it is the appropriate time to re-evaluate our understanding of how multinational enterprise approaches competitiveness. The aspect of spatial shifts as a path for achieving global dominance is often unconsidered in the literature.

Probably, the reason is that the importance of FDI for the global economy (and every country individually) attracted much more attention to the determinants of the investment and almost ignored the MNE's side of the issue. Nevertheless, the ability to move around within the integrated economy is promising. Overall, there is a change *within* the MNE as an organisation because the firm-specific assets were not as mobile before as they are now (Dunning 1998; Phelps 1998). Plus, the integration of the global economy, where the European Union is the most striking example, suggests that the milieu of the MNE has changed as well. So does the MNEs' perception regarding their habitat. Clearly, there is an interrelation between changes inside of the MNE and changes of the MNE's perception regarding what is outside. These changes will be more evident within deepening of the economic integration. Dunning (2001b) recommends modifying the existing concepts in order to explain the on-going processes in the allocation of the value-added activities. Thus, we argue that the there is a need to study the spatial shift of the multinationals incorporating the rationalisation motive. Additionally, the changes of the internal and external environments of the MNE are the key areas to explore.

Overall, within the European Union as a study setting, we can see the interrelations of internal and external environments of the multinationals. We know the historical evolution of the FDI patterns before and after the integration process. Importantly, the integration of the European Union took a systematic character; thus, we can align the changes in the FDI patterns with specific changes in the EU. Therefore, we can detect the cases of footloose behaviour.

We can understand the dynamics of the comparative location advantages and match them with the needs of the MNE. Since trade barriers are eliminated, MNEs should behave in the most 'natural' way. Thus, we anticipate observing the cases of footloose behaviour as borders do not restrict MNEs, and we expect to tease out the particular drivers of footloose behaviour. As we have one single context, we will be able to highlight the difference in the evolution between MNEs. Hence, it allows comparing different companies and highlighting the common/different patterns of their behaviour. Furthermore, giving that the MNEs identify the 28 members of the EU as 'one host country', we can counteract the limitations of the previous research that focused on the one single country and find the answers to the research questions.

4.4. Case Study Research Method

Our conceptual framework is designed to examine the footloose behaviour in a systematic and holistic manner. As we have discussed in the preceding parts of this chapter, the prior literature on footloose behaviour is inconsistent in the terminology, focuses only on the divestment component of footloose behaviour and take one single country as a study context. To counteract the limitations of prior studies we develop a conceptual framework. Our conceptual framework consists of elements (constructs) that we already know in order to uncover the elements (constructs) that we don't know (Maxwell 2012). Conceptual framework introduces the interrelations between different concepts that have not been previously linked together in the literature (i.e. investment, divestment and relocation). Also, we introduce the elements of the MNE's structure (HQ-Subsidiary Interdependence and Operational Flexibility) in order to account for MNE specific characteristics.

IB literature treats the elements that we used in the conceptual framework as absolutely separate units. Thus, we would like to go back to ground zero and look at these elements from the perspective of MNE and learn how those concepts can be captured together. The aim is to identify and analyse the phenomenon holistically that in the past has been seen in the isolation. Therefore, we bring concepts from different strands of the literature to help us to explain this phenomenon. From those concepts, we develop propositions. We do not develop a testable hypothesis, though; because it is the stage of the research where we only introduce the concepts. We need to test the concepts themselves, not how these concepts are measured. Thus, our research is explorative. Therefore, qualitative case study method is the most appropriate method to address our research questions.

The case study method helps uncover *why* and *how* questions, reveals behavioural patterns and enables the researcher to observe how actions change over time (Yin 2014). We want to study the drivers of footloose behaviour and how these drivers from internal and external environments interact with each other. We also want to learn how the elements of the MNE's structure moderate footloose behaviour.

Eisenhardt (2002) defines the case study method as "a research strategy that focuses on understanding the dynamic present within single settings" (p.8). An MNE is a dynamic

differentiated network; hence, investigating the footloose behaviour of MNEs requires capturing and analysing their dynamic strategic intentions. Because MNEs do not tag their activities, and their real motives are frequently hidden and confidential, it is not possible to use only external observations to fulfil the aims of a study such as our goal to find the drivers of footloose behaviour. Additionally, MNEs can have multiple motivations simultaneously (Dunning and Narula 2010). Therefore, the motivations are better captured in words and meanings. Further, it is important to acknowledge that motivations can change with time; hence, we would like to investigate why they have changed.

Overall, the case study methodology fits the purpose of the current study regarding the search for the drivers of footloose behaviour for several reasons. First, footloose behaviour can be initiated by changes in either the internal or the external environment or by changes in both environments simultaneously. Hence, these changes are related to the strategic actions of the MNE, and this information is often considered confidential. Thus, we should obtain the information that is giving by the MNEs. In our case, we use two databases that contain comments giving directly by managers of the multinationals.

Second, because the footloose behaviour of MNEs does not have an established theoretical explanation, the main goal of the current thesis is to develop a new theoretical framework that would explain the drivers of footloose behaviour. According to Merrilees and Tiessen (1999), the case study method is particularly suitable for understanding behaviour that has not been adequately addressed in the prior research.

Third, the case study method allows us to obtain an in-depth understanding of footloose behaviour based on a combination of different kinds of data. We combine together the comments that managers of the MNEs submitted directly to FDI Markets database with records from Eurofound that are supplemented with open sources evidence. We use secondary data, which includes annual reports, corporate websites, industry reports and news resources. Thus, this process will result in a data triangulation, which will provide validity for the study. According to Miles and Huberman (1994), data triangulation "is a way to get to the finding in the first place – by seeing or hearing multiple instances of it from different sources by using different methods and by squaring the findings with others, it needs to be squared with" (p.267). Also, data triangulation ensures that our

conclusions will not mirror the biases of the study method (i.e. case study) and ensures the credibility of the study (Maxwell 2013).

Investigating the footloose behaviour of MNEs requires capturing and analysing companies' strategic intentions. Therefore, we must undertake in-depth research that focuses on a small number of cases, which will help us obtain rich data in the case study. In this manner, we can answer our research questions and draw theoretical conclusions (Saunders et al. 2007). To sum up, the case study methodology fits the present research because it enables us to answer the research questions. In other words, we use the qualitative case study as *the means* to answering our research questions (Maxwell 2013).

4.5. Data Collection

The starting point in data collection is the availability of the data. We require textual data (i.e. commentaries) regarding the motivations behind MNEs actions giving by the MNE managers. We acknowledge the argument that divestment and relocations are highly sensitive topics that are often paired with the element of 'failure' (Benito 1997a). Thus, we expected that it would be extremely difficult to obtain such information directly from the multinationals. We sent the questioner to 'test' our expectations to all MNEs in the list, but have received just five replies with unfilled of partially filled questioners.

To overcome the lack of primary data availability, we secured the access to the highly regarded databases: FDI Markets (Fdi Intelligence 2016) and Eurofound (Eurofound 2017). In addition to the primary data that we obtain from these databases, we also make use of annual reports, corporate websites, industry reports and news resources.

4.5.1. Primary Data: FDI Markets and Eurofound Databases

The source of primary data for our research is *FDI Markets* (Fdi Intelligence 2016), which is a division of the Financial Times Ltd. FDI Markets is comprehensive and highly detailed online database, which covers all cross-border investments in all countries and sectors. This database holds information about the parent company (HQ), the investing company (subsidiary), source/destination country and city, industry and sector, number of jobs created, the amount of investment. The particularly attractive

feature of this database is the ‘motive cited’ narrative text that is given directly by the MNE. Some of the MNEs explain the reasons for the investment and these reasons are included in the database.

The second database that proves to be valuable and complement FDI Markets is the Eurofound European Restructuring Monitor by The European Foundation for the Improvement of Living and Working Conditions (Eurofound 2017). Eurofound database monitors the media announcements regarding large restructuring activities of the companies, which operate in 28 EU member states. This database publishes details about all types of companies (multinationals and domestic). Because media announcements are included in the database, it explains why a particular event happened.

4.5.2. Data Collection Strategy

Individually, FDI Markets and ERM offer two distinct types of data. FDI Markets offers only FDI investments that took place. Eurofound offers the data regarding different restructuring events across EU by all companies. When we combine the two databases, we can see the behaviour of the MNE from the bird’s eye view. FDI Markets is the ‘investment’ database, but Eurofound shows the divestments and relocations. Hence, the combination of two databases allows seeing beyond the individual investment and capture the combination of activities together (investment, divestment, relocation).

We take the Eurofound database as the point of departure. We search for all the companies that performed either of the following: Closure, Relocation or Offshore/Delocalisation. These three parameters represent some degree of reduction of resource commitment in the country according to the Eurofound (Eurofound 2017). To start the search for the divesting/relocation MNEs, we selected five countries of EU original periphery: Greece, Italy, Ireland, Portugal and Spain. We selected these countries because it is assumed that MNE from core EU countries would relocate to the peripheral regions to reduce the costs, i.e. the integration of Europe and formation of the common market triggered the restructuring process of FDI activities. However, the original periphery is no longer a periphery; thus, we expect to see a larger amount of divestment/relocations from these countries. In total, we found 338 non-unique companies (single organisation can divest/relocate from several countries more than

once) that performed some type of restructuring in the five aforementioned EU member states from 2002 till 2015. The table 3 summaries the findings.

Closure	Offshoring/Delocalisation	Relocation
26	**48**	**6**
28	**0**	**1**
62	**22**	**6**
42	**46**	**9**
20	**17**	**5**

Table 3 Eurofound Results

Now, we move to the FDI Markets. 338 entries in Eurofound represent all companies (domestic and MNEs), but we are only interested in MNEs. Thus, we cross-checked the names of the parent company with the FDI database. If the company is mentioned in FDI Markets, we mark this company as a multinational and include it to our sample. For FDI Markets we search across all European Union. As a result, we get unique 174 MNEs with 3324 projects (483 with motive cited) from 2003 till 2015 in the whole European Union. So, the combination of two databases in one single database allows separating individual company in order to observe all investments, which took place from 2002 2003) till 2015 and detect which of those investments do not longer exist. This allows seeing how a particular MNE evolved through the time regarding the investment destinations, divestment countries and relocation investments. Now we can match different MNE activities (investment, divestment and relocation) and detect the triggers of the footloose behaviour.

Selection of the MNEs for Case Studies

The goal is to choose MNEs that we can study in-depth through the case studies. The process of selecting these MNEs was a two-step process. The selection process dictates the number of case studies that we will discuss in this section. We also should point out that this section of the chapter is intrinsically linked with the Industry Analysis (Chapter 5). Thus, some of the arguments that we put forward in this section will be covered in-depth in Chapter 5. In other words, this section is an overview of the selection process, but Chapter 5 provides the in-depth analysis and argumentation; thus complements this section.

We look for the MNEs that perform a substantial amount of activities including investments, divestments and relocations. However, we want to get a variety of MNEs from different sectors to compare them to each other and highlight the impact of the industry. Thus, to be systematic in our choice and include a variety of MNEs from different industries the first step was to identify the most dynamic industries (i.e. industries with many investments and relocations). Chapter 5, Industry Analysis, contains the full account of the selection process. The combined data from Eurofound and FDI Markets reveals that the 174 selected MNEs performed 3324 activities (investments, divestments, and relocations), which took place between 2003-2015 in all 28 member countries. The next phase of the selection process is following:

1. We select MNEs that has more than fifty projects in the EU. These projects include investment and divestment data. Hence, we identify the fourteen largest MNEs within the European Union.

2. We select MNEs with more than three divestments from the EU periphery. Hence, we identify eleven the biggest investors from the periphery.

3. After we selected the MNEs, we identify their industries.

4. Then we identify the nationality of the selected MNEs.

The description above represents the first part of the selection process. Please refer to Chapter 5 for a detailed account with analysis and supporting tables.

In step two of the selection process, we decided to look for the most dynamic industries (i.e.industries that are the most unpredictable and volatile (Chen et al. 2017)). We suggest that the more industry is prone to changes the more likely these changes will impact the MNEs. According to our analysis (Chapter 5), the most dynamic industries are Software and IT, Consumer Electronics and Automotive Components. We then selected the MNEs from these industries based on the data availability, larger number of investments and divestments. We started the selection process for filtering out the MNEs that described their investment motives in the FDI Markets database and divested from the EU initial core periphery. After that, we selected MNEs based on the highest number of investments and divestments (Table 4).

Industry and MNE	Divestment	Investment
Automotive Components	**8**	
Lear	4	6
Johnson Controls	3	8
ThyssenKrupp (TK)	1	2
Consumer Electronics	**9**	
Candy	3	3
Indesit	3	**5**
Electrolux	3	9
Consumer Products	**8**	
Procter & Gamble (P&G)	5	7
Unilever	3	3
Software & IT services	**3**	
IBM	3	24

Table 4 Selected Multinationals (highlighted in blue)

The three selected MNEs are IBM, Electrolux and Johnson Controls. We also decided to include Procter & Gamble (P&G) as our fourth case study. Although the industry of Consumer Products did not highlight itself as dynamic, P&G, as a multinational, stands out in our analysis (Chapter 5). P&G is the biggest periphery divestor with five cases of divestments from the EU initial core periphery. Therefore, the number of cases (three case studies) equals to the number of industries that we find to be highly dynamic. The additional case of P&G was included due to the large number of divestments that this MNE performed in comparison with other MNE.

4.5.3. Data Analysis

The main type of data we use is narrative textual comments giving by the multinationals to the FDI Markets and Eurofound Databases. The conceptual framework directs our empirical investigation. Thus, we should properly connect the conceptual framework with the narrative textual data. The procedure of connecting the two in the qualitative research is coding. Coding is a process of categorising the data (Maxwell 2013). “Code is an abstract representation of an object or phenomenon” (Corbin and Strauss 2008 p66 in Nvivo p70). In other words, the coding process is the process of labelling the text with the codes in order to organise the data and retrieve information later in the research process (Nvivo p70).

To facilitate the coding process, we use the computer software Nvivo. This programme helps to store, retrieve, code and sort the data (Maxwell 2013). In order to code the information, we use the themes depicted in the conceptual framework. In other words, we use the constructs from the conceptual framework and turn them into meaningful codes. In Nvivo codes are stored in nodes. The nodes represent every concept and idea. However, in Nvivo nodes "are not the actual segments of data, but a reference to the exact location of the text you coded in the source document" (Bazeley and Jackson 2013, p75)

Bazeley and Jackson (2013, p72) suggest that we should not always start the coding process by segmenting our data into the smallest possible pieces of information. Thus we started with the general codes. The four initial nodes helped to organise the information we depicted from FDI Markets and Eurofound Databases. In other words, our starting point for data analysis are the comments that MNEs submitted directly to the FDI Markets and Eurofound databases. After initial coding of this data, we coded other relevant sources such as corporate websites, annual reports, industry reports, news outlets.

The initial four nodes are the core parent nodes that we later complemented with child nodes. The core nodes are:

Activity-FDI Motives-Footloose Behaviour-Internal and External Environment

The core element of the qualitative research is the extraction of meaningful information from the data in order to answer the research questions. Therefore we propose the following associations: *The Activity* node is connected to the investments, divestments and relocations that MNE explicitly named. Therefore, we can establish the particular cases of investment, divestments and relocations. *FDI Motive* node is linked to the particular motivation for investment, divestment and relocation that MNE highlighted in their comments. Therefore, we highlight the MNE's perceptions on their motivations. *Footloose Behaviour* node is linked to the systematic relocations, systematic network reorganisation and systematic efficiency improvements that MNEs highlight. Thus, we have information regarding systematic activities of the MNE according to the MNE's perceptions. *Internal and External Environment* node is connected to the particular factors that we depicted from the data regarding the MNE's actions. This is the most

comprehensive node as it contains information about a variety of factors highlighted by the MNEs. These initial and all subsequent 68 nodes were created in accordance the research requirements. In total, we create 72 nodes to group the information (Table 5).

We propose the following quotation system in order to ease the navigation through the thesis:

Industry Analysis Chapter:

(Full Name of the MNE, Activity, Year)

Case Study Chapter:

- Quotation system for quotes obtained from FDI Markets and Eurofound:

(the First Letter of the MNE's Name, Consecutive Number of the Quote in the Chapter, Activity, Country, Year)

- Quotation system for quotes obtained from other sources such as annual reports:

(the First Letter of the MNE's Name, Consecutive Number of the Quote in the Chapter, Abbreviation of the Source or the Full name of the Source, Year)

We an extensive use of annual reports; thus, we use abbreviations only for Annual Reports. The abbreviation is AR. In the case of other sources, the full name of the source is provided.

Node	Sources	Quotes
Activity	42	302
Divestment	15	46
Investment	10	67
Relocation	34	185
FDI Motives	7	48
ES	5	16
MS	4	6
RS	2	3
SAS	7	21
Footloose Behaviour	12	63
Efficiency	10	37
Restructure	12	51
Internal and External Environment	16	289
External Environment	16	257
Brexit	2	2
Business environment	6	17
Climate change	5	8
Competition	4	6
Cost of labour	1	2
Cost-efficient resources	4	10
Decreased demand	6	9
Economic conditions	7	20
Economic crisis	3	3
European Union	6	10
Financial distress	5	12
Geographical proximity	4	20
Industry	11	30
Infrastructure	3	4
Laws and regulations	5	21
Location incentives	2	6
Market conditions	1	2
Political conditions	4	5
Quality of labour	7	19
Raw Materials	7	10
Seasonal Factors	1	3
Size (growth) of the market	4	8
Socio-economic conditions	3	3
Sustainability	3	8
Third party partners	4	4
Internal Environment	5	16
Ability to exploit resources	3	7
Acquisition of resources	4	9
Brand Name	5	8
Common governance	1	6
Distribution channels	1	1
Economy of scale	6	7
Generating brand loyalty	4	8
Getting new clients	3	8
Increase sales volume	2	2

Innovative products	7	19
Long-term prospects	4	6
Marketing	1	1
Network efficiency	9	26
Product adjustments	0	0
Property rights	4	5
Reorganisation of the network	8	24
Research and development	8	16
Retirement plans	1	1
Security	2	3
Internalisation (Market Imperfections)	2	3
Coordination benefit	5	7
Information benefit	1	2
Price differentiation benefit	2	4
Structural market imperfections	1	1
Network Factors	5	10
HQ-Subs Interdependence	14	64
Centralisation	7	12
Formalisation	8	15
Normative integration	5	14
Operational Flexibility	6	29
Strategic links	3	5
Structural links	2	5

Table 5 Nodes Structure (Nvivo)

Cross-Case Analysis

Upon completion of a within-case report, we perform a cross-case analysis to determine how footloose behaviour appears within different MNEs. We examine the MNE as a dynamic differentiated network; hence, comparing different cases will highlight differences in the evolution among MNEs and show how and under what circumstances footloose behaviour has emerged within different MNEs.

We will look for the emergence of patterns and themes across all cases. The goal is to observe the processes and outcomes that emerge across different cases, to see how local conditions influence them, and to develop more complex explanations of the phenomenon (Miles and Huberman 1994). Every organisation has its own development path. Although, we suggest that the reasons for cross-border activities might be similar in a broad sense, the way MNE reacts to the internal and external challenges will be different, which may affect the cross-border behaviour. Following the contingency approach we argue that every time a contingency a level change, a firm starts a process of regaining the fit. However, the contingencies that change are not exactly the same for every firm. Hence, with time moving into fit produces incremental changes that lead to the different development path for every organisation. We aim to find out the combination of internal and external factors that affect footloose behaviour across different MNE. Thus, we look for the similarities and patterns to emerge giving the difference in the evolution of the firms.

Over time, MNEs approach their business goals in diverse ways, and overall business development does not follow one pattern of success that suits all MNEs. Hence, if one MNE is compared with another, it is possible to observe the differences in their evolution and to distinguish particular internal and external changes that lead to footloose behaviour.

4.6. Conclusion

In this chapter, we covered the limitations of the prior research and suggested how we can improve on them. We highlighted our philosophical grounds and explain the methods for conducting our research. In the next chapter (Chapter 5) we discuss the industry analysis and clarify some methodological points that we raised in this chapter.

5. Industry Analysis

5.1. Introduction

The purpose of this chapter is to provide a 'bird's eye' overview of the information that we collected. In the Methodology Chapter (Chapter 4) we demonstrate how we collected the data from the two databases (FDI Markets and Eurofound), and how we integrated the data in order to construct the historical account of European multinationals.

The main contribution of this section, is to showcase how the collected data can be used in order to answer some of the research questions and provide an overview of the selected industries. In Chapter 4 we demonstrate how we selected the MNEs for the case studies. In order to choose these MNEs, we decided to look for the most dynamic industries, i.e. industries that are expected to change. Hence in this chapter, we provide an overview and the analysis of the three most dynamic industries: Software and IT, Automotive Component Industry, Consumer Electronics and Consumer Electronic Retail. We discuss the characteristics of these industries and match them with the possible motivations that MNEs might want to explore within these industries. Hence we lay a foundation for the Case Study chapter (Chapter 6).

Although in this chapter we approach the discussion from the 'top' level, we have the guiding principle, and this principle is our conceptual framework. The conceptual framework provides the theoretical explanation of the footloose behaviour drivers. This section, on the other hand, provides the practical examples of the footloose behaviour from the perspective of the individual MNE and from the industry perspective. Thus, we bridge the gap between theory and practice, and between the units of analysis (i.e. industry and a company). Thus, in this section, we discuss some of the theoretical constructs that we develop in the Conceptual Framework Chapter (Chapter 3).

5.2. Candy Hoover: A Lengthy Example

We start the analysis section with the lengthy example of the Candy Hoover MNE. This example **does not represent a case study** but rather demonstrates how two databases (FDI markets and Eurofound) work together and how we put the data together.

Footloose behaviour –is a repeated relocation of the previously divested operations over a period of time. Thus, to illustrate footloose behaviour we need to show how MNE acted in an extended time frame. In other words, we need to demonstrate the historical account of the investments, divestments and relocations of the MNE. For the purpose of demonstration, we choose a multinational that produces home appliances all over the world –Candy Hoover. According to Fdi Intelligence (2016), currently, Candy Hoover has two active manufacturing plants in the UK and Czech Republic. However, if we incorporate the divestment (i.e. divestments and relocations) data from Eurofound (2017), we see that Candy Hoover closed down several Italian plants and re-invested in other countries shortly after opening operations in the UK and the Czech Republic. In order to discuss the example of Candy Hoover, we first introduce the industry of Home Appliances and then move to the discussion revolving around Candy's behaviour.

5.2.1. Italian Market for Home Appliances

According to the Della Santa (2010a), Italy is considered one of the most lucrative household appliances markets in Western Europe, largely due to the government incentives stimulus package that was introduced in 2010. The stimulus package provides consumers with incentives (discounts of 10-20%) to replace their old household appliances with the new, more efficient 'A' energy rated products. The scheme indeed pushed the demand for the new products, especially in the premium segment with higher prices. Consequently, the total market value grew by 4.7% in 2010 (which is the best in the Western Europe) (Della Santa 2010a).

Although in 2010 the scheme drove the successful growth of the market, there are still some concerns remaining. First, and perhaps the biggest issue with the scheme is the "green" 'A' energy-rated appliances, which are more expensive than basic goods. According to the Dua et al. (2009) consumers tend to prefer basic, but reliable products, which are priced accordingly. Therefore, the incentive that stimulates purchasing of the premium and more innovative products would not allow buyers on a budget to participate. Second, the scheme does not cover all household appliances. According to Della Santa (2010a), the discounts are aimed at dishwashers and large cooking appliances, leaving laundry and refrigeration out of the scheme. Therefore, this stimulates only a fraction of the market and those consumers who are able to pay a premium.

According to more recent reports from Marketline (2015b) Italian household appliances market has recovered only in 2014 after several years of declining sales. Only 4 years after the introduction of the scheme, when Italian economy started to recover and consumers gained their confidence back, the sales volumes of household appliances had increased. Perhaps, the long period of scheme ineffectiveness is linked to an overall recession after 2008-2009 crises and high unemployment rates in the following years (Della Santa 2010b).

5.2.2. Candy Hoover Ltd.

Candy Hoover is an Italian multination specialising in the manufacturing of home appliances such as washing machines, dishwashers, tumble dryers, fridges, freezers, cookers, ovens, and hobs (Marketline 2015a). The company relocated three of their Italian production units to other markets in Europe and abroad in 2005, 2007 and 2011. However, the HQ, Candy Hoover Group S.r.l., remained in Italy along with industrial site Bessel S.p.A. and service provider Gias S.r.l) (Candy 2017). In this section, we discuss every case of the relocation and suggest the reasons behind it.

When MNE has a network of subsidiaries, it is crucial that all subsidiaries add value to the whole company. MNE might decide to divest a subsidiary or relocate the operations to another country. Also, MNE might decide to expand the operations of the existing subsidiary by adding the functions of the divested unit. The latter is linked to the efficiency-seeking motive. The following is the example from Candy Hoover.

Relocation 2005: Italy to the Czech Republic

The first case of Candy's relocation is underpinned by several factors from the conceptual framework. In 2005 Candy Hoover announced the relocation of its refrigerators and air-conditioning manufacturing to the Czech Republic. Notably, Candy Hoover had a subsidiary in the Czech Republic before they announced the relocation. From the perspective of the internal environment, we argue that common governance of activities partly drove the decision to relocate the production to the Czech Republic. The existing production lines in the Checz Republic factory remained intact, but the plant was expanded and redesigned in order to accommodate the manufacturing of new products. Thus, the existing subsidiary gets a new role as it takes on responsibilities of the divested unit.

The announcement to relocate production from Italy to Czech Republic happened shortly after the accession of the Czech Republic into the EU in 2004. From the perspective of the external environment, we suggest that removal of trade barriers (i.e. Czech Republic accession to the EU) facilitated the decision to relocation. We do not suggest that Italy lost its benefits as location, we suggest that the Czech Republic became *more attractive* than Italy due to the external factors that match the requirements of the firm.

From the internalisation perspective, relocation of the production can provide MNE with the opportunity to organise the production in such a ways that it creates the optimal resource allocation. Here, we refer to the coordination benefit factor of the internalisation. According to Candy Hoover (Eurofound 2017), the closure of the Italian plant in 2005 was a necessary measure:

> *"Due to changes in the market prospects which have made the delocalization of production inevitable."*
>
> (Candy Hoover, Divestment, 2005)

The quote suggests that 'market prospects', which are external to the MNE are the main divestment/relocation triggers. Therefore, we assume that divested subsidiary has a low operation flexibility and low HQ-Subsidiary interdependence. In this case, the factors from the external environment triggered footloose behaviour, and the factors from the internal environment did not play any significant role.

The transfer of production facility to another country where a firm has already had a plant can increase the overall efficiency. Thus, we argue that this is the case of footloose behaviour that aims to cut down the costs by eliminating the unnecessary element in the network and at the same time expanding responsibilities for another network unit. Therefore, this relocation has one core motive: efficiency- seeking. Candy Hoover had a subsidiary in the Czech Republic before the relocation and the relocation happened shortly after Czech Republic's accession to the EU. This exemplifies rationalisation of the MNE's operations, and rationalisation is linked to the search for efficiency.

We argue that footloose behaviour is linked with the changes in either internal or external environments. However, sometimes MNE relocates, what matters is not

whether this MNE generates profit in the current location, but whether or not they can generate higher profits elsewhere (Mata and Freitas 2012). Thus, this kind of behaviour is linked with the efficiency-seeking motive.

Relocation 2007: Italy to Turkey

In 2007 Candy Hoover announced the relocation of its stove production from Italy to Turkey. Similar to the previous case, we argue that the relocation from Italy to Turkey is driven by efficiency-seeking motive. From the internal environment perspective, the relocation to Turkey enabled Candy Hoover to increase their international sourcing and cut the cost (Kuehne&Nagel,No Date). Therefore, Candy sought to create better logistics and locate production facilities in such a way that it increases the efficiency of the whole company (ES investment will exhibit more footloose behaviour in comparison to RS and MS investments).

From the external environment perspective, Turkey is a location with more affordable production costs (e.g. wages) compared to Italy. Also, Turkey is strategically positioned; thus, Candy can enjoy the international sourcing. From the internalisation perspective, the relocation to Turkey is a first step towards the non-European reorganisation of the MNEs. (There is a case of the relocation to China that we discuss later in this section). According to Candy Hoover:

> *"The company has chosen to relocate the production in Turkey in order to reduce its operative costs, namely labour, which is significantly lower in Turkey than in Italy."*
>
> (Candy Hoover, Relocation, 2007)

The relocation to Turkey represents a thought-provoking case because there are three key drivers for the relocation. The first driver is more affordable operative costs (i.e. labour); hence, this is linked with the efficiency-seeking motive. The second driver is the desire to find better opportunities for international sourcing (Kuehne&Nagel,No Date). Thus, this is a combination of resource- and efficiency-seeking motives. The third driver is Turkey's strategic position that allows Candy to serve more markets (Kuehne&Nagel,No Date). In other words, this is another example of efficiency-seeking motive that aims to rationalise the allocation of existing resources and cut the costs.

In this case of relocation, strategic geographical position and particular economic characteristics made Turkey a potential location for production. Also, this relocation is supported by the needs of the Candy Hoover's network that required changing the approach to the international sourcing and logistics. Thus, Candy Hoover decided to relocate some activities in order to increase the overall efficiency.

Relocation 2011: Italy to China

In 2005 Candy relocated to Turkey, but in 2011 they relocated some of the Italian activities (dishwasher manufacturing) to China and achieved an increase in international sourcing of 400% (Turkey and China combined) (Kuehne&Nagel,No Date). We argue, that the relocation to China is linked to the relocation to Turkey, and has similar drivers. The market conditions such as size or geographical proximity to other markets are usually associated with the market-seeking motive. However, when a firm rationalises in order to reduce the costs, it is linked with the efficiency-seeking motive. In this case, a firm follows pluralistic objectives (i.e. several motives). According to Candy Hoover, the relocation is necessary:

> *"In order to reduce the costs and establish the presence in the new markets."*
> (Candy Hoover, Relocation, 2011)

Interestingly, dishwashers were part of the stimulus package, but Candy Hoover still decided to leave the market (footloose behaviour is not about the prospects of the current market, but about better prospects in another location). This example illustrates that an MNE can adopt footloose behaviour even if there are incentives in the current the market. This is an example, where the company had all the reasons to stay but made the decision to leave. This relocation has two underline motives: market-seeking and efficiency-seeking.

We suggest that Candy Hoover engaged in footloose behaviour in order to restructure their network. The three cases of relocation follow the efficiency-seeking path, with the aim to achieve significant gains (e.g. efficiency) via the relocation (i.e. reorganisation of the network) of the resources. The plants in Turkey and China, in particular, aim to serve 36 countries in Europe with the inclusion of Russia (Kuehne&Nagel,No Date).

Overall, the presented cases of relocations suggest that Candy Hoover, in general, follows efficiency path. When we aggregate the information about all three cases of the relocations, we see that Candy Hoover tries to rationalise the allocation of existing resources, i.e. adopt footloose behaviour. Figure 7 shows the three cases of the relocations on the timeline.

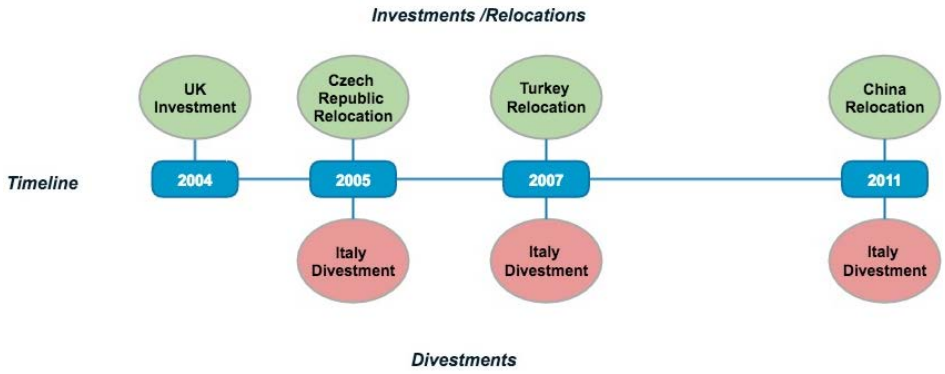

Figure 7 Candy Hoover Historical Account

5.3. Overview of the Selected Industries

The focus of this thesis is a multinational enterprise. Thus, our endeavour to find the drivers of footloose behaviour should be focused on the MNE. Footloose behaviour exemplifies the need to rationalise the allocation of existing resources. As we have explained before in the Conceptual Framework (Chapter 3), MNE is a Dynamic Differentiated Network (DDN) (Filippaios and Papanastassiou 2008; Malnight 1996; Nohria and Ghoshal 1997; Pearce 2001; 2012); thus multinationals address their strategic goals through a network of diverse subsidiaries. These subsidiaries are unique in their aims and functions because they all operate in different countries (Filippov and Kalotay 2011; Pearce 2001; White and Poynter 1984). In other words, the unique characteristics of subsidiary (i.e. internal environment) reflect the uniqueness of the host country (i.e. external environments). With time the number of subsidiaries grows as well as the need to rationalise their geographical positions. The need to rationalise emerges because MNE desires to increase the efficiency gains (Mata and Freitas 2012) of the DDN.

Overall, we look for large diversified companies that search for efficiency through the constant cycles of repeated relocations, e.g. footloose behaviour. Our selection of MNEs is based on the argument that large diversified MNEs have more incentives for efficiency search because the grand scale of their worldwide operations makes it easier to relocate subsidiaries from one country to another (Blanchard et al. 2012) with the purpose of efficiency gains; thus, the chances of footloose behaviour are higher (Table 1). The aim of this section is to present the industries of those multinationals that have the biggest number of investments and divestments and to discuss the nationality of the selected MNEs. However, MNEs themselves will not be addressed in this section.

As we have discussed in the Methodology Chapter (Chapter 4), the combined data from Eurofound (2017) and Fdi Intelligence (2016) reveals that the 176 selected MNEs performed 3266 activities (investments, divestments, and relocations), which took place between 2003-2015 in all 28 member countries.

The selection process is following:

1. We select MNEs that has more than fifty projects in the EU. These projects include investment and divestment data. Hence, we identify the fourteen largest MNEs within the European Union (Table 6).
2. We select MNEs with more than three divestments from the EU periphery. Hence, we identify eleven the biggest divestors from the periphery (Table 7)
3. After we selected the MNEs, we identify their industries (Table 8 and 9)
4. Then we identify the nationality of the selected MNEs (Table 11 and 12)

MNE (Biggest Investors)	Number of Investments	Number of Divestment
Aldi Group	182	1
Carrefour	178	1
IBM	166	3
Tesco	160	1
Siemens	152	1
Ryanair	88	2
Robert Bosch	79	1
Continental	69	1
Volvo	69	1
Metro	55	1
Dixons Retail (DSG International)	54	1
BNP Paribas	50	1
Telefonica	50	1
ThyssenKrupp (TK)	48	3
Total	**1400**	**19**

Table 6 The Biggest EU Investors

MNEs (Biggest Periphery Divestors)	Number of Divestments	Number of Investments
Procter & Gamble (P&G)	5	33
Tyco International	4	12
Lear	4	18
Unilever	3	35
ThyssenKrupp (TK)	3	48
Schneider Electric	3	26
Johnson Controls	3	33
IBM	3	166
Candy	3	2
Indesit	3	13
Electrolux	3	34
Grand Total	**37**	**420**

Table 7 The Biggest Periphery Divestors

Industries of the Biggest Investors	Number of Investments
Food & Tobacco	**492**
Aldi Group	181
Carrefour	161
Tesco	150
Software & IT services	**161**
IBM	137
Siemens	20
Ryanair	2
Robert Bosch	2
Automotive Components	**113**
Siemens	12
Robert Bosch	46
Continental	36
Volvo	7
ThyssenKrupp (TK)	12
Consumer Electronics	**113**
Siemens	2
Robert Bosch	5
Metro	55
Dixons Retail (DSG International)	51
Communications	*80*
Transportation	*80*
Automotive OEM	*62*
Industrial Machinery, Equipment & Tools	*47*
Financial Services	*39*
Electronic Components	*30*
Rubber	*30*
Real Estate	*26*
Engines & Turbines	*22*
Metals	*22*
Business Services	*17*
Business Machines & Equipment	*15*
Coal, Oil and Natural Gas	*12*
Non-Automotive Transport OEM	*10*
Alternative/Renewable energy	*8*
Aerospace	*6*
Consumer Products	*3*
Plastics	*3*
Medical Devices	*2*
Semiconductors	*2*
Space & Defence	*2*
Textiles	*2*
Wood Products	*1*
Grand Total	**1400**

Table 8 Industries of the Biggest Investors

Industries of The Biggest EU Periphery Divestors	Number of Divestments
Automotive Components	**8**
Lear	4
Johnson Controls	3
ThyssenKrupp (TK)	1
Consumer Electronics	**9**
Candy	3
Indesit	3
Electrolux	3
Consumer Products	**8**
Procter & Gamble (P&G)	5
Unilever	3
Electronic Components	**6**
Tyco International	4
Schneider Electric	2
Information / communication	**1**
Schneider Electric	1
Metals	**2**
ThyssenKrupp (TK)	2
Software & IT services	**3**
IBM	3
Grand Total	**37**

Table 9 Industries of The Biggest EU Periphery Divestors

Table 6 shows the biggest investors. These 14 companies combined perform 46% of all the activities. The selection is based on two arguments. First, we need to include a substantial proportion of activity. Thus, these 14 companies perform 46% of all the activities. Second, we need to ensure that the threshold is within the significant step change of the economic activity. Thus, we ignored companies with 48 activities and selected those that have at least 51 activities.

Table 7 shows the biggest divestors from EU periphery. The selection is based on the argument that footloose behaviour is a systematic activity; thus, one divestment or relocation is not sufficient to claim that there is the system. Two divestments and /or relocations can either suggest a systematic behaviour or two unrelated events. Thus, we decided to select MNEs with more than three divestments or relocations.

Table 8 and 9 show that there is an overlap between industries that have the biggest number of investment in the European Union and those industries that have the biggest number of divestments from the EU periphery. Footloose behaviour is a reaction to change in either (or both) internal or external environments. The industry is an external

context where MNE operates; thus, if the context is prone to changes (e.g. dynamic) we expect to see the more footloose behaviour. The level of industry dynamism highlights to what extent industry is unpredictable and volatile (e.g. prone to change) (Chen et al. 2017). To capture the level of industry dynamism, we adopt Porter's Five Forces Analysis (1979). Five Forces suggest that any industry can be assessed against five main forces that shape the level of competition (or in our case the dynamism) within the industry: Threat of Entry, Supplier Power, Buyer Power, Threat of substitutes and Degree of Rivalry (Porter 1979).

In order to evaluate the level of dynamism in the industries that overlap for investment and divestment data, we use Marketline Industry Reports. The first three industries (Software and IT, Consumer Electronics and Automotive Components) are those industries that overlap in the data (i.e. these industries present in both investment and divestment data for the selected MNEs). We assign the following values to capture industry's dynamism: 0-weak, 1-moderate, 2- Strong.

Application of Five Forces (Table 10), perhaps, explains the degree of dynamism. The higher the score, the more dynamic the industry is. Thus, the three overlapping industries have no weak forces, only moderate and strong. There is a communication industry that is present in both investment and divestment data, but we did not select it because it has only one case of divestment.

Industry	Score	Substitutes	Suppliers	Buyers	Rivalry	New Entrants
Software and IT	**8**	Moderate	Strong	Moderate	Strong	Strong
Consumer Electronics	**8**	Strong	Moderate	Moderate	Strong	Strong
Automotive Components	**6**	Moderate	Moderate	Moderate	Strong	Moderate
Electronic Components	5	Weak	Moderate	Moderate	Strong	Moderate
Metals	4	Weak	Moderate	Moderate	Strong	Weak
Food and Tobacco Retail	5	Weak	Moderate	Moderate	Strong	Moderate
Communication	6	Moderate	Moderate	Moderate	Moderate	Strong

Table 10 Five Forces Analysis

Biggest Investors Nationality	Number of MNEs
Germany	6
France	2
United States	1
UK	2
Ireland	1
Sweden	1
Spain	1
Grand Total	14

Table 11 Biggest Investors Nationality

Biggest EU Periphery Divestors Nationality	Number of MNEs
France	1
Germany	1
Italy	2
Sweden	1
UK	1
United States	5
Grand Total	11

Table 12 Biggest EU Periphery Divestors Nationality

When we look at the nationality of the selected MNEs (Tables 11 and 12), the picture is drastically different for the major investors and major periphery divestors. Table 11 suggests that the major investors in the EU are European multinationals. Contrary, major divestors from the periphery (Table 12) are the multinationals originating outside (United States) the European Union. This finding goes in line with the argument that foreign multinational are more likely to exit the host market than domestic MNEs (in our case we equal domestic MNEs to the European Multinationals) (Ferragina et al. 2012) due to the fewer attachments with the host country. A similar argument applies to the major investor's nationality. European MNEs are more familiar with the European market, willing to take the risk of the emerging opportunities.

5.3.1. Industries Analysis

In the previous section, we identified the most dynamic industries that present in both types of data (Investment and Divestment). In this section, we discuss the characteristics of the selected industries and establish the link between these characteristics and MNEs' behaviour (motives).

Software and IT Service Industry

Knowledge and forward-looking research (R&D) with the intention to pre-empt the competition are the driving forces of the Software and It industry development (SAS investments are unlikely to exhibit footloose behaviour). These factors also drive strategic-asset-seeking motive. Hence, we assume that this motive underpins all the activities within the Software and It industry as this industry relies heavily on the new developments and intellectual property. Thus, we align this argument with the strategic asset-seeking motive.

Software and It Service industry is one of the fastest growing industries, and it is, perhaps, the most dynamic sector. The dynamism of this industry comes from the constant change in the technology, the need to invent a new technological solution to be ahead of others and the necessity to integrate these new solutions into the daily life. According to the Software in Europe industry profile (Marketline 2015d), unlike other industries, Software and It Sector is somewhere between moderate and strong growth, which accelerated in 2013. Thus, the strong position of the industry, even during the time of recession, suggesting that this sector receives enough attention from investors and allows many companies to enjoy the benefits of operating in this sector. However, despite the fruitful prospects, firms have to work hard in order to stay aligned with the industry dynamism (i.e. constant advancements in technology) (Sarrazin and Sikes 2013).

The dynamism of Software and It Sector explains the fierce competition, and it also suggests the need to constantly adapt the firm to the new industry developments by means of R&D in order to stay on top of the competition. An example from Software and It sector is IBM's investment in Ireland:

"The decision to invest in its Santry operation was influenced by the availability of the necessary skills, the growing emphasis on scientific research by Science Foundation Ireland and the support of IDA Ireland."

(IBM, Investment, 2004)

The quote above suggests that the main reason for investment is the ability of Irish people to perform scientific research. However, on top of that IBM stresses the importance of the IDA's (Ireland Investment Promotion Agency) support for this investment. Hence, we argue that although the strategic-asset seeking motive is a core one for the Software and It industry, the efficiency is also there. IBM chose Ireland because it has all the essential components for the industry (i.e. high-quality labour) and because it has some desirable elements that can make IBM more efficient (i.e. government support).

Software and IT sector is dynamic; it also means that one of the crucial bits that company should exploit is – the right *momentum* to act. Therefore, we argue that this momentum is linked with the search for efficiency and footloose behaviour. Thus, we link this industry characteristic with the efficiency-seeking motive. Efficiency, undoubtedly, is critical for all companies and industries but is a matter of survival to constantly search for more efficient network configuration for multinationals operating in the dynamic and unpredictable industry such as Software and IT Service. Efficient network structure (i.e. efficient allocation of subsidiaries) helps to recognise the momentum and act quickly, while the competitor has not yet performed the move. Thus, we align this argument with the efficiency-seeking motive. MNEs in this industry should always search for ways to increase the efficiency, even act ahead of time. An example from Software and It sector is IBM's investment in Slovenia:

"According to global leader of IBM innovation centres Luis Rodriguez, IBM decided to open the centre for south-east Europe in Ljubljana because of the opportunities for growth offered by these markets, the network of existing IBM partners and the great number of IT students and experts".

(IBM, Investment, 2011)

Biggest EU Investors activity (total):

There are 3 divestments of the manufacturing plants in this industry.

Software & IT services	**163 Investments**
Design, Development & Testing	68
ICT & Internet Infrastructure	20
Sales, Marketing & Support	15
Research & Development	13
Technical Support Centre	12
Business Services	11
Shared Services Centre	8
Education & Training	7
Headquarters	6
Customer Contact Centre	1
Manufacturing	1

Table 13 Software and IT Industry Investments by Industry Activity 2003-2015 (Biggest Investors)

Biggest EU Divestors activity (total):

There are 3 divestments of the manufacturing plants in this industry.

Software & IT services	**144 Investments**
Design, Development & Testing	60
ICT & Internet Infrastructure	17
Sales, Marketing & Support	14
Research & Development	12
Technical Support Centre	10
Business Services	9
Education & Training	7
Shared Services Centre	7
Headquarters	6
Customer Contact Centre	1
Manufacturing	1

Table 14 Software and IT Industry Investments by Industry Activity 2003-2015 (Biggest Divestors)

6. Case Study

6.1. Introduction

In this chapter, we analyse the case studies through the guiding principle of the Conceptual Framework chapter (Chapter 3). The full selection process that shows how we reached the four case studies is described in the Methodology Chapter (Chapter 4, Section 4.5.2.) and Industry Analysis Chapter (Chapter 5, Section 5.3.).

The step of the selection process is following:

1. We select MNEs that has more than fifty projects in the EU. These projects include investment and divestment data. Hence, we identify the fourteen largest MNEs within the European Union.

2. We select MNEs with more than three divestments from the EU periphery. Hence, we identify eleven the biggest investors from the periphery.

3. After we selected the MNEs, we identify their industries.

4. Then we identify the nationality of the selected MNEs.

5. Select the most dynamic industries

6. Select the MNEs from the most dynamic industries based on the data availability, larger number of investments and divestments.

7. One extra case of Procter and Gamble was chosen due to the largest number of divestments.

We chose the four multinationals: International Business Machines (IBM), Johson Controls (JC), Procter and Gamble (P&G) and Electrolux.

This chapter consists of four case studies that we discuss following the structure developed in the Conceptual Framework chapter (Chapter 3). We start with the IBM case study, and then move to the case study of Johnson Controls, following by Procter

& Gamble and Electrolux. Each case study follows the identical structure in order to allow better comparison. We start the case study with the discussion of the MNE's industry and then move to the discussion of the strategic outlook of the multinational and after that, we continue with the discussion of the MNE in the light of their motivations and network characteristics. We finalise every case with the conclusion.

6.2. IBM Case Study

6.2.1. Industry Contexts

International Business Machines (IBM) was founded in 1911 (Ibm 2017) and has gone through a lot of transformations in its 106 years of existence. However, the company has managed to survive in a changing environment and remains a leader in the Software and It industry. We argue that footloose behaviour is key to IBM's survival.

IBM is the world's leading provider of software solutions, big data analysis, enterprise software and financial solutions (Marketline 2015c). Since its first computer was produced in 1952, IBM's product portfolio has grown to include mainframes and servers, storage systems and peripherals, and most recently cloud computing.

IBM employs more than 380,000 people in 170 countries worldwide (Marketline 2015c) IBM, like most technology companies, is continually reinventing its strategy to succeed in the changing market environment. *'We must never think that what we have today will satisfy the demand ten years from now', Thomas J. Watson, IBM CEO (1914 -1956)* (Ibm, No Date). IBM is large, mature and diversified. Hence, we argue that there is a size/growth issue in IBM's network because there is a size limit that a firm cannot outgrow. We link this argument with Porter's value chain. The value chain of the film ends at a margin. Hence, when a firm reaches this margin, it makes no economic sense to expand the firm beyond the margin because the cost of organising activities together as part of the firm beyond the margin is more expensive than the benefit a company will get as a profit (Porter 1985). According to Casson (2014) if a firm reaches its size limit (which is its margin), it either breaks down and fails, or the firm will make rationalisation decisions that involve a careful exit strategy. We extend this argument by suggesting that rationalisation of activities is not a one-time event, it is a systematic activity (i.e. footloose behaviour). We argue, that IBM constantly adopts the footloose behaviour, as it is the only way to sustain efficiency and remain competitive.

As demonstrated in the industry analysis section, the software and IT sector is dynamic and requires constant technological advancements. Hence, firms which operate in this sector always work towards research and development (Marketline 2015d; Sarrazin and Sikes 2013). To this effect, we imply that any specific motive that IBM has is to some

extent accompanied by long-term strategic attitude (i.e. strategic asset-seeking motive). This argument is evident in the quotes *I1* and *I2* whereby IBM explains that long-term goals, ability to capture a momentum and become a leader in a changing industry are crucial for their existence;

The company's strategies, investments and actions are all taken with an objective of optimizing long-term performance. A long-term perspective ensures that the company is well positioned to take advantage of major shifts occurring in technology, business and the global economy.

(I1, AR 2014)

Our direction is clear. We remain confident in our strategy, and we have made much progress. In 2015 we will build on our momentum.

(I2, AR 2014)

6.2.2. IBM strategic outlook

IBM is a large, mature and diversified MNE that operates in a highly dynamic sector. IBM follows momentum (quote *I2*) and shifts its interests towards segments that fit the strategic profile of the MNE. For example, in 2004 IBM recognised that the 'digital' path was more profitable than hardware. Hence, IBM sold their personal computer (PC) division to Lenovo (Ibm 2004). This divestment shows that IBM acts and reacts in a fast and timely manner. Furthermore, this example shows that occasional divestment of "empty calories" (Ibm 2014, p.3) and constant reinvention of the business path is what drives IBM's business model. IBM's CEO, Ginni Rometty, introduced the term 'empty calories' in the Annual Report 2014 in order to explain the need for recurrent divestment decisions.

In its 2014 Annual Report, IBM declares that only long-term success is important and there is only one strategic objective for IBM – optimisation of long-term performance. This optimisation resembles a recurrent search for efficiency (i.e. footloose behaviour) under the umbrella of strategic-assets development, which is evident on the quote *I3* from Annual Report 2014:

The company's strategies, investments and actions are all taken with an objective of optimizing long-term performance. A long-term perspective ensures that the company is well-positioned to take advantage of major shifts occurring in technology, business and the global economy.

(I3, AR 2014)

Activities that reinforce strategic development underline IBM's decisions. IBM operates in a highly volatile, changeable industry where the success and the survival of the firm depend on the ability to foresee the momentum of change. IBM understands that to stay on the top of the game within the software and IT industry they must embrace the momentum of change before it happens because once that momentum is gone there is someone else (the competitor) there to take their place. Currently, IBM is moving away from hardware production towards cloud computing and artificial intelligence. The quote *I4* below supports our logic:

Our choice is clear: We pursue a model of high-value innovation, rather than commodity technology, products and services. Our commitment to this model compels us to reinvent businesses continually; grow new ones organically and through acquisitions; and occasionally divest businesses that do not fit our profile.

(I4, AR2014)

To build on the momentum and improve overall efficiency, IBM performs long-term strategic actions. Some of these decisions take the form of divestments, such as the divestment of industry standard servers, customer-care business, outsourcing services and microelectronics business (quote *I5*):

In 2014, the company divested businesses that no longer fit its strategic profile—industry standard servers, customer care business process outsourcing services and the announced divestiture of the Microelectronics business. These three businesses generated approximately $7 billion of revenue when reported in 2013, but had a pre-tax loss of approximately $500 million. The divestitures reduce revenue but improve the company's profit profile, consistent with the shift to higher value.

(I5, AR 2014)

IBM highlights that Software and IT industry is dynamic and requires the firm to adapt and change constantly. We support our argument with a quote *I6* from Annual Report 2014:

The business model is dynamic, adapting to the continuously changing market and economic environment. The company continues to divest certain businesses and strengthen its position through strategic organic investments and acquisitions in higher value areas.

(I6, AR 2014)

So far we have discussed Software and IT industry from the perspective of IBM. We also highlighted the overall strategic objectives that IBM follows. In the next remaining sections, we discuss IBM's behaviour in light of the propositions we developed in the Conceptual Framework (Chapter 4).

Proposition 1: RS investments will exhibit less footloose behaviour in comparison to MS and ES motives

No company can survive without resources. IBM requires resources to implement their strategic imperative. However, the resources that IBM demands diverge from the usual textbook definition. In the digital era, tangible physical resources (i.e. physical commodities and raw materials) take a back seat and give way to intangible digital data. Data is crucial for IBM's development in the fields of artificial intelligence and cloud computing. Therefore, IBM is looking for opportunities to pursue the necessary resources. In the software and IT industry, resources do not usually belong to a specific physical location. Often, the required resources (i.e. data) are integrated into other technologies and represent a multi-purpose 'platform'. IBM highlights the importance of acquiring the data as a 'data-set' through the acquisition of other firms. For example, IBM acquired the Weather Company and various healthcare firms to integrate their data into the Watson Internet of Things (IoT). Hence, the quotes *I7* and I8 supports our argumentation:

The Weather Company is not just a source of enormously valuable weather data. It is a platform, and it forms the heart of our new IBM Watson Internet of Things solutions unit. Today the platform can analyze data from 3 billion weather forecast reference

points, including satellites, weather stations, airplanes, consumer apps and more. It handles 26 billion inquiries to its cloud-based services each day in the United States alone, making it the country's fourth most popular app. Going forward, we will apply this powerful platform to collect, integrate and analyze data from multiple sources, such as telematics in cars, sensors in buildings, readings from wearable devices and data from smartphones, social media, supply chains and the environment.

(*I7*, AR 2015)

In the IoT market, The Weather Company acquisition will not only provide the company tremendously valuable data, but also a high-volume, cloud-based, insight-driven platform to integrate with Watson to address significant new opportunities.

(*I8*, AR 2015)

Watson is the artificial intelligence platform that is currently in the forefront of IBM's priorities. To become a leading platform of this kind, Watson is constantly 'fed' new data. This is how the system learns and evolves. Weather forecast is one of the streams that IBM develops on the Watson platform. Therefore, IBM obtains existing data through the acquisition of another firm (i.e. in the case of weather forecasting, a weather company). Hence, IBM can immediately use this data to develop Watson. We argue that this is a resource-seeking investment with an underlying strategic-assets seeking imperative.

Cloud technology and artificial intelligence is a core interest for IBM. It is the way to lead the transformation of the software and IT industry. IBM is not interested in simply reacting to the changes; they want to lead the change as they always did through their history. IBM is a company that always welcomed change; now they ushered into change once again and taped into the new segments. This is highlighted in the quote *I9* from Annual Report 2016.

IBM has a history of continuous reinvention, transforming itself throughout its 100-plus year history. In the past five decades alone, IBM has ushered in the eras of the mainframe, the personal computer, IT services and enterprise software. In its current transformation, IBM is once again leading the reordering of the technology industry.

(I9, AR 2016)

Digital resources are vital for IBM and taking into account their priorities in developing Watson Internet of Things (IoT), we argue that these types of resource-seeking investments are unlikely to be divested. With the emergence of big data, artificial intelligence is at the heart of all future technology, and it is unlikely that IBM would decide not to go down this route. We support our argument with the quote *I10* from Annual Report 2015:

Data is the world's new natural resource, and it is transforming all industries and professions.

(I10, AR 2015)

Proposition 2: MS investments will exhibit more footloose behaviour in comparison to RS investment, but less than ES investments.

In the previous section, we discussed the idea that IBM is moving away from producing hardware and towards digital and software development. Digital technology (i.e. Watson IoT) makes IBM stand out from the crowd and win clients. Digital is on the verge of development at the moment. Hence, IBM seeks opportunities for their intellectual property (IP) protection and extension of their market reach. Therefore, we can highlight traditional market-seeking motivation within IBM's activities. This is highlighted in the quote *I11* from Annual Report 2014:

The company continues to actively seek intellectual property (IP) protection for its innovations, while increasing emphasis on other initiatives designed to leverage its IP leadership. Some of IBM's technological breakthroughs are used exclusively in IBM products, while others are licensed and may be used in IBM products and/or the products of the licensee.

(I11, AR 2014)

Intellectual property protection is one of the main factors that drive MS motivation. We argue that highly sensitive technology and desire to leverage IP will force IBM to relocate MS subsidiaries more often because moving between locations will help to

maximise IP protection. If intellectual property is at a certain level, then the company might decide to move from one location to another. We have therefore two types of movement: first is on the basis of IP changes (which is possibly more appropriate for the less developed economies) and the second is on the basis of the market if there is a level of IP over a certain threshold.

IBM is also looking for ways to accommodate their old clients and find new ones, which indicates a clear MS motivation. Also, IBM is looking to increase their market share by developing new digital solutions (i.e. Watson IoT) to attract and retain clients. Therefore, leveraging IP leadership is a game changer for IBM. This is evident in the following quote *I12* from IBM's 2015 Annual Report:

We dramatically accelerated the growth of our strategic imperatives— Data and Analytics, Cloud, Mobile, Social and Security—to help our clients become "digital". (I12, AR 2015)

IBM highlights the importance of property protection, brand loyalty and new client acquisition. These are the factors for the MS motive, and we suggest that MS motivations are prone to footloose behaviour. Current MS investment may be re-evaluated if the market in another location becomes more profitable. For example, in 2010 IBM invested in Germany because Germany had a growing digital market. Hence, the quote *I13* below:

"The opening of this centre places IBM in a strong position to meet the growing demand for cloud solutions and services in the market." Michael Diemer, general manager (Germany), Global Technology Services.

(I13, Germany,2010)

The quote *I13* above suggests that IBM recognises that Germany is a beneficial location for IBM's cloud solutions. Some may argue, that Germany has a strong institutional environment; hence, IBM would not leave the location (i.e. it is easier to protect IP in a country with a strong institutional environment). We argue that footloose behaviour may not be about existing location at all. The alternative location might simply be more attractive. The key argument here is that IBM decided to invest in Germany only because the German market was growing at that moment. Therefore, we may expect

relocation from Germany to another country if the cloud solutions market is on the verge of growth at another location.

To illustrate this idea, we can look at IBM's divestment from Ireland (2009) and subsequent relocation to Singapore with market-seeking purpose. IBM has a long history to its presence in Ireland; however, the market in Ireland does not allow IBM many expansion opportunities. Therefore, they decided to relocate to Singapore. This example provides a good contrast to the investment in Germany and reinforces the argument that MS investments are more prone to footloose behaviour. Quote *I14* supports the argumentation:

Computer manufacturer IBM has announced the closure of part of its server operation in Dublin, which will result in 120 voluntary redundancies by the end of April 2009. IBM has made a decision to relocate its high-end server manufacturing operation to Singapore, in order to be closer to expanding Asian markets. High-end servers are mainframe computers designed for multinationals and big companies such as banks, insurance firms.

(I14, Divestment, Ireland, 2009)

Proposition 3: ES investment will exhibit more footloose behaviour in comparison to RS and MS investments.

IBM's strategy is straightforward: they build on *momentum* (quote *I2*). The software and IT industry is highly volatile and changeable. Hence, the ability to predict the future path of the industry's development or to lead the change is crucial for IBM. As IBM states in their 2014 Annual Report '*We will build on our momentum' (*quote *I2).* Momentum is an important characteristic of efficiency-seeking motivation – an MNE takes advantage of opportunities as they arise. This is essentially what IBM does (i.e. IBM aims to increase the scope and scale of its operations). Hence, they pursue an efficiency-seeking motive that is underlined by strategic objectives. A quote *I15* from IBM's 2015 annual report supports our argument and suggests that investments and divestments are vital for maintaining MNE's efficiency, whilst pursuing dynamic goals.

The business model is dynamic, adapting to the continuously changing industry and economic environment, including the company's transformation into cloud and -as-a-

Service delivery models. The company continues to strengthen its position through strategic organic investments and acquisitions in higher-value areas while divesting certain businesses.

(I15, AR 2015)

So far, we have discussed the case of IBM's divestment from Ireland in 2009 *(quote I14)* and subsequent relocation to Singapore, because Singapore had more opportunities for business expansion. Overall, IBM's story in Ireland is an interesting one, and we should discuss it further in the light of efficiency-seeking FDI motives.

In 2007, IBM invested in Ireland because it was an 'ideal' location with a welcoming environment. This investment, perhaps apart from its motive, resembles the MS investment in Germany in 2010. Both investments had solid reasons for choosing the respective countries: for Ireland, the reasons are economic growth and high technology activity; for Germany, it is the growing demand for cloud solutions). We argue that the Irish example of 2007 is a case of efficiency-seeking investment (i.e. the location has some attractive features and fits MNE efficiency goals). The following quote *I16* illustrates our argument:

Speaking in Dublin yesterday, IBM's vice-president and global leader of business value services, George Pohle, said the decision to locate in Dublin reflected Ireland's record on economic growth and high technology activity. "Ireland's impressive economic development track record, combined with its ongoing innovative approach to new business creation, makes it an ideal location," Mr Pohle said yesterday

(I16, Investment, Ireland, 2007).

We argue that footloose behaviour is not about the current location, but about any location that offers a better strategic fit to the MNE. Hence, in 2007 Ireland was indeed a good location with impressive benefits, but this changed for IBM in 2009 and IBM devested. The short time frame (2 years only) is crucial in this example. It indicates that the external environment can change rapidly. Perhaps, the argument to put forward here is that economic crisis impacted the perception of IBM and made the organisation to change their approach to Ireland rapidly.

So, in 2007 Ireland was a location with impressive benefits, but in 2009 IBM divested from Ireland and relocated operations to Singapore with MS purpose. However, after announcing their divestment/relocation to Singapore, some activities still remained in Ireland, although not for long. Shortly after, IBM decided to decrease their presence in Dublin even further by completely ceasing the manufacturing plant within a year. This line of conduct (i.e. gradual reduction of resource commitment at the location and relocation of these resources to another country) is an example of footloose behaviour. IBM is looking for better opportunities elsewhere and gradually decreased their presence in Ireland. The following quote *I17* illustrates our argument:

Information technology multinational IBM is seeking 310 voluntary redundancies at its Dublin manufacturing base by the end of May 2010. Concerns have been expressed that all manufacturing in Dublin will cease within the next year. The job cuts announcement follows the transfer of manufacturing of high-end servers to Singapore. An additional 120 jobs were lost in 2009 when the transfer to the Far East was first announced in February 2009.

(I17, Divestment, Ireland, 2009)

The quote *I17* above regarding the Irish divestment of 2009 suggests relocation to the Far East but does not provide any clarification. The clarification arrived a year later. In 2010, IBM officially announced another divestment from Ireland with relocation to China. Hence, from this moment IBM ceased to produce various types of servers in Dublin at all (quote *I18).*

Information technology multinational IBM has announced its plan to move its low-end, mid-range server manufacturing unit from Dublin to China, resulting in the loss of 190 positions. However, IBM said some workers would be offered redeployment to high-end jobs in its Dublin operations. IBM currently employs over 3,000 people across the Republic.

(I18, Divestment, Ireland, 2010)

The story of IBM's relations with Ireland demonstrates the footloose behaviour. IBM does not perceive Ireland as a manufacturing spot for servers anymore because Singapore and China are simply more attractive *at the moment*. However, the story of

IBM's presence in Ireland is not over yet and continues in the next section.

SAS investments: not related to the footloose behaviour

After IBM announced relocation to Singapore and China, they also announced that Ireland would become a centre for research and development. In other words, IBM made several consecutive divestments/relocations over the course of two years (2009 and 2010), but decided to invest in Ireland yet again in 2010. IBM takes resources away from Ireland to other more attractive locations, such as Singapore and China, but they also bring resources back to Ireland because Ireland is good enough for the investment purpose. Regardless of the FDI motivations, the overall picture of investment, divestment and relocation of IBM's operations in Ireland is the embodiment of footloose behaviour.

Ireland is an important strategic location for IBM. The 2010 investment is about establishing a research centre, which clearly suggests SAS FDI motive. Strategic-asset seeking FDI is forward-looking and does not consider *momentum* unlike other motives (especially ES and sometimes MS). We have demonstrated several (quotes *I4, I6, I12*) times that strategic aim underlines the activities of IBM, but we have not yet presented an example of sole strategic imperative. Hence, the quote *I19* below:

> *The product focus at IBM's Dublin Technology Campus, where about 3,000 staff are employed, has been changing from manufacturing and fulfilment of hardware products to software and services in recent years. On a more positive note, in March 2010, IBM announced the creation of 200 jobs in Dublin with the establishment of a research centre. (I19, Investment, Ireland, 2010)*

We argue, that although IBM made a decision to relocate server manufacturing to Singapore and China, they value Ireland as a place for innovation and business development. They decided to focus research and development activities in Ireland and therefore move production elsewhere. This allows for further specialisation and a better alignment of the subsidiary with the multinational's aims. Hence, IBM stays in Ireland with the research centre.

We argue that long-term strategic investment cannot be subject to footloose behaviour because it would take away the 'long-term strategic advantage' (i.e. although SAS can

be relocated or divested, it cannot be relocated/ divested systematically). The purpose of footloose behaviour is to increase the efficiency of the network by liquidating 'empty calories'. The purpose of SAS is to generate the platform for future profits through research and development. Hence, SAS cannot become 'empty calories', only when the research itself becomes obsolete.

Proposition 4: Footloose behaviour will be strong in subsidiaries with low HQ-Subsidiary interdependence.

We assume that the Irish subsidiary contributes significantly to the competitive advantage of the organisation as a whole because of the R&D. Hence, this also suggests high HQ-subsidiary interdependence. This is potentially what drives a firm not to (completely) leave the location. The argument here is that if there is a necessity to make a change (i.e. follow the momentum or getting rid of 'empty calories'), the firm would have to make a move because the wellbeing of the firm is more important than the wellbeing of the individual subsidiary. However, if there is a high interdependence between HQ and subsidiary, which demonstrates that the subsidiary has high value for the HQ, the firm might decide to leave some resources at the location. This is what happened to the IBM subsidiary in Ireland. We argue that that high HQ–subsidiary interdependence contributed to the decision not to leave Ireland completely.

Because IBM did not leave Ireland completely and instead reinvested with a research and development centre, we argue that centralisation is low. Low-level centralisation is necessary for the subsidiary to be creative and innovative. This is the core of R&D. Additionally, IBM is the firm that values highly local expertise and relationships between local teams and their clients (quote *I20).*

These local teams develop deep relationships with their clients to bring together capabilities from IBM and its network of Business Partners to develop and implement solutions.

(I20, AR 2016)

We argue that overall IBM maintains a high-level of formalisation. Therefore, all procedures within IBM are bureaucratic. This should not come as a surprise because

IBM is a large, diversified company and it is expected that rules and procedures will be defined by HQ to avoid a coordination issue (quote *I21).*

IBM maintains an effective internal control structure. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures. An important element of the control environment is an ongoing internal audit program. Our system also contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

(I20, AR 2016)

We argue that normative control is moderate and meaningful. IBM values local expertise and takes advantage of it. Normative control is about a common set of values that organisations build at all levels. IBM has various teams including small local management teams and worldwide-level global market operations that all serve one purpose. It is very unlikely that IBM would be successful without sharing some organisational values at all levels. Quote *I21* support the argument:

By complementing local expertise with global experience and digital capabilities, IBM builds broad-based client relationships. This local management focus fosters speed in addressing new markets and making investments in emerging opportunities. The Global Markets organization serves clients with expertise in their industry as well as through the products and services that IBM and partners supply. IBM is also expanding its reach to smaller clients through digital marketing, digital marketplaces, inside sales and local Business Partner resources.

(I21, AR 2016)

Proposition 5: Footloose behaviour will be strong in subsidiaries with low operational flexibility.

Operational flexibility allows a firm to adjust to changing circumstances. If the MNE can successfully reorganise its network, it has a high-level of operational flexibility. IBM relocated from Ireland twice, which suggests that relocated resources did not have a high-level of operational flexibility. In other words, these resources did not add value

to the network. Thus it was easy to remove them. On the other hand, the facilities that were left in Ireland after the relocation had some value (high-level of operational flexibility). These facilities did not cease to exist but became an R&D centre.

IBM suggests that the burden of using resources efficiently is shared by all sectors; therefore, if a subsidiary is not able to use resources efficiently, it loses its value and is sometimes divested. Hence, the quote *I22* below:

The company utilizes globally integrated support organizations to realize economies of scale and efficient use of resources. As a result, a considerable amount of expense is shared by all of the segments. This shared expense includes sales coverage, certain marketing functions and support functions such as Accounting, Treasury, Procurement, Legal, Human Resources and Billing and Collections. Where practical, shared expenses are allocated based on measurable drivers of expense, e.g., headcount. When a clear and measurable driver cannot be identified, shared expenses are allocated on a financial basis that is consistent with the company's management system, e.g., advertising expense is allocated based on the gross profits of the segments. A portion of the shared expenses, which are recorded in net income, are not allocated to the segments. These expenses are associated with the elimination of internal transactions and other miscellaneous items.

(I22, AR 2016)

We argue that Structural links (clear and defined roles, a reasonable sequence of production), strategic links (help to reduce uncertainty) create more linkages between subsidiaries; thus contribute to higher operational flexibility. However, this also means that every subsidiary should contribute to the creation and preservation of these linkages. If a subsidiary does not contribute to the operational flexibility, it loses those vital linkages.

Footloose behaviour is possible if the subsidiary cannot deliver the 'local expertise' or 'local expertise' has lost its value. This argument has two meanings for a case of IBM's subsidiary in Ireland. First, it is true that Ireland lost its value as a manufacturing centre; thus, IBM decided to leave the location (i.e., adopted footloose behaviour). Second, although IBM left, they also invested back to Ireland because the location still

maintained its value for R&D. We argue that the story of IBM's subsidiary in Ireland is a case of ultimate footloose behaviour where we can observe all possible outcomes at once

6.2.3. Conclusion

IBM takes a proactive approach when they deal with changes in the internal and external environments. IBM mercilessly divests 'empty calories' that otherwise would drain resources of the company without returning the accepted level of profit. IBM recognises the need to evaluate their resources constantly; thus, adopt footloose behaviour when necessary.

6.3. Johnson Control Case Study: Locked in

6.3.1. Industry Contexts

Johnson Controls (JC) was established in 1885, and since then has remained a leading company in the automotive components industry operates in more than 150 countries (Johnson Controls 2017). JC delivers "products and services to optimise the energy and operational efficiencies of buildings, such as lead-acid automotive batteries, and advanced batteries, for hybrid and electric vehicles, and interior systems for automobiles" (Marketline 2016c, p.4).

As discussed in the Industry Analysis chapter, the automotive components industry is a 'supplier' industry to the main Automotive Industry, which imposes some restrictions (e.g. raw materials price pressure, environmental regulations) on the behaviour of companies such as JC. JC's clients are not the end car users, but car manufacturers. This makes the whole industry dependable on the automotive industry. Therefore, JC, as a manufacturer of automotive components, depends on the car manufacturers. Furthermore, car manufacturers depend on environmental regulations, and, of course, customers (i.e. car users). Hence, JC does not have room for manoeuvring when it comes to the way they want to do business. JC might have to follow the car manufacturer if necessary. In 2005, JC decided to invest in Slovakia because of its client, Kia Motors, who had a plant there. The quote *J1* below illustrates this point:

> *"One of the key reasons why Johnson Controls decided to build the plant in Lucenec was that one of its clients - Kia Motors Corp. - is building a plant in western Slovakia."*
>
> *(J1, Investment, Slovakia , 2005).*

The competition in the Automotive Components industry is strong (Marketline 2016c). JC must compete against other automotive components producers when it comes to price and quality. They also depend on raw material prices, which can become too expensive. Another two factors are consumer demand for cars (which can be reduced due to financial conditions), and consumer (or government) demand for environmentally friendly cars. The most straightforward example is of a financial crisis affecting purchasing power. Cars are not essential goods; therefore, customers may opt

out of buying new cars. This will have a direct effect on JC. Hence, the quote *J2* from the Annual Report 2015 below:

Sales of automotive seating and interior systems and of batteries to automobile OEMs for use as original equipment are dependent upon the demand for new automobiles.

(J2, AR 2015).

Concerning the new environmental regulations, it is hard to predict now how exactly the industry will evolve, but there is evidence that the evolution might hit the automotive industry, and subsequently the automotive component industry, hard. For example, the UK is going to ban all new petrol and diesel cars as of 2040 (The Guardian 2017). JC acknowledges the increased public awareness regarding the climate change but also argues that the current climate regulations are inconsistent and create a lot of uncertainty. JC should find ways of mitigating the risk of uncertainty and continue with the business. The quote *J3* below from Annual Report supports our argument:

Increased public awareness and concern regarding global climate change may result in more regional and/or federal requirements to reduce or mitigate the effects of greenhouse gas emissions. There continues to be a lack of consistent climate legislation, which creates economic and regulatory uncertainty. Such regulatory uncertainty extends to future incentives for energy efficient buildings and vehicles and costs of compliance, which may impact the demand for our products, obsolescence of our products and our results of operations.

(J3, AR 2014)

6.3.2. Strategic Outlook

The industry has an enormous effect on any producer. As dependable industry, automotive components industry, is ‘locked in’ between the demands and changes in their industry, and the demands and changes in the customer industry. Hence, there is little room for manoeuvre. JC can react to the changes in their environment, but it is very unlikely that they will be able to become the driving force of the changes as they must comply with what their clients want.

One of the ways to diversify the risk is to spread the business to other segments. This is why JC has two other business units apart from the automotive components business. The automotive sector is the main one for JC however (Marketline 2016c). In order to remain competitive, JC relies on restructuring activities, such as divestments and relocations, as they allow to increase the level of efficiency by following the changing industry pattern. In other words, if JC wants to remain competitive, they need to react to the industry changes. These activities will be more of a *response* to the problem as JC is 'locked in'. Unfortunately, given the reactive nature of these restructuring activities, they might be unsuccessful. Hence, the quotes *J4* and *J5* below from the JC Annual Report 2016:

We may be unable to realize the expected benefits of our restructuring actions, which could adversely affect our profitability and operations. To align our resources with our growth strategies, operate more efficiently and control costs, we periodically announce restructuring plans, which may include workforce reductions, global plant closures and consolidations, asset impairments and other cost reduction initiatives. We may undertake additional restructuring actions and workforce reductions in the future. As these plans and actions are complex, unforeseen factors could result in expected savings and benefits to be delayed or not realized to the full extent planned, and our operations and business may be disrupted.

(J4, AR 2016)

We are subject to pricing pressure from our automotive customers. We face significant competitive pressures in our automotive business segments. Because of their purchasing size, our automotive customers can influence market participants to compete on price terms.

(J5, AR 2015)

Proposition 1: RS investments will exhibit less footloose behaviour in comparison to MS and ES motives

RS is quite important for the automotive component industry, as JC needs access to the necessary metals and chemicals in order to supply car manufacturers. The price of resources is also a factor to consider, however. JC acknowledges that any price

fluctuation should be recovered from their clients. JC is 'locked in' between the necessity to maintain the quality, and being able to compete on price with other suppliers. JC does not always have the power to decide regarding the price, however. If the price of the raw materials goes up, JC expects the client to pay the difference. If this is not the case, JC will incur substantial losses. To continue with the argument, the client can always switch to the supplier that provides a better price/quality balance. This logic is supported by the following quote *J6* from the JC Annual Report 2015:

Volatility in commodity prices may adversely affect our results of operations. Commodity prices can be volatile from year to year. If commodity prices rise, and if we are not able to recover these cost increases from our customers, these increases will have an adverse effect on our results of operations.

(J6, AR 2015)

Interestingly, we did not find any evidence of pure RS investments in the FDI Markets and Eurofound databases. We argue that this might be because JC uses their supplier network to get raw materials. Hence, they may rarely invest in the RS purpose themselves.

In addition, this logic fits our argument about JC's 'locked in' position. We suggest that other motives, such as efficiency seeking and strategic-asset seeking, are more dominant and override other motivations. When JC considers the location for RS investment, they must first comply with the rules of their clients, quality assurance, and price. Therefore, it is wise to approach their investment from efficiency-seeking and strategic asset-seeking perspectives. We will discuss this idea further in the case study.

Proposition 2: MS investments will exhibit more footloose behaviour in comparison to RS investment, but less than ES investments.

JC has a number of market-seeking (MS) investments. JC usually refers to the classical factors of MS investments, such as market growth, geographical proximity, and skilled labour. All the aforementioned factors in practice, however, are much less important for JC than the convenience of the location (i.e. the economy of scale, geographical proximity), and the proximity to their clients. In other words, JC chooses the location that will give them something 'bigger' and 'greater', such as close proximity to the

client, or a convenient geographic location.

We argue that a MS motive, although present in the JC investments, does not play nearly the same role as ES and SAS motivations, which we will discuss later in the case study. The reason for this is the 'locked in' position of the firm. In 2005, JC announced investment in Slovakia for a very specific reason: its client, Kia Motors, had a plant there. If we look at this investment in isolation, it indicates MS motivation. If we take into consideration the fact that JC already had a plant in Slovakia, however, it resembles an ES motive. The quote *J7* below supports our argument:

One of the key reasons why Johnson Controls decided to build the plant in Lucenec was that one of its clients - Kia Motors Corp. - is building a plant in western Slovakia.

(J7, Investment, Slovakia, 2005)

In 2012, JC invested in Hungary in order to tap into the growing automotive industry, which resembles an MS investment. There are also other factors, however, such as Hungary being "an important location in Europe and well-educated labour force", which would suggest more of the strategic-asset seeking investment. Although industry growth is important, it becomes much more important when paired with other factors. We support our argument with the quote *J8* below:

"The Hungarian automotive industry is continuously growing. The country has become an important location for us in the eastern European growth market. We find well-educated and well-trained employees here," said Manfred Rotterdam, vice-president.

(J8, Investment, Hungary, 2012).

We argue that MS investments do not play a leading role in JC's strategy due to the inability of JC to choose the location freely. JC put much more emphasis on risk mitigation; therefore, ES and SAS investments may be the better options. We suggest that any resources that do not contribute to the efficiency or reduce efficiency, have a high chance of divestment.

Proposition 3: ES investment will exhibit more footloose behaviour in comparison to RS and MS investments.

ES motivation is critical for JC. We argue that the efficiency path is the opportunity path for JC. The firm largely depends on the demand from their clients, raw materials price fluctuations, and environmental regulations. Therefore, as discussed previously, JC has limited control, and mainly reacts to the changes. In order to overcome the lack of control over the external circumstances, JC focuses on the internal side of the organisation governance, i.e. efficiency. JC's focus on the efficient allocation of resources is evident in the following quotes *J9* and *J10*:

The Company's actual asset allocations are in line with target allocations. The Company rebalances asset allocations as appropriate, in order to stay within a range of allocation for each asset category.

(J9, AR 2014)

To better align its resources with its growth strategies and reduce the cost structure of its global operations to address the softness in certain underlying markets, the Company commits to restructuring plans as necessary. In fiscal 2015, the Company committed to a significant restructuring plan (2015 Plan) and recorded $397 million of restructuring and impairment costs in the consolidated statements of income.

(J10, AR 2016)

The efficient allocation of resources means that a firm will constantly re-evaluate their present resource allocation in order to address any changes (internal and external). Therefore, JC's restructuring measures include divestments. The divestment cases we highlight in this case study are all reactive, however. JC reacts to the problems at the current location and makes changes.

In 2006, JC divested two manufacturing plants in Portugal due to the need to "adjust the output capacity in Europe". This may suggest that JC overproduced, and was not able to sell the products. Thus, they had to restore the efficiency, and they decided to relocate activities to Germany and Slovenia. In other words, JC's perception of the current location changed, and they decided to look for a better place. Hence, the quote *J11* below:

The American multinational Johnson Controls, one of the world leaders supplying car systems, electronics and batteries, announced on 4 October 2006 the closure of two of its Portuguese factories. The Portalegre factory, employing 225 workers, will close in August/September 2007, whereas the one in Nelas, with 625 employees, will close in May/June 2007. The closure is justified by the need to adjust the output capacity in Europe, which will see the activity transfer from Portugal to Slovenia and Germany. This closure will affect 850 workers in total and the company will offer a compensation of two monthly wages per year of service.

(J11, Divestment, Portugal, 2006)

In 2009, there was another case of divestment, and subsequent relocation from Spain, which was similar to the Portuguese case. JC announced that a financial crisis was the reason why they had to leave Spain. This reason is in line with our argument about reactive divestments, and our suggestion that any resource that reduces efficiency has a high chance of divestment. We support our argument with a quote *J12* below:

Johnson Controls, dedicated to the production of car accessories, is to close with the consequent redundancy of 260 employees. The board of the company have reached an outline agreement to compensate the employees of the factory in Campo Real. The company's justification for the shutting down of the Campo Real factory (Madrid) is because of the economic crisis and for reasons associated with the difficulties that the car industry is experiencing.

(J12, Divestment, Spain, 2009)

In 2013, JC announced the closure of another factory in Spain due to restructuring measures. We suggest that JC divested the second Spanish factory because it had stopped being efficient. This suggests that there is a minimum efficiency threshold required by an organisation. The Spanish plant gradually reached the stage where the efficiency dropped below the minimum threshold so they divested. However, we also link this case with a strategic decision because the restructuring process affected not just Spain, but the whole of Eastern Europe and Austria. Hence, we suggest that it is still a reactive decision, but that the company was reacting to many triggers at the same time. The quote *J13* below supports our logic:

Car parts manufacturer Johnson Controls will gradually close its plant located in Sabadell (Catalonia) until 2015, cutting all 125 workplaces. According to an agreement with unions, workers will receive severance payments equal to 50 days per year worked up to a maximum of 42 months. Workers will gradually leave the company until the closure in 2015. The social plan furthermore includes an option for workers to relocate internally. As to date, 11 of the 125 workers are reported to relocate to the headquarters in Barcelona, and more workers will relocate to other countries. Johnson Controls is a US-based multinational with about 170,000 staff globally. During 2013, the group initiated various restructuring measures in Eastern Europe (CZ-1 CZ-2 CZ-3 SI-1) and one in Austria.

(J13, Divestment, Spain, 2013)

While JC announced the closure in Spain, they also announced an investment. In 2013, JC announced the expansion investment in Spain as their client, Renault, had a plant there. This line of behaviour illustrates a straightforward case of footloose behaviour. Spain as a manufacturing location was no longer good enough to keep the plant there, but the presence of JC's client changed their perspective to some extent. This indicates the ES motive, and dependent position, of the firm. Thus, the quote *J14* below:

US-based Johnson Controls has doubled production capacity at its automotive seat manufacturing plant in Mojados, Spain to meet growing demand from Renault's assembly facility in Valladolid. The company has created 85 new jobs at the site.

(J14, FDI Markets, 2013)

We argue that ES is one of the dominant motives for JC's investment. Due to the dependable position within their industry, the only way to mitigate the risks, and maintain efficiency, is by constantly restructuring. Perhaps, for companies like JC, it is the only way to survive. Hence, we expect more cases of footloose behaviour within JC activities.

Automotive Components Industry

The industry of automotive components is linked to and depends on the automotive industry. Thus, before moving to the discussion of the automotive components, we first

present some information regarding the dependent industry- automotive industry. Unlike Software and IT industry, the automotive industry is in stagnation (Marketline 2016b). Automotive vehicles are not considered to be essential goods; thus it is plausible that consumers postpone buying a new car until the recession passes. However, market report (Marketline 2016b) predicts the industry to start the recovering process in the upcoming years.

In general, automotive components manufacturers require natural resources to produce the necessary and firm-specific automotive parts. However, the presence of resources in the location might not be enough for manufacturers to make a move. Producers or automotive components constantly compete on price and seek for the economy of scale. Thus, they supply different car manufacturers with large quantities of material (Marketline 2011). Hence, closeness to the car producer can be even more important that the availability of resources. An example from automotive components sector is Johnson Control's investment in Slovakia:

> *"One of the key reasons why Johnson Controls decided to build the plant in Lucenec was that one of its clients - Kia Motors Corp. - is building a plant in western Slovakia."*
>
> *(Johnson Controls, Investment, 2005)*

Automotive manufacturers, who often compete on the ground of the brand name and reputation, require innovative and sophisticated materials. Thus, it is critical for the manufacturers of automotive components to engage in the R&D to provide a new design and material specifications (Marketline 2011). Also, producers of automotive components need to take into account the new emission regulation and sophisticated consumer demands that constantly put pressure on their buyers (automotive producers). Thus, we suggest that R&D is a critical motive here. An example from automotive components sector is Siemens' investment in Netherlands:

> *"The Zuidoost-Brabant region has developed into the automotive region of the Netherlands. Suppliers, manufacturers, and the most important university and specialists to us are all located in and around this area. The decision by TNO Automotive to also relocate its operations to this region was a positive sign."*
>
> *(Siemens, Investment, 2006)*

The supply chain is important; thus producers and manufacturers will try to minimise the length of the supply chain, which indicate the efficiency-seeking component. An example from automotive components sector is Johnson Control's investment in Slovakia:

"Trencin was chosen due to favourable conditions, transport accessibility, the closeness of customers in the Central and Eastern Europe and high quality of schools preparing top experts in the searched for professions."
(Johnson Controls, Investment, 2005)

An example from automotive components sector is Continental's investment in Romania:

"The criteria we use when selecting a location include not only attractive labour costs and flexible working times," explains Thomas Sattelberger, Continental AG Executive Board member responsible for human resources. "In addition, we benefit from a good infrastructure here and draw from a good potential of qualified workers who can also speak English. To promote the education of engineers in the country, Continental has entered into a partnership with the local Lucian Blaga University."
(Continental, Investment, 2003)

Biggest EU Investors activity (total):

Automotive Components	**115 Investments**
Manufacturing	79
Design, Development & Testing	19
Research & Development	5
Headquarters	4
Education & Training	2
Logistics, Distribution & Transportation	2
Sales, Marketing & Support	2
Maintenance & Servicing	2

Table 15 Automotive Components Industry Investments by Industry Activity 2003-2015 (Biggest Investors)

There are 3 manufacturing divestments.

Biggest EU Divestor activity (total):

Automotive Components	**55**
Manufacturing	45
Design, Development & Testing	4
Headquarters	2
Maintenance & Servicing	2
Shared Services Centre	1
Sales, Marketing & Support	1

Table 16 Automotive Components Industry Investments by Industry Activity2003-2015 (Biggest Divestors)

There are 8 manufacturing divestments.

Consumer electronics and consumer electronic retail [12]

Consumer Electronics industry declined sharply between 2010-2014, and it is expected to stagnate until 2019 (Marketline 2014). Electronic goods are not considered an essential product. Thus consumers tend to withhold from buying electronic products during the recession. The argument is similar to the argument about the automotive/automotive components industries.

Manufacturers

Technological aspect and consumer demands require manufacturers to innovate and alter the existing products constantly to stay on top of the competition. Thus, we link it with the strategic-asset-seeking motive. An example from consumer electronic sector is Tyco International investment in the Czech Republic,

> *"Well educated and cost-effective engineers, together with the proximity to our existing R&D centres in Munich and London were key to our decision. Finally, it was also the state support offered by the Czech Government that made the difference."*
> (Tyco International, *Investment*, 2004)

The quote above indicates that although the 'knowledge' component is crucial, it also should be cost-effective. Perhaps, in the time of recession, the development of technology should go in line with the efficiency. Thus, we link it with the efficiency-seeking motive. An example from consumer electronic sector is Electrolux's investment in Poland:

> *"Our competitors have to a large extent moved their production facilities to countries with a lower cost-base, which has resulted in increasing price pressure," says Magnus Yngen, head of Electrolux Major Appliances Europe. "This development in combination with a shift in consumer preferences, moving from free standing cookers to built-in cookers, has eroded the competitiveness of our Spennymoor factory. Today the factory generates a loss. Running such a factory is not sustainable, which is why we*

[12] Our data suggest that the biggest investors are retailers, but the biggest EU periphery divestors are manufacturers.

have decided to consolidate our UK cooker manufacturing into our factory in Swidnica in Poland."

(Electrolux, Relocation, 2008)

Staying on top of the competition requires flexible strategies and high efficiency. The difficulty that manufacturers experience affects the consumer electronics retailers' profit. For example, the audio and visual division was the most lucrative for the European market in 2014 (82,9% of the market's overall value), where the photographic segments became almost obsolete with 17,1% of the market's overall value (Marketline 2014).

Retailers

Buyers in this industry are the end users. Switching costs are low; thus, retailers compete fiercely to attract every customer. The rivalry is further complicated by the retailer's inability to stand out and differentiate themselves because they all by from the same electronic manufacturers. Thus, the market (i.e. where to sell the product) and efficient location of resources are two main elements that these companies can benefit from.

Retailers overcome challenges with the strategies that are based on the services they offer, not the products (Marketline 2014). The popularity of the online mega-retailers such as Amazon and the fact that some manufacturers sell directly to consumers intensifies the competition in the industry. Thus, retailers should be efficient and look for the ways to increase their efficiency. An example from consumer electronic sector is Media Markt's investment in Sweden:

"Erwin Rauh, head of Media Markt's Swedish business, said: "We have chosen Sweden as the first Nordic country to launch in because the electronics market here is growing faster than anywhere else in Europe. The company, which has outlets in 12 European countries, said it had carefully selected Heron City for its Swedish market debut due to the presence of other large stores close by."

(Media Markt, Investment, 2006)

Overall, the main argument that we put forward is that learning how to be resilient and able to sustain during difficult times equally important for consumer electronics

manufacturers and for consumer electronics retailers. When customers do not buy electronics due to the financial troubles (Dua et al. 2009), both manufacturers and retailers should increase their efficiency; thus revisit their existing behaviour. This can be done by either taping into the new markets or by increasing the efficiency of the existing resources. Hence, we suggest that market-seeking and efficiency-seeking motive dominates among consumer electronics manufacturers and retailers.

Biggest EU Investors activity (total):

Consumer Electronics	**110**
Retail	100
Shared Services Centre	3
Manufacturing	3
Headquarters	1
Sales, Marketing & Support	1
Customer Contact Centre	1
Design, Development & Testing	1

Table 17 Consumer Electronics Industry Investments by Industry Activity 2003-2015 (Biggest Investors)

Eurofound does not hold records of divestments performed by the biggest EU investors.

Biggest EU Divestor activity (total):

Consumer Electronics	**48**
Manufacturing	39
Logistics, Distribution & Transportation	2
Education & Training	1
Sales, Marketing & Support	1
Research & Development	1
Headquarters	1
Shared Services Centre	1
Customer Contact Centre	1
Design, Development & Testing	1

There are 9 manufacturing divestments performed by the biggest divestors.

6.4. Conclusion

In this chapter, we demonstrate how the information that we collected help us to address some of our propositions. We provide an example of the footloose behaviour of Candy Hoover, and on this example, we show how a company can adopt footloose behaviour. We also analysed the most dynamic industries and highlighted some of the external factors that can impact the decisions of the MNEs. This chapter serves as an introduction to the case study chapter (Chapter 6).

SAS investment: not related to the footloose behaviour.

SAS investments are important for JC for several reasons. First, the constant price/quality competition forces JC to develop new and better products. Second, new, stringent environmental regulations (that change over time) not only intensify the fierce competition but also force JC to develop suitable products. If JC wants to maintain their leadership position in the industry, they should anticipate the future of automotive vehicle manufacturing, and their role in this activity. Hence, SAS is a critical motive for JC, and they highlight its importance in their annual report 2016, quote *J15*:

Our future growth is dependent upon our ability to develop or acquire new technologies that achieve market acceptance with acceptable margins.

(J15, AR 2016)

In 2004 and 2007, JC invested in Slovakia for strategic reasons. In 2004, JC established a technical centre that specialises in the development, design, and manufacturing, of automotive interior systems, electronics, and accumulators (Fdi Intelligence 2016). JC chose Slovakia because of its high education levels, well-developed infrastructure, and proximity to customers. The aforementioned factors all suggest SAS investment (quote *J16)*:

"Trencin was chosen due to favourable conditions, transport accessibility, the closeness of customers in the Central and Eastern Europe and high quality of schools preparing top experts in the searched for professions."

(J16, Investment, Slovakia, 2004)

The 2007 investment is a clear SAS case. The reason for investment is to support the core business processes, such as finance, purchasing, and information technology, in the entire automotive component industry in Europe. This is evident in the quote *J17* below:

"Bratislava's central position and good infrastructure with available workforce capabilities were the decisive factors in choosing this location. As important, the growth markets in Eastern and Central Europe can be equally well accessed from

here," explained Richard Johnson. The new Business Centre will allow the company to strengthen its local presence in Slovakia and put it in an even better position to support its customers in the strong growth markets. "Furthermore, it will provide leadership and service delivery capabilities of core business processes in finance, purchasing and information technology supporting our entire European automotive business."

(J17, Investment, Slovakia, 2007)

We argue that SAS investments are vital for JC. The firm is 'locked in' between the demands of the automotive components industry, and the demands of the automotive industry. One way to manoeuvre between the two is to adopt footloose behaviour. This is not enough for the long-term survival of the firm, however. JC, and its clients in the automotive industry feel pressure from the new environmental regulations that require all parties to change and adapt their products gradually. The ability to do this requires substantial research and development (R&D) investment. Therefore, SAS investment is a matter of survival for JC, and is unlikely to become the subject of footloose behaviour in the future.

Proposition 4: Footloose behaviour will be strong in subsidiaries with low HQ-Subsidiary interdependence.

From the discussion in the previous parts of this case study, we argue that JC mainly follows the efficiency path, and adopts footloose behaviour in order to mitigate the risks. This approach might decrease the HQ-Subsidiary interdependence because it takes into account mainly external reasons (i.e. in order to do the risk diversification, a firm needs to have a central approach). To illustrate our point, we will take the Spanish divestment cases and analyse them.

JC divested from Spain twice in 2009 and 2013. The reason for the 2009 divestment/ relocation was the economic crisis, and JC clearly states this reason in the quote *J18*:

***DIVESTEMTN 1** Johnson Controls, dedicated to the production of car accessories, is to close with the consequent redundancy of 260 employees. The board of the company have reached an outline agreement to compensate the employees of the factory in Campo Real. The company's justification for the shutting down of the Campo Real*

factory (Madrid) is because of the economic crisis and for reasons associated with the difficulties that the car industry is experiencing.

(J18, Divestment, Spain, 2009)

No particular reason was offered for the Spanish divestment in 2013 (quote *J19),* but it suggests that JC carries out restructuring activities not only in Spain, but in other locations as well. Hence, the quote *J19* below:

DIVESTEMTN 2 *Car parts manufacturer Johnson Controls will gradually close its plant located in Sabadell (Catalonia) until 2015, cutting all 125 workplaces. According to an agreement with unions, workers will receive severance payments equal to 50 days per year worked up to a maximum of 42 months. Workers will gradually leave the company until the closure in 2015. The social plan furthermore includes an option for workers to relocate internally. As to date, 11 of the 125 workers are reported to relocate to the headquarters in Barcelona, and more workers will relocate to other countries. Johnson Controls is a US-based multinational with about 170,000 staff globally. During 2013, the group initiated various restructuring measures in Eastern Europe (CZ-1 CZ-2 CZ-3 SI-1) and one in Austria.*

(J19, Divestment, Spain, 2013)

What is intriguing though, is the fact that JC decided to invest in Spain in 2013, while it was in the process of the gradual closure of another Spanish plant. The reason for this investment was the existence of a client's plant in Spain. Hence, the quote *J20* below:

INVESTEMTN 1 *US-based Johnson Controls has doubled production capacity at its automotive seat manufacturing plant in Mojados, Spain to meet growing demand from Renault's assembly facility in Valladolid. The company has created 85 new jobs at the site.*

(J20, FDI Markets, 2013)

All three cases suggest that JC decisions are taken centrally, and do not rely on subsidiary feedback and suggestions. The three examples illustrated above are not connected and do not suggest that there is an established channel of communication

between HQ and subsidiaries. Therefore, we argue that JC has a high level of centralisation, which is also highlighted in the quote *J21* from the Annual Report 2015:

We are subject to business continuity risks associated with centralization of certain administrative functions. We have been regionally centralizing certain administrative functions, primarily in North America, Europe and Asia, to improve efficiency and reduce costs. To the extent that these central locations are disrupted or disabled, key business processes, such as invoicing, payments and general management operations, could be interrupted, which could have an adverse impact on our business.

(J21, AR 2015)

The quote *J21* above from the Annual Report 2015, also provides information about formalisation. From the quote *J21,* it is evident that JC has certain approaches to business processes. JC wants to avoid any disruption of the "key business processes, such as invoicing, payments and general management operations, could be interrupted" (Johnson Controls 2015, p.11). This reasoning suggests a moderate-high level of formalisation.

Normative control is more about shared values in the organisation, rather than formal processes. This is sometimes a grey area, however, and it is difficult to distinguish one from the other. JC has a document called 'Ethics Policy' that contains information about the organisation's values, and how the business process should be done at JC. In order to spread the 'good' behaviour among employees, JC provides specific guidelines. JC assumes that the law in one country might be different from another, which is usually true. They also assume, however, that whatever is not restricted by the host country law is permitted. The only solution JC offers is for the person who suspects unlawful actions to seek a consultation. The quote from the Ethics Policy document suggests that norms are not shared at the company, which might not come as a surprise giving the ES nature of JC investments. Hence, the quote *J22* below:

Example: I'm working on a project in another country. My co-workers are doing things that I think would be illegal in my country, but they assure me this conduct is legal here. I don't want to get myself or Johnson Controls in trouble, but I also don't want to harm my relationship with my team or make a big deal out of nothing

What you should do: You are responsible for seeking assistance in learning what is legal and for ensuring that your actions are legal. Promptly contact the legal department.

(J22, Johnson Controls Ethic Policy)

We argue that there is a low level of HQ-Subsidiary interdependence, which increases the chances of footloose behaviour.

Proposition 5: Footloose behaviour will be strong in subsidiaries with low operational flexibility.

We argue that footloose behaviour is at the heart of JC's strategy. JC describes itself as a company that constantly monitors its structure and analyses its resources. We illustrate this argument with the quote *J23* from the 2014 Annual Report:

Company management closely monitors its overall cost structure and continually analyzes each of its businesses for opportunities to consolidate current operations, improve operating efficiencies and locate facilities in low-cost countries in close proximity to customers. This ongoing analysis includes a review of its manufacturing, engineering and purchasing operations, as well as the overall global footprint for all its businesses.

(J23, AR 2014)

The examples of particular investments, divestments, and relocations, that we present in this case study, illustrate that JC has enough operational flexibility in order to allow moves across the network if the strategic decision-making suggests that it is necessary. We also suggest that JC aims for a higher level of operational flexibility by establishing several subsidiaries in the same country. For example, in Spain, JC have four subsidiaries.

The divestment and relocation cases that we discuss in this case study highlight that there is not enough of a link between subsidiaries to hold them within the network. JC reacts to external challenges, and does not integrate subsidiaries into the network. For this company, it is more important to relocate to low-cost regions, and reduce the cost of

business (quote *J23*). We argue that all elements that do not contribute to the efficient network configuration should be removed from the network. That is what JC effectively does.

6.4.1. Conclusion

Johnson Controls is a company that is locked between the demands of their own automotive components industry, and the industry of their customers: the automotive industry. In order to remain competitive, JC should ‘chase’ the changing industry patterns. They react to external challenges, and address them in the most efficient way they can. Footloose behaviour allows JC to maintain the efficiency level by constantly rotating the locations of their investments, following either the client or the industry trend.

6.5. Procter & Gamble Case Study: Streamliner

6.5.1. Industry as a context

Procter & Gamble (P&G) is a multinational company and a manufacturer of the consumer packaged products of 50 (Reingold 2016) leadership brands. It was founded in 1837 (P&G 2017). P&G operates in more than 180 countries, primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, distributors, baby stores, speciality beauty stores, and through e-commerce (Marketline 2016d). It is important to note that P&G is a highly diversified company with large-scale operations, in terms of both revenue and geography, and that many of its brands are leaders in their respective categories (Marketline 2016d). A strong brand portfolio allows P&G to maintain a dominant market position and to realise economies of scale (Marketline 2016d).

The industry of consumer-packaged products is highly competitive, with large brands competing between each other and retailers' own brands. Products can be different in terms of some characteristics, such as their colours, textures, packaging and brand names, however, their functions and quality are often comparable. This leads consumer decisions to be primarily based on price and brand perception.

Another significant characteristic of the industry is the vast geographical diversification of products. This forces companies to adapt some of their products to particular markets while maintaining overall global leadership in the segment (Frpt Research 2016). Due to differences in consumer tastes, different aspects of a product might require a degree of adaptation to a local market—this might entail altering a product's name, packaging or scent, for example. This stands to lessen pressure from competition but increases the necessity to better align global integration with local adaptation.

P&G is a large and diversified company that produce around of 150 brands before initiating a process of restructuring, which will be discussed later in this chapter. Currently, P&G manages only 50 leadership brands that earn money for the organisation. Hence, we argue that when an organisation, such as P&G, has too many brands, it can be a challenge to adapt those brands to local conditions. In addition, since only 50 of the 166 brands (Reingold 2016) contributed 90% of P&G's profit, it is

reasonable to suggest that it is demanding for P&G to support all their brands. Those 116 brands that contributed the remaining 10% to P&G's profits placed an inordinate amount of burden on the company. Hence, P&G decided to focus on and limit their portfolio to the core 50 leadership brands. This will be discussed further in the next section, when we consider P&G's strategic outlook. The quote P1 below from P&G Annual Report 2016 summarises their position within the industry and highlighting some of the arguments we raised above:

The markets in which our products are sold are highly competitive. Our products compete against similar products of many large and small companies, including well-known global competitors. In many of the markets and industry segments in which we sell our products we compete against other branded products as well as retailers' private-label brands. We are well positioned in the industry segments and markets in which we operate, often holding a leadership or significant market share position. We support our products with advertising, promotions and other marketing vehicles to build awareness and trial of our brands and products in conjunction with an extensive sales force. We believe this combination provides the most efficient method of marketing for these types of products. Product quality, performance, value and packaging are also important differentiating factors

(P1, AR 2016)

6.5.2. P&G strategic outlook

P&G is a firm that has grown brand-wise during its 180 years of operation. Some of its products require local adaptation due to different consumer preferences. The main issue here is the need for the global integration of products and to adapt them locally, which requires investing substantial resources.

P&G is the most diversified company in our list and the biggest EU periphery divestor (Chapter 4). Hence, we assume that to manage pressures towards global integration/local adaptation and maintain company development, P&G must reconsider whether it needs to retain their resources. We support our argument with the fact that P&G is the largest EU periphery divestor (five divestments according to Eurofound—IBM, JC, and Electrolux have only three divestments each). Indeed, several years ago

P&G decided to restructure their brand portfolio and divest operations that do not contribute to the efficiency of the entire company. P&G had far too many brands, much more than they could handle. Thus, P&G decided to focus on fewer brands (quote *P2* from Annual Report 2015):

After decades of category extension and geographic expansion to get bigger, we are narrowing our focus to these 10 categories to get better. Ultimately, a more focused P&G will lead to becoming the best-performing company in the consumer products industry — winning with consumers and delivering the most consistent and reliable performance in our chosen categories, countries, channels and customers.

(P2, AR 2015)

The current business strategy of P&G is to *'change anything and everything'* that would make the firm more efficient; therefore, the large number of divestments that we found is explicable (quote *P3* from Annual Report 2015*)*:

This year, P&G will be 178 years old. A company does not last for that long if its management is not willing to change anything and everything, except for its purpose and core values, to serve consumers and create value for shareowners. We are leading the most comprehensive series of changes in the Company's history. We are putting the strategies and capabilities in place to transform P&G into a faster-growing, more profitable and far simpler company.

(P3, AR 2015)

We argue that P&G is a footloose MNE due to the continuous on-going restructuring described in quote *P4* from the Annual Report 2016:

The Company has historically incurred an on-going annual level of restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce optimization.

(P4, AR 2016).

We also argue, however, that the decision to divest up to 116 brands over a period of several years intensified P&G's footloose behaviour, which is evident in quote *P5* from the Annual Report 2016:

While the Company has and continues to have an on-going level of restructuring activities, beginning in 2012 we began a $10 billion strategic productivity and cost savings initiative that includes incremental restructuring activities. This results in incremental restructuring charges to accelerate productivity efforts and cost savings. The charges include only the incremental portion of the restructuring costs.

(P5, AR2016)

P&G is a perfect example to illustrate Mark Casson's argument about the size limit of a firm: "as the firm grows, its structure evolves, and as it becomes more complex, it becomes increasingly difficult to coordinate. A firm does not necessarily expand simply by scaling up each activity in the same proportion. As scale increases, complexity increases too" (Casson 2014, p.216). We argue that although P&G continuously engages in footloose behaviour (i.e. efficiency-seeking), this is not sufficient to maintain the strategic competitive advantage of the organisation. Consequently, over time, a big chunk of their operations became 'empty calories'. Therefore, currently, P&G are not only eliminating some resources, but also redefining their organisational structure by exiting everything that does not bring efficiency and leadership. This is evident in quotes *P6* and *P7* from the Annual Report 2016:

The Company has undertaken an effort to focus and strengthen its business portfolio to compete in categories and with brands that are structurally attractive and that play to P&G's strengths. The ongoing portfolio of businesses consists of 10 product categories. These are categories where P&G has leading market positions, strong brands and consumer-meaningful product technologies.

(P6, AR 2016)

Within these core categories, we are streamlining our product lines. For example, we are making smart choices to discontinue undifferentiated, unprofitable and commoditizing products in favor of more profitable, consumer-preferred and differentiated products in a number of markets and businesses around the world

(P7, AR 2016)

Proposition 1: RS investments will exhibit less footloose behaviour in comparison to MS and ES motives

Unfortunately, we did not find any RS investments. We argue that P&G's current strategy is leading the firm towards more efficient investments with a 'larger' purpose, such as efficiency-seeking investments in a location where P&G already has a subsidiary (FDI Markets highlights 19 recorded expansion activities) or new investments (FDI Markets highlights 12 recorded new activities) to achieve some market- and efficiency-seeking goals.

As we can see from quote *P8* below, P&G relies on suppliers regarding the raw materials and produce only small amounts of chemicals themselves. This could be one reason why we did not find examples of RS investments:

Almost all of the raw and packaging materials used by the Company are purchased from others, some of which are single-source suppliers. We produce certain raw materials, primarily chemicals, for further use in the manufacturing process.

(P8, AR 2016)

Proposition 2: MS investments will exhibit more footloose behaviour in comparison to RS investment, but less than ES investments.

Brand name and brand reputation are the main MS characteristics. P&G competes on their brand name; therefore, we expect them to set market-seeking goals. The importance of the brand name is supported by quotes *P9* and *P10* from the Annual Report 2016:

The trademarks are important to the overall marketing and branding of our products. All major trademarks in each business are registered. 2 The Procter & Gamble Company In part, our success can be attributed to the existence and continued protection of these trademarks, patents and licenses.

(P9, AR 2016)

If the reputation of the Company or one or more of our brands erodes significantly, it could have a material impact on our financial results.

(P10, AR 2016)

In 2013, P&G invested in Hungary with the establishment of a new plant for nappies that "will serve consumers in various markets across Central and Eastern Europe and the Balkans" (P&G 2014, no date). We argue that this is an example of MS motivation where geographical proximity to other markets is critical. FDI Markets provides a limited explanation regarding this investment that is sufficient for us to use (quote *P11)*:

US-based consumer goods giant Procter & Gamble has opened a new plant in Gyöngyös, Hungary. The factory will manufacture nappies and has created 150 new jobs

(P11, FDI markets 2013 about P&G 2013 investment to Hungary)

Considering the restructuring motive of P&G's current strategy, we argue that MS investments do not currently play a leading role. We argue that the European investments are well established and would primarily experience MS in developing and emerging markets. Therefore, as Europe is our context, we do not see many MS investments.

P&G explains that the main emphasis now is to restructure the MNE, make it focused on several segments, and streamline the operations (quote *P12*):

P&G will become a simpler, more focused Company of 70 to 80 brands, organized into about a dozen businesses and four industry-based sectors. We will compete in businesses that are structurally attractive and best leverage our core capabilities. (P12, AR 2014)

Proposition 3: ES investment will exhibit more footloose behaviour in comparison to RS and MS investments.

P&G's difficulty is not entirely due to the global integration/local adaptation pressure, but rather due to the number of brands that do not add value either for P&G or for their

customers. “We were doing a lot that wasn’t adding value for the consumer,” says chief technology officer Kathy Fish , “and even worse, that was making it hard for the consumer to shop our shelves” (Reingold 2016, 75). Therefore, P&G’s tough strategy to get rid of ‘empty calories’ is a way to reinvent the company. “Out of the 180 or so names P&G owns, it counts on only 50 for more than 90 percent of its sales and profits. Those are what it calls its Leadership Brands, the ones that stores want and the ones that resound with consumers” (Peterson 2014, no page).

P&G trims down all the activities that do not contribute to the efficiency. This is the first company in our list that decided to discontinue 116 brands over a period of 5 years (2012-2017). We argue that efficiency-seeking is the main motive that drives P&G’s restructuring activities and investment patterns. P&G mercilessly divests assets that prevent development (i.e. ‘empty calories’) and affect the efficiency balance. This is in line with quote *P13* from the Annual Report 2015:

P&G is a company that needs balance to win. Whenever we get out of balance, we underperform. We win when we deliver balanced sales growth and profit growth. (P13, AR 2015)

P&G not only divest activities but also restructure the MNE network, creating tighter links between subsidiaries and increasing the overall efficiency. Yannis Skoufalos, global product supply officer, stated that he is “reworking the [supply chain] system as if he is building it from scratch – a monumental task for a company of P&G’s size” (Forbes p.180). This kind of approach aims to increase the common governance of activities that will lead to higher network efficiency. Quote *P14* from the Annual Report 2014 supports our argument:

Earlier this year, we initiated what is probably the biggest supply chain redesign in the Company’s history, starting in North America. We’re moving from primarily single-category production sites to fewer multi-category production plants. We’re simplifying, standardizing and upgrading manufacturing platforms for faster innovation, qualification and expansion, and improved product quality.

(P14, AR 2014)

Efficiency-seeking is at the heart of P&G's business model. They divest redundant activities swiftly, relocate resources, and invest in new opportunities, for example, their efficiency-seeking investment in Romania in 2008. Romania became a member of the EU and it was possible to cooperate with the Romanian government. Therefore, it is more about the incentives that a country can offer rather than the characteristics of the country. P&G has had a regional service centre in Romania since 2004, and this 2008 investment reflects P&G's desire to create more efficiency by expanding their presence in Romania (quote *P15)*:

"One of the arguments in favour of Romania was its status as an EU member country. We have also considered possibilities of sealing partnerships with the Romanian state", says Ramona Brad. He also says P&G could sign a partnership with the Romanian state for personnel training programmes. "It is very fortunate that the Ploiesti area has been involved in the petrochemical industry in the past, and we are hoping that those who left to work in other areas of Romania or abroad, will come back". According to the company's representatives, the group chose Romania for its second factory mainly because it already has a good experience with the first factory, the country boasts a strategic location for distribution in the Central and Eastern Europe, there are two university centres nearby Urlati: Bucharest and Ploiesti, providing qualified workforce, and, at last - the group may count on support from the local authorities.

(P15, Investment, Romania, 2008)

Furthermore, in 2004 P&G invested capital to expand its service centre in Romania, making it their Bucharest General Office.

In 2004, P&G announced the decision to close their Italian plant and relocate the production to France. Currently, FDI Markets shows that P&G made 4 investments in France, one in 2006, one in 2007, and two in 2008. Similar to the Romanian case, in France, P&G 'groups' the resources in one country as it is easier to control the level of efficiency this way (i.e. economies of scale through common governance of activities). Currently, they produce household products and medical equipment in France (quote *P16)*:

The international group Wella announced the decision to close down its plant in Castiglione delle Stiviere (Lombardia), thereby transferring the production to France. The closure will affect 185 employees, including 42 temporary agency workers. The unions are protesting against this decision and there have been some meetings which have so far left the situation and the company intentions unchanged.

(P16, Divestment, Italy, 2004)

In 2006, P&G closed their Spanish manufacturing of blenders and mixers and relocated production to Poland, stating 'cost reduction and productivity' as the main reason for the move. Therefore, quote *P17* below supports our finding:

Braun, the manufacturer of electric domestic appliances, which belongs to the group Gillette, announced on 19 May 2006 the closure of its site in Esplugues de Llobregat (Barcelona) where blenders and mixers are manufactured. The closure will take place between September 2006 and January 2008 and production will be offshored to Poland. The company management has announced that the aims of this offshoring are to bring down costs and increase productivity. The company and the trade unions have been negotiating from the beginning of July 2006, but the process has been very tense and the trade unions went on strike on 10 July 2006. On 21 July 2006, the company and the trade unions got to a pre-agreement. Braun offered early retirement to staff above 48 years old, which would cover around 500 employees. Braun also offered the staff aged 45 to 47 a monthly payment of 1,000 Euro until retirement if they cannot find another job. The employees accepted the pre-agreement on 6 September 2006. The final figures suggest that there will be 440 pre-retirements and 321 direct dismissals.

(P17, Divestment, Spain, 2006)

Only 2 years later, however, in 2008, P&G decided to relocate the production of liquid detergent from France to Spain by establishing the detergent manufacturing plant in Spain. Therefore, quote *P18* supports our argument:

U.S. multinational Procter and Gamble is planning to install a new production line at its plant in Mataro, Spain, which currently makes ACE powdered detergent and bleach. The new production line will add liquid detergent, which until now was made at the plant in Amiens, France. P&G expects to produce around 44,000 tons of liquid

detergent a year. The new line is scheduled to launch later in June '08. Currently 280 employees work at the plant in Mataro.

(P18, FDI markets 2008 about P&G 2008 investment to Spain)

Let us summarise the events starting from the Italian relocation: 2004 Italy – closure and relocation to France; 2006 Spain – closure and relocation to Poland; 2008 France – closure and relocation to Spain. We feel that this chain of events constitutes a part of the strategic action to reduce the number of brands. P&G's example shows that divestments are not just an occasional way to behave, but also a vital activity that allows the MNE to reinvest the divested capital in 'better' locations. The above cases highlight P&G's strategy to become a better and simpler company. We argue that a firm, any firm, will never reach 'perfect' efficiency, but should always seek it. P&G understands that they must keep up with changes in the industry, changes in the consumer tastes or any other changes they might encounter; therefore, they should always look for opportunities to become a more efficient company, even if it means going back to a location two years after they left it. P&G now produce different types of washing detergents in Spain; therefore, the relocation implies 'grouping' of activities with the purpose of improving coordination and creating economies of scale.

To emphasise our point even further, we highlight three divestment cases that took place in Ireland. In 2006, P&G announced the closure of their Irish plant and relocation to Poland. Interestingly, this was the second relocation to Poland in 2006. We argue, therefore, that P&G reassembled their network of resources to make it more efficient. For example, Poland offers "the optimum manufacturing locations for the European supply of skin-care and cosmetics" (quote P19); therefore, it makes sense to group production of personal products there. This is in line with quote *P19* below:

Procter & Gamble said in its statement that it is to transfer manufacturing of its skin-care products division from Nenagh to Lodz in Poland over a two-year period with the loss of 280 jobs. Concern had been growing for the future of the entire Nenagh operation which employs 500 people. But the company said that it will retain its cosmetics manufacturing division in the North Tipperary town, making the jobs of 220 workers secure. The decision by the company to transfer production of its skin- care products to Lodz follows a year-long sourcing study by the company to identify what it

described as "the optimum manufacturing locations for the European supply of skin-care and cosmetics". According to the statement, the decision to move its skin-care manufacturing division to Poland was a result of the growing demand for the company's products such as Oil of Olay in Eastern Europe. "Given the growth of Procter & Gamble's skin care business in central and Eastern Europe, it was decided from an economic and financial perspective to locate the source of skin-care production closer to these fast growing markets," said the company. According to the company, the cosmetics business is more complex and higher value with a greater focus on Western Europe, which allows the company retain its cosmetic manufacturing division at the plant in Nenagh.

(P19, Divestment, Ireland, 2006)

One year after the first Irish closure/relocation, in 2007 P&G decided to discontinue the dental floss production in Ireland and relocate it to Mexico. The company did not provide the reasons for the relocation; however, we assume that P&G was interested to gradually reduce their resource commitment to Ireland. This is in line with quote *P20* below:

157 jobs are to be shed at the Braun Oral B manufacturing plant in Carlow. The news was tempered by the fact that the redundancies will not be implemented until February 2007 and an attractive severance package is to be available. The development was, nevertheless, seen as a significant blow for the local economy, already hit by the closure of the Irish Sugar plant and job cuts at employers including Celtic Linen and Lapple. The company, a manufacturer of personal care products, has decided to transfer its dental floss line to a plant in Mexico, which would result in the loss of 97 permanent and 60 temporary jobs from the Carlow factory, which currently employs 500. The redundancy package was significantly better than the one which applied when the company made 255 staff redundant in 2003. The new package comprises six weeks' pay per year of service, in addition to statutory terms, while no ceiling is to be placed on the payouts. A ceiling of two years' salary had applied on the previous occasion. At one time almost 1,500 people were employed at the plant.

(P20, Divestment, Ireland, 2006)

In 2009, P&G closed another plant without further relocation. We assume that the company does not consider Ireland as a beneficial manufacturing location (i.e. because of the two cases of divestments mentioned above), and there was a decline in the demand for some of P&G's healthcare products. Quote *P21* below illustrates our argument:

Pharmaceutical manufacturing company Braun, has announced 160 redundancies due to the closure of its oral health products plant in Carlow. The company has said that the remaining 100 employees, out of a workforce of 260, are to be transferred to its factory in Newbridge, County Kildare, by the middle of 2010. Braun intends to phase out some of its products because of declining demand from customers

(P21, Divestment, Ireland, 2009)

We argue that all the examples above illustrate the efficiency-seeking motive and highlight the footloose behaviour of P&G in Europe. P&G are reinventing themselves and, perhaps, the changes cannot be incremental. Therefore, footloose behaviour is a strategy that helps to eliminate 'empty calories' in the MNE network and focus on the core most valuable 'healthy calories' brands.

SAS investments: not related to the footloose behaviour.

P&G wants to streamline their operations, restructure the network, and become a more efficient company. To do that, they discontinued 116 brands and left only the 'golden' 50. As we mentioned earlier, in the consumer packaged products industry, brands compete with each other on the basis of price, quality, and brand perception. In reality, all mass-market products are very similar in terms of function, which forces manufacturers to engage in R&D to stand out. P&G are a market leader and a successful innovator. According to P&G (2016, no page): "recent innovations earned Procter & Gamble five of the top 10 spots – and seven of the top 25 – on the IRI New Product Pacesetters Report for the most successful non-food product launches of 2016. The IRI New Product Pacesetters Report noted these top performers as 'textbook examples of innovation done right". Therefore, product innovation is vital for P&G. Quote *P22* below from the Annual Report 2016 supports our argument:

Winning with consumers around the world and against our best competitors requires innovation. Innovation has always been, and continues to be, P&G's lifeblood. Innovation requires consumer insights and technology advancements that lead to product improvements, improved marketing and merchandising programs and game-changing inventions that create new brands and categories.

(P22, AR 2016)

Moreover, considering all the cases of relocation that we mentioned earlier, creating new plants, perhaps multi-purpose plants, requires some process innovation, as can be seen in quote *P23* below:

We are "reworking the [supply chain] system as if he is building it from scratch—a monumental task for a company of P&G's size"

P23(Reingold 2016, p.180)

R&D is important as it enables better products to be created gradually to pre-empt the competition. This forward-looking logic is highlighted in quote *P24* below from the Annual Report 2015:

Research and product development activities, designed to enable sustained organic growth, continued to carry a high priority during the past fiscal year. While many of the benefits from these efforts will not be realized until future years, we believe these activities demonstrate our commitment to future growth.

(P24, AR 2015)

Proposition 4: Footloose behaviour will be strong in subsidiaries with low HQ-Subsidiary interdependence.

Currently, P&G is in the process of massive restructuring to consolidate the resources and locate them more efficiently (quote *P25* below supports the argument):

Earlier this year, we initiated what is probably the biggest supply chain redesign in the Company's history, starting in North America. We're moving from primarily single-

category production sites to fewer multi-category production plants. We're simplifying, standardizing and upgrading manufacturing platforms for faster innovation, qualification and expansion, and improved product quality.

(P25, AR 2014)

We argue that a highly diversified company with the need to adapt products locally should not be extremely centralised, as centralisation would not allow local decision-making. In the case of P&G, we argue that there is a degree of centralisation as it is easier to control different risks on a centralised basis. The tendency to centralise is linked to the historical evolution of P&G (Bartlett and Ghoshal 1989). This is particularly important during restructuring (quote *P26)*:

As a multinational company with diverse product offerings, we are exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices, evaluate exposures on a centralized basis.

(P26, AR 2015)

P&G reviews their strategic initiative on a centralised basis, which is evident in quote *P27* from the Annual Report 2015 below:

We continuously review business results and strategic choices. Our Global Leadership Council is actively involved - from understanding strategies to reviewing key initiatives, financial performance and control assessments. The intent is to ensure we remain objective, identify potential issues, continuously challenge each other and ensure recognition and rewards are appropriately aligned with results.

(P27, AR 2015)

Restructuring is a process that is done centrally. The abovementioned cases of footloose behaviour (i.e. 2004 Italy – closure and relocation to France; 2006 Spain – closure and relocation to Poland; 2008 France – closure and relocation to Spain; gradual divestments from Ireland) suggest that decisions are taken centrally. P&G should have a 'bird's eye' to perform such interconnected and interdependent moves. We argue that the formalisation is moderate, as P&G must give subsidiaries some operational freedom

regarding the way formal procedures are carried out due to the peculiarities of the specific location. Therefore, P&G provides general rules, but not specific rules (quote *P28*):

Strong internal controls is an objective that is reinforced through our Worldwide Business Conduct Manual, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law. Our people are deeply committed to our Purpose, Values, and Principles, which unite us in doing what's right. Our system of internal controls includes written policies and procedures, segregation of duties, and the careful selection and development of employees.

(P28, AR 2016).

Due to the need to adapt products locally, we argue that the normative integration in P&G is low. Although there are sets of general rules and core values that employees should understand (e.g. training), it is highly unlikely that all employees are integrated into the company in the same way. Quote *P29* from the Annual Report 2015 supports our argument:

Every employee, from senior management on down, is required to be trained on the Company's Worldwide Business Conduct Manual which sets forth the Company's commitment to conduct its business affairs with high ethical standards. Every employee is held personally accountable for compliance and is provided several means of reporting any concerns about violations of the Worldwide Business Conduct Manual.

(P29, AR 2015)

Overall, we argue that the current level of HQ-subsidiary interdependence is low; however, this might change in the future when P&G enters a more 'stable' phase of development.

Proposition 5: Footloose behaviour will be strong in subsidiaries with low operational flexibility.

We argue that P&G have a moderate to low level of operational flexibility. P&G require local adaptation of their products. Therefore, it is plausible that some subsidiaries will

be less integrated into the network. The ability of the company to perform such restructuring, however, highlights that the overall level of flexibility is moderate. We argue that the restructuring process (i.e. footloose behaviour) aims to increase the level of operational flexibility due to the establishment of fewer multi-category production plants.

P&G wants to increase all possible links between subsidiaries, the structural links (roles of subsidiaries) and strategic links (allocating more resources in one country), through the establishment of fewer multi-category production plants. This 'process restructuring' aims to increase the operational flexibility and create a higher level of efficiency (quote *P30* below):

We are improving operational effectiveness and organizational culture through enhanced clarity of roles and responsibilities, accountability and incentive compensation programs.

(P30, AR 2016)

Due to the local adaptation requirements, however, some subsidiaries will be more detached from the rest of the network. Therefore, they will have a higher chance of relocation in the future. Nevertheless, this is due to the nature of the industry P&G operate in and should be considered as normal. Our logic is supported by quotes *P31* and *P32* below:

Our organizational structure is comprised of Global Business Units (GBUs), Selling and Market Operations (SMOs), Global Business Services (GBS) and Corporate Functions (CF). Our GBUs are organized into ten product categories. Under U.S. GAAP, the GBUs underlying the ten product categories are aggregated into five reportable segments: Beauty; Grooming; Health Care; Fabric & Home Care; and Baby, Feminine & Family Care. The GBUs are responsible for developing overall brand strategy, new product upgrades and innovations and marketing plans.

(P31, AR2016)

Selling and Market Operations Our SMOs are responsible for developing and executing go-to-market plans at the local level. The SMOs include dedicated retail customer,

trade channel and country-specific teams. Our SMOs are organized under six regions comprised of North America, Europe, Latin America, Asia Pacific, Greater China and India, Middle East and Africa (IMEA). Throughout the MD&A, we reference business results in developed markets, which are comprised of North America, Western Europe and Japan, and developing markets which are all other markets not included in developed. Global Business Services GBS provides technology, processes and standard data tools to enable the GBUs and the SMOs to better understand the business and better serve consumers and customers. The GBS organization is responsible for providing world-class solutions at a low cost and with minimal capital investment. Corporate Functions CF provides company-level strategy and portfolio analysis, corporate accounting, treasury, tax, external relations, governance, human resources and legal, as well as other centralized functional support.

(P32, AR 2016)

6.5.3. Conclusion

P&G has grown and expanded throughout their 180 years of existence. P&G is an innovator that brought to the world products that changed our way of life and became our daily essentials (e.g. Crest, the first fluoride toothpaste, and the disposable nappies category with the introduction of Pampers in 1961 (P&G 2017). Currently, P&G is on the verge of restructuring to streamline their brand portfolio. They recognise that many of their brands do not bring value to their customers and shareholders. Therefore, P&G initiated the restructuring procedure and eliminated 116 brands from their portfolio, leaving only the core 50 leadership brands.

The case study highlighted the footloose behaviour that P&G adopted to increase the network efficiency and intensify the links between the elements of the network (e.g. multi-category plants). We highlighted how mercilessly P&G trim down all the activities that do not contribute to the efficiency, all the ‘empty calories’ that do not add value; however, P&G are focused on innovation and value.

6.6. Electrolux Case Study: Follow the Trend

6.6.1. Industry as a context

Electrolux belongs to Household Appliance segment of the Consumer Electronic industry. Electrolux was founded in 1901 (Marketline 2016b). The MNE operates in more than 150 countries and manufactures "refrigerators, dishwashers, washing machines, cookers, vacuum cleaners, air conditioners and small domestic appliances" (Marketline 2016b, p4)

Electrolux builds on innovation (continuing changes in technological and environmental regulations) and on efficiency (pricing depends on the stage of the product life cycle). Innovation is about bringing brand-new, high-end products to the market. Efficiency is related to the products that have gone beyond the innovation stage and are currently in the maturity/decline stage of their life cycle. As time goes on, new products are introduced and older products are dropped. For Electrolux, the pressure comes from the life cycle of their products because they have to constantly introduce new products in order to keep up with a constantly changing industry (i.e. external environment).

Electrolux should keep up with the latest technology trends while at the same time ensuring efficiency. Consumers are the end users, and they will not pay for the high-end (and usually most expensive) home appliances in a time of recession, when short on finances, or when they simply do not need them. Hence, both efficiency and innovation are critical for Electrolux's survival. Innovation is necessary to keep the products aligned to consumer needs and trends, but efficiency is what will make them successful in the market.

Competition in the consumer electronic industry revolves around the following factors: "performance, innovation, product features and design, energy efficiency, quality, cost, selling price, distribution, and financial incentives" (Marketline 2016b, p.25). Hence, in order to keep up (i.e. remain competitive) with fancy design, innovation, and selling price, companies look for ways to cut operating costs. One way to cut costs is to move production into low-cost locations or to source from cheaper suppliers. Thus, companies will be able to aggressively price their products and continue introducing new innovative products to increase their market share (Marketline 2016b). Therefore,

pricing pressure is an important element that shapes the strategy of the company and can potentially lead to footloose behaviour.

It is critical to highlight the way Electrolux approaches the term 'innovation'. According to our views, integration of existing technology into a product does not mean innovation; innovation and technology are not the same things. Innovation is about *unknown earlier*, but technology is about the application of *known earlier.* Technology is a tool that a company applies in order to innovate. However, in the company's perspective there is little or no distinction between 'innovation' and 'technology'. The quote *E1* below from Annual Report 2015 highlights how Electrolux sees their products:

During the year, several new innovative products were launched, such as new energy-efficient tumble dryers with heat-pump technology under the AEG brand. The Group's focus on development of connected products resulted in the introduction of the world's first connected steam oven with an integrated camera, the AEG Pro Combi Plus Smart Oven. Another unique launch made is a new range of multifunction ovens with the Plus Steam function targeting consumers who bakes at home but cannot afford a top-of-the-range steam oven.

(E1, AR 2015).

We argue that for Electrolux, innovation is an added technology that keeps their (basic) products on the market (i.e. steam oven with the camera and basic oven still achieve absolutely the same results). In other words, they use existing technology to make their products suitable for the current stage of industry development. Put simply, Electrolux use technology as a tool to stay on trend. The discussion around innovation is important for the cross-case comparison and will be highlighted in the relevant section of this chapter, where we compare different MNEs that produce innovative products.

'Follow the Trend' is a pivotal element in the Electrolux case study and it is evident in the quote *E2* from Annual Report 2016 where Electrolux highlights the industry characteristics they should adapt to:

The fast pace of change in the industry has led to new trends, such as increased consumer power, digitalization, consolidation and sustainability. These changes place

increasing demand on investments and ability to adapt, but also opens up major opportunities. Electrolux has in recent years invested in R&D and new innovation and transformed its business into a consumer oriented company with strong focus on consumer benefits. Electrolux has also communicated ambitious targets to strengthen its sustainability footprint.

(E2, AR 2016).

6.6.2. Electrolux strategic outlook

Electrolux follows the industry trends that require the constant introduction of the technologically advanced products, but at the same time, they aim to keep the production costs at the minimum level (high production costs might lead to losing the competition through a high selling price). This is the main dilemma for Electrolux: how to beat competitors on price while maintaining the introduction of new products. Hence, the direction that the company takes is straightforward: reduce the cost to a level that allows them to maintain quality and still bring new innovative products to the market. Electrolux highlights the need to cut costs and restructure the network in the Annual Report 2014 where they specifically focus on the restructuring process initiated in 2004. They also highlight the need to transfer production to the low-cost regions in the quote *E3* from Annual Report 2014:

Since 2004, Electrolux has gradually restructured its production through a program for optimizing the manufacturing footprint. The production program is expected to be completed in 2016. About one-third of the Group's manufacturing has been moved, primarily from Western Europe and North America, to new production centers. About 20 plants have been closed, several plants have been downsized and new production centers have been opened, mainly in low-cost areas.

(E3, AR 2014)

Footloose behaviour is a systematic activity when MNE constantly re-evaluates the changes in the internal and external environments. Electrolux addresses the changes by engaging in the constant restructuring of their network such as relocations to low-cost regions, simplifying the organisational structure and tightening the coordination of global operations. The coordination of activities is a factor of efficiency-seeking

motivation; but it is not just an FDI investment motive in this case, but a general direction that MNE takes. This is highlighted in the quote *E4* from Annual Report 2015:

Electrolux is leveraging its global strength and scope to increase efficiency and lower the cost base by coordinating global operations, optimizing the manufacturing footprint and reducing complexity.

(E4, AR 2015)

We argue that the process of restructuring will never end because internal and external environments will always change. In the quote above (*E3*) from the Annual Report 2014, Electrolux stated that the programme to optimise the manufacturing footprint was expected to be completed by 2016. However, in the 2016 Annual Report, they still discuss the optimisation and restructuring. Electrolux highlights the on-going changes in the competition pattern and that their own optimisation of operations is continuous. Thus, the quote *E5* from Annual Report 2016 to support the argument:

The appliance industry is characterized by intense competitiveness by manufacturers of appliances, and the pace of change in the market has resulted in ongoing consolidation where regional players are becoming more global and seek to benefit from synergies and economies of scale. Efforts to continuously optimize the operations are therefore essential in achieving a competitive advantage in the face of increasing competition. Electrolux focuses on automation, modularization and adjustments to existing plants to ensure an effective cost structure.

(E5, AR 2016)

Proposition 1: RS investments will exhibit less footloose behaviour in comparison to MS and ES motives.

We did not find any examples of the resource-seeking investment performed by Electrolux. Electrolux relies on the suppliers and does not invest for RS purposes themselves. According to (Marketline 2016a, p.4), “the group's manufacturing operations consist mainly of the assembly of components made by suppliers”. We also support our argument with the quote *E6* from Annual Report 2016 where Electrolux implies that they purchase raw materials from third-party producers:

Electrolux may have to take actions to increase cost efficiency, negotiate purchasing contracts for commodities such as steel and chemicals or increase the prices of its products.

(E6, AR 2016)

Proposition 2: MS investments will exhibit more footloose behaviour in comparison to RS investments, but less than ES investments.

Electrolux highlights developed infrastructure, good transportation links, and a stable economic environment as important location factors for them. Industry development is also a factor for Electrolux, which can be linked to the IP protection. The aforementioned factors are classical factors of the market-seeking motivation. In 2006, Electrolux invested in Hungary with MS purposes for the reasons mentioned above. The quote *E7* supports the argument:

Listing the advantages offered by Hungary, Johansson cited the country's stable economy and politics, its network of suppliers, its developed industry and its good transportation system.

(E7, Investment, Hungary, 2006)

The company also highlighted that the network of suppliers is a factor for their investment. We argue that this is an MS motive with a twist of efficiency-seeking. We also argue that for Electrolux, pure MS motivation is rare as they intend to reorganise their entire network. Hence, reorganisation should incorporate the desire of the company to increase the common governance of the activities either by coordinating different activities in the different parts of the world or by coordinating the same activity in diverse environments. In the case of investment in Hungary in 2006, it is about investing in the location that would not just offer the MS benefits but would allow coordinating the supplier network more efficiently than it was before. We support our argument with the quote *E8* from the Annual Report 2014 where Electrolux explicitly highlighted the need to better coordinate the purchasing of raw materials. This quote also supports the logic we developed regarding RS seeking investment:

Economies of scale in global operations. The major activities to leverage and benefit from the scale of the Group are: Coordinated purchasing for raw materials, components and finished products. The global purchasing function coordinates and administers more than 60% of all purchasing.

(E8, AR 2014).

We argue that Electrolux is unlikely to divest from Hungary unless they change their suppliers. We also suggest that after initial MS investment, Electrolux started to heavily invest in Hungary, consolidating their assets under the umbrella of the common governance. FDI Markets shows that in the European Union, Electrolux has a total of 36 investments; 8 of the investments in Hungary performed from 2003 until 2012. Hungary is the second location investment-wise for Electrolux. The first one is Poland where they have 14 investments (both locations are in Central and Eastern Europe and both countries received investments after their accession to the EU). The investment in Hungary highlights the example of a location that can with time attract more investments from one company, creating efficiency-seeking motivation. Initially, location did not offer many ES factors, but with time, changes in the external and internal environments made Electrolux consider that location more often.

Proposition 3: ES investment will exhibit more footloose behaviour in comparison to RS and MS investments.

Since 2004 Electrolux has been restructuring its entire network of operations. We argue that footloose behaviour is a systematic activity and that a company that has started the restructuring process will continue to look for ways to improve efficiency endlessly. The aim of the MNE is to align the internal and external environments in such a way that it increases the efficiency of the network. However, due to challenges in the internal (the necessity to constantly introduce new, technologically advanced products) and external environments (price pressure, changes in technology), the process of aligning the two never ceases.

Electrolux started their restructuring process in 2004 with the aim to complete it by 2016. We argue that although they significantly restructured their network through relocation activities to low-cost regions, eliminating some production costs, and

achieving better resource coordination, they still currently make an effort to restructure the network further. Therefore, the process of restructuring is not complete. Electrolux calls the further restructure a 'new phase', but we argue that it is not just a new phase but also an expected continuation of what they have done before. We support our argument with the quote *E9* from the Annual Report 2016:

In 2016, about 65% of total manufacturing by Electrolux was carried out in low-cost areas, compared with about 30% in 2004. These Group-wide restructuring programs have now been completed. Efforts to optimize operations have now entered a new phase, with a focus on modernization, automation and adjustments to existing plants to ensure a competitive cost structure. The foundation for this is a stable and focused organization that strives to minimize complexity and make work practices simpler to deliver products and services of superior quality and high delivery reliability.

(E9, AR 2016)

The main focus for Electrolux at the moment is to cut all possible costs and save on their resources. Electrolux must stay in trend to keep up with the introduction of technologically advanced products, but they struggle to bring down the production costs. Efficiency is a proxy to achieve the desired 'savings', but the cycle never breaks because Electrolux should always looks for ways to cut costs if they want to remain a market leader. The quote *E10* from Annual Report 2016 supports our logic:

A number of programs aimed at enhancing efficiency are ongoing within the Group with the aim of reducing the variable product costs every year. These variable costs include materials, direct and indirect payroll costs, logistics and warranty costs. Efforts focused on global coordination of procurement and the Electrolux Manufacturing System (EMS) to reduce manufacturing costs continues with full force. At the same time, the Group has implemented a number of new initiatives to increase efficiency and reduce costs even more.

(E10, AR 2016)

Out of a total of 36 investments that Electrolux has in the EU, 14 are in Poland. In other words, 39% of all European investments are located in Poland. The classical driving factor for ES motivation is the desire to achieve common governance of activities,

which essentially brings efficiency to the network. Looking only at the numbers above, we argue that the goal of these investments is to increase efficiency by consolidating different factors of production in one location (i.e. cost reduction).

According to Electrolux, relationships with Polish authorities, access to the Polish economic zone that intends to help the investors with their projects, good infrastructure, and a well-educated workforce were the main factors for investments. This is evident in the following quotes, *E11* and *E12*, which give insight to the investments in 2004, 2005, and 2006:

Factors in the decision to locate the new factory in Zarow included good infrastructure, roads and railway access as well as the involvement of Wa-brzyska Economic Zone and Zarow authorities.

(E11, Investment, Poland 2004, 2006)

Straberg said, "For us, the excellent relationship with local authorities and access to a well-educated workforce persuaded us that Poland is an attractive partner for large projects."

(E12, Investment, Poland, 2005)

There is an interesting case of divestment from Italy that highlights the scale of the restructuring process that started in 2004. In 2004 Electrolux announced the closure of two Italian plants and restructuring measures for the remaining two factories. Electrolux decided to relocate the production to 4 different countries: Romania, China, Mexico, and Brazil. The quote *E13* below supports our argument:

The Zoppas group produces powered household appliances and is part of the Electrolux group. It has announced the restructuring of one its divisions which produces electrical heating components. Two out of the four production locations of the Irca subsidiary will be closed down and the other two restructured. Production will be relocated to foreign subsidiaries in Romania, China, Mexico and Brazil.

(E13, Divestment, Italy, 2004)

Another case of efficiency-driven relocation that is a part of a big restructuring venture is the divestment of Spanish plants and the relocation of activities to Hungary. Remarkably, the Spanish plant was profitable, or at least it did not bring losses, but it was closed. The quote *E14* below illustrates our argument:

The Swedish multinational Electrolux is specialised in the manufacture of domestic electronic appliances and has 72,000 employees, of which 2,553 in Spain. The Electrolux Group announced on 21 April 2005 it is examining the closure of the production centre of Fuenmayor (La Rioja, Spain) creating 540 redundancies, of which 86 are temporary workers. Even though a 50 % profits increase (93 million) has been recorded in the first quarter of 2005, the group is considering delocalising its activity to Hungary where it owns a production centre that can integrate the production of the Spanish plant.

(E1, Divestment, Spain, 2005)

In 2008, Electrolux announced that their UK subsidiary was generating losses; thus, they relocated the production to Poland. Electrolux highlights that they bear an increasing price pressure because their competitors moved their production to low-cost areas. Hence, it was not viable to keep producing in the UK when they were not able to match competitors' prices. We draw a comparison with the Spanish plant that Electrolux divested in 2005. A possible way to explain this is to assume that if footloose behaviour is about aligning the internal and external environment, the Spanish factory did not bring enough of the efficiency element even when it was profitable. However, for the UK the misalignment of internal and external environments happened only after the factory started to bring losses.

The reactive decision to relocate production to Poland is an example of footloose behaviour where MNE tries to align changing internal and external environments in order to keep the level of efficiency. The attention should also be drawn to the fact that Electrolux announced closures when the UK factory was already unprofitable. The quote *E15* below illustrates our logic:

"*Our competitors have to a large extent moved their production facilities to countries with a lower cost-base, which has resulted in increasing price pressure," says Magnus*

Yngen, head of Electrolux Major Appliances Europe. "This development in combination with a shift in consumer preferences, moving from free standing cookers to built-in cookers, has eroded the competitiveness of our Spennymoor factory. Today the factory generates a loss. Running such a factory is not sustainable, which is why we have decided to consolidate our UK cooker manufacturing into our factory in Swidnica in Poland."

(E15, Investment, Poland, 2008)

It is also important to highlight that Electrolux tried to avoid the closure of the UK factory:

We looked at a whole range of potential scenarios to make the factory profitable, but came to the conclusion that the only option was to close it.

(Wearden 2007, no page)

We argue that efficiency-seeking motivation drives the investment, divestment, and relocation patterns of Electrolux. The company goal is to save on everything that can be saved in order to produce trendy innovative products continuously.

SAS investments: not related to the footloose behaviour.

So far we have discussed the general trend of searching for efficiency that Electrolux initiated in 2004. The reason for such a vast restructuring when the company counts every penny is the nature of their products. The consumer electronic industry, perhaps like many other industries, is becoming increasingly digitalised. Thus, consumers want to have products that belong in the digital era. In order to produce such products, Electrolux must be efficient and overcome the price pressure production-wise. However, research and development is something they cannot trim down because this is what makes them stay competitive in the market. Additionally, they must produce innovative products at the appropriate speed that corresponds to the changing nature of the digital era. The quote *E16* below summarises the importance of R&D for Electrolux:

Electrolux invests in innovations to create best-in-class consumer benefits. Efforts to provide consumers with the best possible experiences are central to the Group's

business model. Hence, the Group must ensure it continues to invest in key areas such as innovation, strengthening the core brands and improving quality in order to develop best-in-class products and solutions for the customers.

(E16, AR 2016)

Another element that puts pressure on the Electrolux product development is sustainability. Consumers can pay a premium for sustainable and efficient products; thus, Electrolux should follow the trend and develop products that can help their customers to save on energy and water bills. The quote below, *E17*, illustrates our argument:

High performance in all areas of sustainability is an enabler for our business success. For instance, when developing new products, the focus is not only on design and features but also on consumer requirements in relation to energy and water efficiency.

(E17, AR 2015)

Electrolux invests heavily in R&D. For example, in 2003 they invested in Belgium in order to establish an HQ for the design and manufacturing of diamond tools (Fdi Intelligence 2016). In 2010, Electrolux announced R&D investment in Hungary. We may argue that taking into account that Hungary is attractive for Electrolux as an efficient location (it accounts for 22 per cent of all the EU investments), the R&D has some efficiency-seeking element in it. The quote *E18* below illustrates our point:

Appliances producer Electrolux has announced plans to invest €5.2m at its Hungarian plant in 2010. The investments will be used for product development at the plant, which is specialised in refrigerator production.

(E18, FDI Markets 2010)

In 2012 the company invested in Germany with the Education and Training Project that emphasises the importance of communication with consumers in order to understand their needs better. The quote *E19* below demonstrates our point:

Sweden-based consumer electronics giant Electrolux has established an exhibition and training centre in Löhne, Germany. On 1000 sq m on the upper floor of the exhibition centre, the company will present a range of its products. Outside exhibitions times the building will be used to train field staff and customers of the group.

(E19, FDI Markets 2012)

The latest addition to the company is the acquisition of Anova Company that produces highly advanced ovens. The quote *E20* below illustrates the argument:

February 6, 2017. Electrolux to acquire fast-growing smart kitchen appliance company Anova. Electrolux has agreed to acquire Anova, the U.S.-based provider of the Anova Precision Cooker, an innovative, connected device for sous vide cooking that enables restaurant-quality results in the home.

(E20, AR 2016).

We found plenty of evidence that R&D is critical for Electrolux and that they invest heavily in order to create better tools, communicate with consumers, and produce state-of-the-art kitchen appliances. We argue that Electrolux will not divest the R&D plants anytime soon because R&D works as an insurance policy that promises a spot in the market for Electrolux in the future. Electrolux invests in R&D today in order to keep up with the continuous introduction of up-to-date products.

Proposition 4: Footloose behaviour will be strong in subsidiaries with low HQ-Subsidiary interdependence.

Electrolux is currently on the verge of a massive transformation that started with the reallocation of resources and has now moved to a stage where the company implements improved production facilities by incorporating modernisation, automation, and adjustments to secure the necessary level of efficiency. We argue that such a restructuring process requires MNE to have a high level of centralisation. Without the 'bird's eye view', restructuring of this scale is not possible. To support our argument, we draw attention to the *E21* quote from Annual Report 2015 where Electrolux emphasises that the launch of new products is performed by a global modular platform:

The Group's global modular platforms facilitate the spread of successful launches from one market to another, with adaptations to local preferences. The platforms also support the company's objective of offering more resource-efficient products to more consumers worldwide. The modularization program was further expanded in 2015.

(E21, AR2015)

In the *E22* quote from Annual Report 2016, Electrolux highlights that they implement strict norms to ensure that all processes are efficient, which indicates high formalisation. In the same quote, they also suggest that the structure of the company is decentralised where decision-makers are business area boards. We argue that this highlights a rather centralised structure where a large regional HQ does the decision-making. Hence, in the quote *E22,* we did not find any evidence that there is 'conversation' between HQ and Subsidiary:

Electrolux aims at implementing strict norms and efficient processes to ensure that all operations create long-term value for shareholders and other stakeholders. This involves the maintenance of an efficient organizational structure, systems for internal control and risk management and transparent internal and external reporting. The Group has a decentralized corporate structure in which the overall management of operational activities is largely performed by the business area boards.

(E22, AR 2016)

The quote *E23* below illustrates that the decision-making regarding the product development, purchasing, manufacturing, design, and quality is done centrally by Global Operations department:

In order to fully take advantage of the Group's globalpresence and economies of scale, the Group has established Global Operations with the responsibility for product development, purchasing, manufacturing, design and quality.

(E23, AR 2016)

We suggest that normative integration is quite high because Electrolux aims to engage employees by introducing interactive 'Teamship' workshops. The quote *E24* below illustrates our argument:

During 2015, an interactive Teamship workshop was launched which gathered together employees from different functions to explore harnessing the power of one Electrolux team.

(E24, AR 2015)

Overall, we argue that HQ-Subsidiary interdependence is low; therefore, it can lead to footloose behaviour.

Proposition 5: Footloose behaviour will be strong in subsidiaries with low operational flexibility.

Footloose behaviour is possible if the subsidiary does not contribute enough to the network or the contribution has lost its value. We have two distinct cases of divestments: UK divestment in 2008 and Spain divestment in 2005. Electrolux closed the UK subsidiary after it started to generate losses. However, the company divested the Spanish plant when it was still bringing profit (50 percent profit increase in the first quarter of 2005). We argue that efficiency does not go hand in hand with profit. Efficiency is about the value a subsidiary brings to the network. We argue that these two cases of divestment highlight the moderate to high level of operational flexibility because MNE was able to sustain the UK subsidiary after it became detrimental.

We argue that overall, Electrolux has a high level of operational flexibility that in some cases (i.e. UK divestment in 2008) can slow down the pace of footloose behaviour. Also, the massive restructuring process that Electrolux initiated would not have been possible without a high level of flexibility. The company aims to increase the operational flexibility by making subsidiaries more valuable to the network through the coordinating operations, optimising the manufacturing footprint, and reducing complexity (quote *E25)*:

Electrolux is leveraging its global strength and scope to increase efficiency and lower the cost base by coordinating global operations, optimizing the manufacturing footprint and reducing complexity.

(E25, AR 2015)

6.6.3. Conclusion

Electrolux is a company that follows the digital trend. Innovative and technologically advanced products are what make Electrolux a market leader and ensure the survival of the company. There are two types of activities: innovation-related activities (SAS) and production-related activities (ES). Electrolux is a company that has a stable R&D behaviour as it constantly invests with SAS purposes. At the same time, the production-related activities are constantly 'shuffled' to maximise the efficiency gain. Manufacturing of innovative products is costly, and in order to 'stay in the game', the company should constantly overcome the price pressure. Electrolux successfully managed the restructuring process that aimed to increase the value of every subsidiary. The reorganisation of the network is still taking place, and we argue that it will never cease to exist. Electrolux is a great example of the footloose multinational.

7. Cross-Case Analysis

7.1. Introduction

This chapter addresses the footloose behaviour in the following way: First, we highlight the two key dimensions of footloose behaviour that we identified in the case studies as being the most important drivers of footloose behaviour. Then we move on and discuss the way an organisation approaches these two dimensions. We link this discussion to the internal and external environments of the MNEs. Finally, we present a footloose behaviour typology drawing on similarities and differences that we identified through the four case studies. The typology allows us to highlight how MNEs approaches the drivers of footloose behaviour that we discuss in this section.

7.2. Driving Forces of Footloose Behaviour: Innovation and Efficiency

Innovation for MNE is predominantly achieved via SAS investments. Hence, the concept of innovation and SAS investments are intrinsically linked. All four cases highlight the vital importance of innovation for the companies regarding their ability to constantly supply the market with products that customers desire. This is in line with Benito (2015) argument that SAS helps MNEs to pre-empt the competition by developing firm-specific valuable assets of any kind (Benito 2015; Wilson and Baack 2012). SAS ensures that the MNE has a future; it is a type of investment that will itself pay back in the long run.

The concept of efficiency is predominantly linked to an efficiency-seeking motivation, which is the most footloose type of investment. However, efficiency is critical as it helps to achieve a common governance of activities (Benito 2015) and increases the linkage between subsidiaries (Dunning and Narula 2010). In simple terms, efficiency is a distance between the current state and the future desired state of the firm. The shorter the distance between the current and the future desired state the better. We find efficiency to be the single most important factor that all four MNEs want to achieve (i.e. companies want to produce innovative products, but without a certain degree of efficiency that is not possible). In all case studies, we found that MNEs are focused on achieving efficiency through available or appropriate channels such as: clustering their investments in a single location to allow better coordination (Benito 2015), investing in

locations with government support (Wilson and Baak, 2012), and investing in low-cost, labour-wise locations (Ramasamy and Yeung, 2010).

Efficiency and innovation are critical factors for the strategic development of an organisation. The interplay between innovation and efficiency is summarised in the following way: Innovation is what keeps multinationals 'in the game', but efficiency is what makes them successful players. As both factors are vital, a firm faces the following dilemma: how does it achieve efficiency and innovation at the same time? We approached this dilemma from the position of internal and external environments, i.e. how an organisation responds (or chooses to respond) to the changes in internal and external environments.

7.3. Footloose Behaviour: Internal and External Environments

Persistent changes in internal and external environments pull these environments in opposite directions, increasing the distance between what the MNE is now and what it wants to be in the future. Hence, MNEs should identify the appropriate course of action that will bridge the gap between the company's existing and preferred future positions (Coyne and Wright 1986). The higher value of each subsidiary within the MNE network might keep the company running without radical changes for longer, but, with time, the changes in the internal and external environments will accumulate, and the restructuring process will start. However, for different companies, the time lag before the changes are accumulated is different due to many particular company-related factors. Footloose behaviour indicates that the necessary changes cannot be addressed with incremental actions. The four case studies revealed that MNEs have two main footloose behaviour approaches for dealing with the issue of changing environments: the proactive approach and the reactive approach.

MNEs such as IBM and P&G take a proactive approach when they deal with changes. These MNEs do not wait for the changes to emerge; they identify them in advance and act on the momentum. A proactive approach is the intentional drive of the organisation to adopt a footloose behaviour in a strategic manner. Resources that do not fit the strategic profile of the MNE are then removed. MNEs such as JC and Electrolux take a reactive approach to the changes in the internal and external environments. These companies are not always able to anticipate and 'play ahead' of circumstances. Thus,

they primarily react to changes. An organisation that is driven by changes in the external environment adopts a reactive approach to footloose behaviour. On the other hand, the starting point that drives a proactive footloose MNE is its internal environment.

Internal environment directs the course of action a company will take in order to bridge the gap between its current and desired positions. An MNE has full control over its strategic opportunities. Thus, a proactive footloose MNE will try to shape the external environment in its favour as it can anticipate where the 'wind will blow' and have full control over its actions. Here, we can draw attention to IBM and how it approaches footloose behaviour. IBM does not wait for change to happen; it takes advantage of it by divesting the subsidiaries that do not fit with its strategic profile and by investing in valuable segments that shape the whole industry (e.g. Watson Internet of Things). Hence, what is important is not the subsidiary on its own, but the fit between the value of the subsidiary and IBM's strategic profile. Another example is P&G's decision to change its strategic profile completely. P&G was expanding its brand portfolio for decades, but decided to completely change its strategy by eliminating the majority of its brands, leaving only the 50 most important ones. P&G drives its own change, not because of external circumstances, but because it intentionally decided to do so.

For reactive footloose MNEs, the starting point is the external environment and circumstances that are potentially detrimental to them. Reactive footloose behaviour means that an organisation 'reacts' to the changes in the external environment. The MNE lags behind its external environment and makes a systematic effort to catch up with it by adjusting its internal environment. A special case of reactive footloose behaviour is related to outdated technological capabilities. When technology becomes obsolete (external environment), the MNE attempts to revive this technology in a less developed location where it still might be appropriate. This argument is linked to the discussion of Vernon's life cycle, presented in the Conceptual Framework section (Chapter 4). We argued that this is the most extreme form of footloose behaviour, as changes due to the cycle of technology never cease to exist (i.e. new technology is constantly introduced to replace the outdated technology). JC is a firm that depends on its customers (car manufacturers) and reacts to external circumstances. JC divested from Spain in 2009 because of the financial crisis and reasons associated with the difficulties that the car industry was experiencing. In the case of Electrolux, for example, the

production process of innovative products is costly and, in order to 'stay in the game', the company must constantly overcome the price pressure. Hence, Electrolux is an example of a company that systematically relocates to cost-efficient regions in order to break the pricing pressure.

Our case studies show the full spectrum of footloose behaviour, starting with the proactive IBM, which influence the change in the external environment by shaping its internal environment, to a company such as JC, which is completely 'locked in' between the demands of its own industry (automotive components industry) and the industry of its customers (automotive industry). Overall, reactive and proactive footloose behaviour highlights the degree of control a company has over its own strategic actions.

7.4. Footloose Behaviour: Proactive Innovators and Reactive Efficiency-Seekers

In the previous sections of this chapter, we discussed two things: the main drivers of footloose behaviour (innovation and efficiency), and the way an MNE approaches its internal and external environment. The illustration is provided by Figure 8. We concluded the last section with a statement that reactive and proactive footloose behaviour exemplifies the degree of control that an organisation has over its strategic actions. In this section, we discuss the key footloose behaviour drivers in the context of internal and external environments based on examples from the case studies.

Proactive MNEs: IBM acquired Weather Company in order to gain access to data. Without this 'tremendously valuable data' (quote I8), IBM would not be able to address significant new opportunities. Hence, the desire to innovate was intentional and purposeful. P&G seems to innovate in another 'dimension' compared to IBM. P&G invests in packaging, advertising, and marketing product improvements in order to make its remaining brand portfolio better, as this is the way it competes in the market. However, if we look at the company's history of innovation, it will become clear that P&G is a bold innovator (e.g. first toothpaste with fluoride and first synthetic detergent (Reingold 2016)). P&G radically changed the way we live. We found that, for IBM and P&G, the footloose behaviour is directed more by internal environment compared to the external environment.

Reactive MNEs: JC openly admits that it 'may not be able to realise the expected benefits of restructuring actions', or it 'may not be able to successfully negotiate pricing terms with (…) customers' (quote J4). Hence, the external environment (e.g. car manufacturers) is what drives JC's footloose behaviour. For JC, efficiency comes first. Innovation for JC is not so much an intention, but a necessity as, without innovative products, it will lose customers. Another example of a reactive MNE is Electrolux, which produces innovative household appliances and is significantly driven by the external environment (not as widely as JC, but still significantly). 'The fast pace of change in the industry has led to new trends, such as increased consumer power, digitalisation, consolidation and sustainability. These changes place increasing demand on investments and ability to adapt but also opens up major opportunities' (quote E2). Therefore, in order to overcome the external pressure, 'Electrolux has in recent years invested in R&D and new innovation and transformed its business into a consumer-oriented company' (quote E2). Electrolux moves to low-cost locations to relieve financial pressure, and it innovates to keep market share. So, we find that JC and Electrolux's footloose behaviour is directed more by the external environment compared to the internal environment.

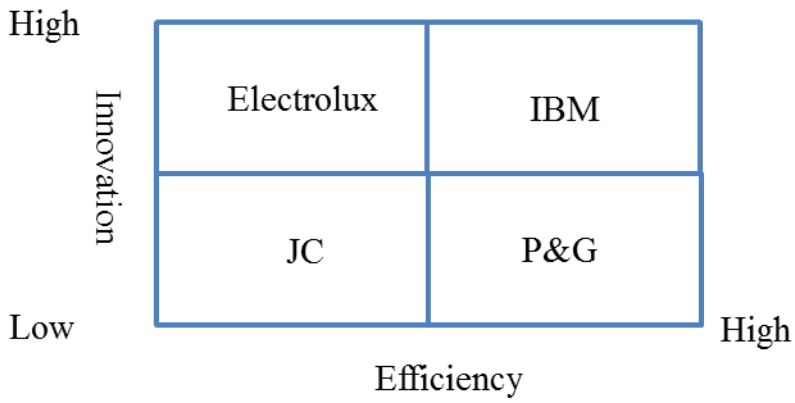

Figure 8 Innovation and Efficiency matrix

7.5. Footloose Behaviour Typology

In the preceding parts of this chapter, we discussed the two prominent approaches to footloose behaviour: proactive and reactive. We highlighted that the proactive approach is taken by MNEs whose strategic decisions are directed by the internal environment.

The reactive approach is taken by MNEs whose strategic decisions are directed by the external environment. We also emphasised that innovation is linked to the internal environment. We find that MNEs that are driven by their internal environment are also driven by the intention to innovate. We find that MNEs that are driven more by their external environment are also driven by the intention to increase efficiency. In the following part of this section, we will bring together all the separate elements discussed above under the umbrella of the typology of footloose MNEs. In the following section we summarise how each of the selected MNEs approaches the innovation/efficiency dilemma.

7.5.1. Innovation

IBM is a multinational enterprise that proactively follows its own strategic path. Investments that do not fit into the strategic profile of the organisation are removed. Innovation and footloose behaviour play key roles in the direction that its strategic path follows. Hence, this makes IBM not just a market leader but also a driving force in the industry, over which the MNE has significant influence.

Innovation plays a key role for Electrolux. This company designs and produces high-end innovative home appliances. However, this market segment is tricky to tackle. For Electrolux, innovation is not just a choice; it is a necessity, as the consumer electronics industry is becoming increasingly digitalised. Thus, Electrolux must innovate not just quality-wise, but also feature-wise, integrating new digital technology with its basic products. In this regard, innovation is somewhat forced on the company by consumer preferences.

P&G is a company that is currently undergoing a major restructuring change to enhance its competitive advantage. P&G strategically decided to remove 116 brands from its portfolio in order to focus on the few that bring in the majority of its profit. This strategic move enabled P&G to focus on innovation and the enhancement of its core brands. Focus on innovation enables P&G to differentiate itself from competitors. This proactive approach to strategy was driven by P&G's desire to become a brand that brings better value to its consumers.

The main business responsibility of JC is to supply products to its customers, the car manufacturers. Thus, JC has to manoeuvre between supplying innovative solutions to its customers, raw materials price pressure, competition, industry demands, and environmental regulations. Innovation for JC is associated with its 'locked in' position. JC innovates because its clients want the innovation. In other words, innovation is a necessity and the direction of the innovation path is dictated by the specific needs of the car manufacturers, or the external environment.

7.5.2. Efficiency

In order to win its market share, Electrolux has to constantly manoeuvre between the production costs of expensive innovative household appliances and efficiency. Electrolux chases opportunities to cut all possible costs by constantly relocating to low-wage regions. Electrolux realises that it must follow in the footsteps of its competitors, who have relocated to lower-cost regions. This imposes pressure on Electrolux and forces it to react to external circumstances.

P&G requires a balance to win the market. Thus, efficiency is a means to achieve this balance. The company focuses on only 50 brands in order to create products that are valuable to its customers. Hence, it strategically relocates its production and mercilessly closes plants that do not add value to the whole company. However, P&G also 'groups' the plants in order to maximise coordination, thus increasing efficiency. The efficiency-search for P&G is a purposeful, strategic action.

For JC, efficiency is the way to sustain its competitive advantage. The firm is locked in between the demands of the automotive component industry and the industry of its customers, the car manufacturers. In simple terms, there is only one possibility for JC to remain competitive and that is to 'chase' the changes in the external environment and react to them by adjusting its internal environment. To some extent, JC is always several steps behind the industry. The external environment drives JC's strategic profile and footloose behaviour. Efficiency for JC takes the form of constant re-evaluation, and JC acknowledges that the changes it implements might not be fruitful, due to circumstances that are beyond the firm's control.

IBM takes advantage of momentum and new opportunities. IBM increases its level of efficiency by making strategic investments that are primarily 'forward-looking'; advancing its global competitiveness, pre-empting the competition, or decreasing the competitive advantages of the competitors (Benito 2015; Cuervo-Cazzura and Narula 2015). The efficiency is assessed through a strategic fit (value) of the investment (Dunning and Narula 2010) and currently perceived attractiveness of the location.

7.5.3. Moderating Effect of the Network Components

Literature suggests that there are two factors that influence the elements of the internal and external environments of the MNE. These factors are *headquarter-subsidiary (HQ-Subsidiary) interdependence* (see Andersson et al. 2007; Forsgren et al. 2005; Gupta and Govindarajan 1991; 2000; Young and Tavares 2004) and *operational flexibility* (see Buckley and Casson 1998; Kogut 1983; Kogut 1985; Song 2014). Footloose behaviour emphasises the misfit between the investment (i.e. subsidiary) and the strategic profile of the company. The resource (e.g. a subsidiary) that does not add value to the strategic profile of the MNE should be removed. Contrary, the resource (e.g. potential subsidiary) that has a good fit to the strategic profile of the MNE should be acquired. HQ-Subsidiary interdependence and operational flexibility are the two characteristics of the network that can help a company to increase efficiency without engaging in the footloose behaviour. In the following section we summarise how each of the selected MNEs approaches the HQ-Subsidiary interdependence and operational flexibility.

Footloose behaviour emphasises the poor fit between an investment (i.e. subsidiary) and the strategic profile of the company. A resource (e.g. a subsidiary) that does not add value to the strategic profile of the MNE should be removed. On the other hand, a resource (e.g. potential subsidiary) that has a good fit to the strategic profile of the MNE should be acquired. HQ-subsidiary interdependence and operational flexibility are two characteristics of the network that can help a company to increase efficiency without engaging in the footloose behaviour.

IBM recognises the significance of local expertise for value creation and knowledge transfer. Thus, the HQ-subsidiary interdependence is high. A high level of HQ-subsidiary interdependence allows the MNE to better fulfil its strategic profile by

exploiting the benefits of location. Regarding the operational flexibility, we suggest that it is moderate-high, which allows IBM to ‘catch the momentum’.

JC takes a different approach, as the firm tends to centralise operations in order to increase efficiency and reduce costs. Thus, the HQ-subsidiary interdependence is low. However, as JC must react quickly to external circumstances, this highlights that it is better to keep the decision-making process centralised. JC has an appropriate level of operational flexibility to rotate the allocation of its subsidiaries constantly. However, JC does not integrate subsidiaries well into its network and is constantly looking for opportunities to restructure, mainly through relocation to low-cost countries.

Currently, P&G is on the verge of a restructuring process, and in this case study, we have observed P&G’s approach to the network during the restructuring process. In order to fulfil such a drastic transformation, a company should have a ‘bird’s eye’ view of the process. At the moment, P&G has a low HQ-subsidiary interdependence. The operational flexibility is moderate, but P&G is making an effort to increase the level of operational flexibility by grouping investments in a single country.

Electrolux struggles to cut costs. The decision-making process is centralised, which leads to a low level of HQ-subsidiary interdependence. Thus, there is a little conversation between HQ and the subsidiary. Operational flexibility is moderate-high because Electrolux makes an effort to increase the connections between subsidiaries by grouping them and increasing their coordination.

Overall, a higher level of HQ-subsidiary interdependence and operational flexibility increases the number of linkages between subsidiaries and between subsidiaries and HQ (Nohria and Ghoshal 1997). Hence, increasing the value of each subsidiary decreases the possibility of footloose behaviour (Sengul and Gimeno 2013).

7.6. Conclusion

In all four cases analysed we conclude that footloose behaviour emerges in a similar way within the same motivation. However, there are individual differences that make a firm respond differently to the combination of factors that drive the footloose behaviour. Our discussion in this chapter allowed us to create a typology of footloose multinationals, highlighting the broad characteristics that lead to the adoption of

footloose behaviour. IBM is a bold innovator that follows its own strategic path, shaping the external environment on the go; the internal environment directs the strategic decisions. Johnson Control is constantly behind the external environment; thus, the firm is always chasing the opportunities that would increase its efficiency. In this case, the external environment directs the strategic decisions. A Procter & Gamble is a company on the verge of a massive restructuring to streamline its resources. However, this restructuring is strategic; therefore, the internal environment directs the strategic decisions. Electrolux is a firm that manoeuvres between the dilemma of innovation and efficiency. The necessity to innovate and the need to afford the innovation force the MNE to seek more efficiency constantly. In this example, the external environment directs the strategic decisions. The cases studies revealed an interesting interplay between the ability of the MNE to innovate and the desire to achieve the maximum level of network efficiency.

We consider our framework a general framework of footloose behaviour. We also suggest that the combination of innovation and efficiency are found to be the main factors that affect footloose behaviour. However, we should acknowledge that there is a firm with it is unique characteristics that can alter the footloose behaviour mechanism. We argue that our framework is general enough in order to be applicable to any large MNE, but we also suggest that there might be some idiosyncratic elements of the firm that will impact footloose behaviour. The issue of generalisability is further discussed in the Conclusion Chapter (Chapter 8, Section 8.5. and Section 8.7).

8. Conclusion

8.1. Introduction

In this concluding chapter, we summarise our thesis argument and present our research findings. We explain how we contribute to theory and to practice. Also, we discuss the limitations of our study. Finally, we present our ideas on avenues for future research.

8.2. Summary of Thesis Argument

The literature does not always make a distinction between the different types of MNE activities, such as investment and relocation, which creates a theoretical gap regarding our understanding of the motivation that underlines an MNE's behaviour. In simple terms, investment can be initial or relocation (investment). In the case of initial investment, an MNE is investing for the first time; however, in the case of relocation, an MNE has to divest an existing operation and relocate it to another region, i.e. the investment exemplifies the expansion-related activity, but relocation exemplifies the move of production facilities from one country to another (Mucchielli and Saucier 1997). Hence, in the literature, investment, as a conceptual construct, might exemplify a multiplicity of meanings without providing further clarifications.

This multiplicity of meanings exists, however, because the literature usually addresses FDI research in terms of the internal and external environments in which MNEs operate. The internal environment includes the factors that are located within the boundary of the firm; the factors of the external environment are thus outside the firm's boundaries. However, an MNE is an organisation, and every organisation has a particular structure. The main characteristic of an organisation's structure is the existence of linkages between the elements of this structure; when elements of a structure are linked to each other, they form a network. In the case of MNEs, the structure is the dynamic differentiated network that highlights the existence of linkages between an HQ and a subsidiary, and between subsidiaries. Therefore, there are two points of departure: the internal and the external environments, and the existence of linkages between network elements.

When we bring the network element to the research on the motivation behind MNEs' behaviour, we then recognise that the different types of MNE activity (investment, divestment, and relocation) are not isolated from each other, but interdependent. When we bring the network element to the theoretical puzzle, we realise that relocation is a "complex phenomenon and should be considered as one of the effects of other dynamics rather than a process in its own right" (Pedersini 2006, p.12). Thus, when we want to understand the motivations behind an investment, divestment, or relocation, we need to study them from the point of view of an MNE's network, not from the point of view of the individual subsidiary.

Casson (2014) argues that IB literature extensively covers the benefits of internalising the market (new expansion investments and the bundling of activities under the umbrella of the firm) but almost ignores the costs, which increase significantly with the size of the firm. Hence, the optimal solution for a company would be to set a boundary where the costs and benefits of further internalisation are equalised. MNEs are not static; firms change and evolve with time due to different factors in internal and external environments. These factors and their interactions govern the boundaries (i.e. the scale) of the firm. Hence, when these factors change, the costs/benefits balance may also shift. Consequently, the boundary of the firm may be pushed back (i.e. the firm will reduce in size). Here, we refer to activities that have been internalised, but where it is no longer beneficial to keep them internalised. These activities become valueless "empty calories" (Ibm 2014, p.3) and should be divested if the firm wants to avoid potential failure.

In this thesis, we explore a new way of investigating FDI activity through the lens of systematic 'repeated relocations', which we approach as footloose behaviour. MNEs are constantly changing, due to changes in their internal and the external environments; however, a firm cannot grow in size endlessly as "there is an optimal size beyond which the firm cannot profitably expand" (Casson 2014, p.216). Therefore, regular divestments are part of a firm's healthy lifecycle, as they help to rationalise (i.e. increase the efficiency of) the allocation of existing resources. Rationalisation allows MNEs to continuously develop without ever reaching a boundary. We define the rationalisation of activities as footloose behaviour, which is the repeated relocation of previously divested operations over a period of time. Footloose behaviour is a process of constant bundling (i.e. investment), unbundling (i.e. divestment), and re-bundling

(i.e. relocation) of activities, with the aim of balancing the optimal size (i.e. efficiency) and growth of an MNE.

The principal research questions of this study are formulated below:

1. *What are the key factors that drive footloose behaviour?*

2. *How do these factors interact to augment or reduce this behaviour?*

3. *How does headquarter-subsidiary interdependence moderate the key factors that drive footloose behaviour?*

4. *How does operational flexibility moderate the key factors that drive footloose behaviour?*

In the following section, we outline our research findings.

8.3. Summary of Research Findings

The main findings of our research are as follows:

RQ1: What are the key factors that drive footloose behaviour?

To identify the main driving factors of footloose behaviour, a conceptual framework was developed and then applied empirically via case studies. We found that there are two main driving forces of footloose behaviour: innovation and efficiency. We must point out, however, that these factors are firm-specific; thus, innovation and efficiency are concepts that encapsulate many other firm-specific factors that would drive innovation and efficiency for a particular firm. In other words, we focus on the concepts of innovation and efficiency, and it is argued that the way an organisation approaches innovation and efficiency is specific to the organisation itself.

We demonstrate innovation and efficiency in a holistic way where the emphasis is on the interplay of these concepts. If we approach these two concepts from the level of the MNE one is inseparable from the other. We, therefore, bridge the knowledge gap between different types of MNE's behaviour (investment, divestment and relocation)

that might be affected by the interplay of these two factors. Without the acceptable level of efficiency, MNE is unable to realise their creative potential and innovate. Without constant innovation, a firm will lose its competitive advantage and won't supply the market with the products (Benito 2015; Wilson and Baack 2012).

RQ2: How do these factors interact to augment or reduce this behaviour?

The interplay between innovation and efficiency is summarised in the following way: innovation is what keeps MNEs 'in the game', but efficiency is what makes them successful players. As both factors are vital, firms face a dilemma: how to achieve efficiency and innovation at the same time. An MNE's approach to solving this dilemma depends on the way it tackles its internal and external environments. There is an array of factors, both internal and external, which drive footloose behaviour. However, these factors can be summarised as two overarching factors: the drive towards achieving efficiency (Dunning and Narula 2010) and the drive towards developing innovation (Benito 2015; Cuervo-Cazzura and Narula 2015). We illustrate this dilemma by developing a typology of footloose MNEs and highlighting how innovation and efficiency interact to either reduce or augment footloose behaviour.

Propositions that we developed through RQ1 and RQ2:

Proposition 1: RS investments will exhibit less footloose behaviour in comparison to MS and ES motives.

Proposition 2: MS investments will exhibit more footloose behaviour in comparison to RS investments, but less than ES investments.

Proposition 3: ES investment will exhibit more footloose behaviour in comparison to RS and MS investments.

RQ3: How does headquarter-subsidiary interdependence moderate the key factors that drive footloose behaviour?

AND

RQ4: How does operational flexibility moderate the key factors that drive footloose behaviour?

So far, we have discussed the key drivers of footloose behaviour – innovation and efficiency – and the way in which they interact to either reduce or augment footloose behaviour has been highlighted by the developed typology of footloose MNEs. It can thus be said that their interaction is MNE-specific. Hence, the previous discussion is aligned with the first two research questions.

The remaining research questions revolve around the impact of HQ-subsidiary interdependence (see Andersson et al. 2007; Forsgren et al. 2005; Gupta and Govindarajan 1991; 2000; Young and Tavares 2004) and operational flexibility (see Buckley and Casson 1998; Kogut 1983; Kogut 1985; Song 2014).. We found that HQ-subsidiary interdependence and operational flexibility moderate the interplay of innovation and efficiency in an MNE's network. MNEs face a dilemma: how to achieve efficiency and innovation simultaneously. From a management point of view, HQ-subsidiary interdependence and operational flexibility are elements that an MNE can adjust to achieve higher levels of efficiency and innovation without engaging in the footloose behaviour. In other words, as MNEs need to achieve both innovation and efficiency, these two factors can be evaluated in the context of HQ-subsidiary interdependence and operational flexibility. We found that MNEs try to increase the connection between network elements in order to solve this dilemma.

Propositions that we developed through RQ2 and RQ3:

Proposition 4: Footloose behaviour will be strong in subsidiaries with low HQ-Subsidiary interdependence.

Proposition 5: Footloose behaviour will be strong in subsidiaries with low operational flexibility.

8.4. Research Contribution

8.4.1. Contribution to Theory

Our contribution to the literature is threefold and summarised below.

We contribute to the literature by conceptualising and defining footloose behaviour. The literature treats individual activities of an MNE as separate actions. This creates a theoretical gap in the understanding of the motivations behind MNE activities such as investment, divestment, and relocation. An MNE is a complex social phenomenon that is driven by an array of allied motivations. The concept of footloose behaviour is a bridge that closes this gap and exposes the inseparability of investment, divestment, and relocation. Hence, this is our first contribution.

Traditional IB literature studies MNE activities from two anchor points: the internal environment and the external environment. However, MNEs comprise a dynamic, differentiated network of linkages. Thus, to address the network element, through a systematic review of the literature, were identified two dimensions that affect the behaviour of an organisation: HQ-subsidiary interdependence and operational flexibility. Thus, the inclusion of the network element is our second contribution.

In addition, we developed a conceptual framework that proposes the mechanism of footloose behaviour. Using our conceptual framework as a guideline, we then applied this empirically. As a result of this empirical exercise, we developed a typology of footloose multinationals. These labels allow us to create a typology of footloose MNEs, highlighting the broad characteristics that lead to the adoption of this behaviour. Therefore, this is our third contribution.

Overall, our conceptual model provides a new way of exploring FDI patterns through the prism of footloose behaviour; thus, we contribute to the development of an integrated body of IB literature.

8.4.2. Contribution to Methodology

Our methodological contribution is twofold and summarised below.

Prior research on footloose behaviour (see Caves 2007; Cowling and Sugden 1999; Flamm 1984; Görg and Strobl 2003; Inui et al. 2009; Van Beveren 2007) employs quantitative methodology and focuses on the impact that footloose MNEs have on the single host country's economy. We suggest that this approach to footloose behaviour research cannot accommodate the complex nature of the footloose behaviour. One possible reason is the fact that prior research does not provide a definition of footloose

behaviour; as a result, the footloose behaviour is confused with relocation. To overcome this gap, we examined footloose behaviour in the context of the European Union. Footloose behaviour is a complex, strategic decision that involves repeated relocations, divestments, and investments. It is not possible to study this complex phenomenon based on a single country. To track all MNE activities, we need to examine how MNEs invest, divest, and relocate in several countries simultaneously. Thus, employing 28 countries of the European Union as a study context is our first methodological contribution.

To identify the drivers of footloose behaviour, we needed to explore the phenomenon. Thus, our research is explorative in nature, and a qualitative case study approach was employed. Therefore, our choice of methodology, which is a qualitative case study, followed the nature of the research questions and enabled us to explore the drivers of footloose behaviour. Thus we enhance the existing quantitative methodology. This is our second methodological contribution.

8.4.3. Contribution to Practice

From a practical perspective, our study clarifies how to manage MNEs and how to retain an optimal balance between firm size and growth, i.e. how to manage a large organisation and maintain an efficiency/innovation balance, while responding to changes inside and outside of the firm. Casson (2014) argues that even those who are closely involved do not usually foresee a firm's failures. Thus, it is crucial for managers to embrace and understand the complexity of an MNE, and to understand that the "balance and the boundaries of firms are subject, as always, to conflicting pressures" (Buckley 2014, p. 231).

8.5. Research Limitations

Firstly, we cannot claim universal validity and reliability of the findings, since our research comprises a small sample (four case studies) and is specific in terms of the selected MNEs and industries. Hence, limitations emerge from the nature of the qualitative case study methodology. Secondly, we acknowledge the human-factor biases that will inevitably affect the individual perceptions of the critical realist researcher. Thirdly, we limited our study to a particular geographical region, namely the European

Union. Thus, we restricted the research to a set of 28 countries and the particular industries that exist there. Hence, the potential generalisability of the results is constrained.

8.6. Research Implications

Prior literature on footloose behaviour emphasises that the term, 'Footloose' has a negative connotation. Thus footloose MNEs are seen as an undesirable social phenomenon or persona non grata. We are at odds with this logic. We argue that the perception of footloose behaviour has a relative nature; thus, it depends on who is the judge in this trial. For the country where the MNE divests, the footloose behaviour may have negative consequences; however, for the country where the MNE invests, it will be a welcomed, positive action. As for the MNE itself, the footloose behaviour is a strategic action. This should be acknowledged in future research.

The negative connotations of footloose behaviour are inherited from its divestment and relocation elements. However, what is missing from this kind of discussion is that a country should attract the right kind of investors and identify the development path that would enhance the probability of attracting the right investors. Footloose behaviour is about creating value; thus, a footloose MNE is a company that is focused on maximising the value of its resources. If a footloose company leaves a particular location, it means that the location and the company simply no longer suit each other.

Our study has challenged the existing view regarding investment simply as an expansion process. Lessons can be drawn from this research, such as that not all investments are new investments, but some may be relocation investments; thus, they follow very different investment motivations.

8.7. Recommendations for Further Research

1. The proposed typology of footloose multinational can be extended further by comparing similar MNEs from one industry only to clarifying their approach to the innovation-efficiency dilemma.

2. We have identified how the concepts we proposed in the conceptual framework work. In the next step, we can go back to literature and identify

how literature quantitatively measures our concepts, linking them back to the footloose behaviour via organisational characteristics. In other words, we link the internal and the external environments with the HQ-Subsidiary interdependence and operational flexibility. On the basis of our propositions, we can look at how the environments through measurements lead to footloose behaviour or not.

3. There are a number of avenues through which we can address the issue of generality. The first way is to have a bigger sample of firms, two or three per industry. The second way is to compare the behaviour of several MNE in the following way. We can look at the single MNE's activities in different locations and trace any changes empirically. In a single year, MNE can have divestment, stability (no change) or new investment that we can measure empirically. Hence, we will have a full picture of the MNE activities in different countries. We should repeat this process for other MNEs and compare them. In this case, we will have a variability of country characteristics and variability of MNEs investment motives that will show the behaviour of each of the MNE and allow us to highlight patterns and similarities on a bigger scale.

4. Footloose behaviour aims to increase the level of efficiency in the whole MNE network. However, it is also worth exploring whether footloose behaviour has any impact on the long-term performance of the firm. This future research objective stems from the assumption that the execution of footloose behaviour produces additional costs for an organisation.

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Appendix1. Definition of terms

Foreign Direct Investment (FDI) –is "a cross-border investment made by a company with the purpose of obtaining a long- term equity interest in a foreign enterprise, and thereby exerting a considerable degree of influence on the operations of that enterprise"(Benito 1997a)

Divestment – is a cessation of all or of a major part of existing active operations that reduces the presence in the foreign market (Belderbos and Zou 2006; Boddewyn 1979). " Divestment may be operational through closure of trading units. Divestment may also take the form of organizational restructuring e.g. changing from corporate ownership to a franchise or part-sale of a failing subsidiary. Divestment may entail exit" (Burt et al. 2003, p.3589).

1. **Exit** –"is a total withdrawal of a firm from an operational presence in a foreign market. Exit may be accomplished through sale of assets, international store swaps, bankruptcy or other processes" (Burt et al. 2003, p.359).
2. **Closure** –"is the cessation of trading, by MNE, from one or more subsidiaries in a foreign market. MNE will continue to trade in the foreign market with a reduced intensity of distribution" (Burt et al. 2003, p.358).
3. **Organisational restructuring** – "is a process that involves a change in the control of resources of the firm. The firm will continue to trade in the foreign market through a different organizational form, involving a reduced resource commitment" (Burt et al. 2003, p.3589).

Divestment is termed as **relocation** when terminated activities in the subsidiary are relocated to another country: **(i)** by establishing a new subsidiary, and **(ii)** by increasing a market scope, product scope or value-added scope of an existing subsidiary (see White and Poynter 1984).

Footloose Behaviour –is the repeated relocation of the previously divested operations over a period of time.

Customs Unions

Members of Customs Unions (CU) remove all trade barriers among the participating members as in the FTA, but they also create policies and common external tariffs on imports from the non-members. Therefore, CU represents an advanced version of FTA.

Appendix 2. Settings to Investigate the Research Question

Current part of the methodology chapter emphasises our goal to select the appropriate context for our study. Footloose behaviour is an outcome of the MNE that operates as DDN and seeks to rationalise the existing allocation of resources. The research context needs to reflect the dynamic element of the MNE network; it needs to change systematically and evolve with time. Additionally, the context of the study should overcome the limitations of prior research in terms of single country selection. We are looking for a region of several countries to eliminate the host country environmental factor on its own and allow patterns to emerge in a cross-case analysis.

Therefore, regional trade agreements (RTA) can fit the purpose as it allows having several countries as a study setting. In order to understand, which RTA is the most appropriate, we will provide literature support and develop indicators in order to compare different existing RTAs. These indicators will become a core part of the Selection Framework that should promote the most accurate and justifiable selection for the Regional Integration Agreement.

Literature Support for the Selection Framework

Economic Integration Overview

The concept of integration reflects the process where independent entities move from the condition of isolation (partial or total) towards the unification (partial or total) (De Lombaerde and Van Langenhove 2005). Thus “such complex social transformation may or may not imply some permanent institutional structure” (De Lombaerde and Van Langenhove 2005, p.5). The integration of states can indicate to various aspects of cooperation, but it is predominantly used in the framework of international trade and economy. When integration processes evolutions to the economic integration it can be explained as “the voluntary linking in the economic domain of two or more formerly

independent states to the extent that authority over key areas of domestic regulation and policy is shifted to the supranational level" (Mattli 1999, p.41). Below, we provide a summary of different forms of supranational integration paths or regional integration paths as they often labelled.

Regional Trade Agreements

The process of regional economic integration implies association of different countries into large trade blocs with the main objective of removal of all trade barriers and facilitation of cooperation and coordination between members through the creation of common policies (Dennis and Yusof 2003; The World Bank 2008).

It is important to make a distinction between types of agreements that are signed by the members of the trade blocs as each type represents a different level of economic integration. Usually, in the literature, different integration agreements are labelled as Regional Trade Agreements (RTA) (Wto 2014) or Regional Integration Agreements (RIA) (Phelps and Alden 1999a). For the purpose of the current thesis, we will adopt WTO terminology and typology of RTAs in order to be in line with the main open source of data that we rely on, which is the World Trade Organisation Regional Trade Agreements Information System (Wto 2014). Below, the summary of the main types of RTAs is presented.

Preferential Trade Agreement

There are two ways Preferential Trade Agreements (PTA) can be seen. Firstly, the term PTA can be attributed to all types of RTAs as a generic label because all RTAs involve some degree of 'preferred' behaviour (Suranovic 1998). Secondly, PTA can be seen as the 'weakest' type among all RTA (Suranovic 1998) as members of PTA keep lower trade barriers (but not eliminate them completely) for the member countries compared to trade with countries outside of the trade bloc.

There are different kinds of PTA, but they all contain reciprocity between the members and can be labelled as an association, partnership or trade, preference association (Dennis and Yusof 2003). For the purpose of this thesis, we will adopt only one PTA type - *Partial Scope Agreement (PSA)* in order to be consistent with the WTO Regional Trade Agreements Information System (Wto 2014). Partial Scope Agreement comes

into force when "notified to the World Trade Organisation (WTO) that are not a free trade agreement, a customs union, or an economic integration agreement" (The World Bank 2008, p.339).

Free Trade Agreement

The members of the Free Trade Agreement (FTA) eliminate all trade barriers among themselves, but each country keeps the right to regulate their policies in relation to non-member states. The basis of FTA is a 'rule of origin', which means that in order to be qualified for the tariff exemption, a commodity should be originated from a member country (Dennis and Yusof 2003).

Economic Integration Agreement

Economic Integration Union (EIU) maintains the free trade of goods and services, common policies and external tariffs for non-members as well as the free mobility of production aspects such as capital, technology, and the labour movement.

It might appear that types of RTAs can be seen as the phases of evolution starting with Preferential Trade Agreement and leading to the Economic Integration Agreement. The process of integration starts with lowering trade barriers, subsequent implementation of labour and capital free movement followed by the removing barriers arising from various regulatory measures (Dennis and Yusof 2003). In the latter phases, the coordination and the integration of macroeconomic policies come into the light (Dennis and Yusof 2003). The formation of European Union followed this sequence of stages, but there are other examples that did not. For instance, In 1989 USA and Canada signed a free trade agreement that was extended with the inclusion of Mexico in 1994 and formation of North American Free Trade Area (NAFTA). Currently, there is no intention to incorporate free movement of labour in NAFTA. Therefore, economic integration can follow a different path and have a variety of aims that constitute different country objectives to sign the RTA; hence, there is no general law of integration.

The type of Regional Trade Agreement that expresses the level of integration serves as a starting point for our selection frameworks. The most suitable type of RTA is Economic Integration Agreement, but at the same time, it is the rarest type. Therefore,

we will be looking among Free Trade Areas and Customs Unions, which are the most common types. We need to choose an RTA where MNEs can behave 'naturally' and utilise the rationalisation motivation within the RTA. We need to see how MNEs' response to the interrelation of internal and external factors, and uncover the cases of footloose behaviour.

Country Objectives Underlying Regional Trade Agreements

The description of Regional Trade Agreements given above is aligned with WTO Regional Trade Agreements Information System (Wto 2014) that we are incorporating in this thesis in order to identify the appropriate RTAs. However, it is important to emphasise that RTAs have a broad range of forms and contents, which go beyond the classical separation for free trade area and customs union (Phelps and Alden 1999a). The difference between RTAs can be highlighted "in relations to the free movement of labour, capital and services, in industrialisation provisions (including production sharing agreements) and payment terms" (Hine 1999, p.38).

The diversity of Regional Trade Agreements reflects the diversity of motivations and goals of the countries that are engaging in them. Therefore, the key point here is to highlight why countries wish to sign the trade agreements, because when the reasons are highlighted it easier to understand why the RTA took one form instead of another. Whalley (1998) suggested that there are six main motivations for a country to seek Regional Trade Agreement.

Traditional Trade Gains is probably the most conventional motive for a country to join the RTA as it allows benefiting from reciprocal exchanges in the lowering (or eliminating) of trade barriers and subsequent improvements in the market access for all members. Therefore, benefits are considered as high, because usual trading partners are often involved, and the number of participating countries is small, which makes the negotiations easier. However, customs union theory (Viner 1950) suggest that gains may not be reached if the trade is diverted to the higher-cost contractors within the union; thus, these trade-diversions losses may offset trade creation gains (Hine 1999). Despite this, the idea of the trade gains was one of the reasons behind the creation of European Economic Community (EEC) in 1957, but it was not, in fact, the core motivation, which will be discussed below in the strategic linkage part.

Straightening domestic policy reform motivation underlines the idea that regional trade agreement will support the domestic policy reform and make it irreversible due to the commitment to the RTA. A good example here would be Mexico's motivation to join the Canada-US Free Trade Area (CUSFTA) that was in action from 1986 till 2004. The negotiations for the inclusion of Mexico started in 1991 and were completed in December 1993. In January 1994, NAFTA entered into force. The main motivation for Mexico was to secure their domestic economic reform by binding it with the international agreement commitment and making it irreversible (i.e. impossible for future governments to abandon the reforms) (De Long et al. 1996; Kose et al. 2004; Whalley 1998).

Increased multilateral bargaining power implies that countries, which are combined in a regional trade bloc can exercise more leverage in international negotiation, as they have common goals (Hine 1999). For instance, in Latin America Southern Common Market (MERCOSUR) perused a goal to increase their bargaining power (compared to the individual countries) in their negotiations with the most powerful RTA in North America - NAFTA (Whalley 1998).

Guarantees of access can be a motivation goal for mainly smaller countries; hence, they will be able to gain market access through the trade agreement with the larger country. US-Canada case can be an appropriate illustration. Canada wanted to sign a trade agreement, which would allow them to be exempted from anti-dumping and countervailing duty actions in the US (Whalley 1998).

Strategic linkage motive implies the need for security measures among country members; thus this was the main goal of the early European integration in 1950. "The development of the EU is underpinned by the political ambition to unite a continent that was the scene of devastating military conflicts twice in the twentieth century" (Hine 1999, p.37).

Multilateral and regional interplay motivation suggests that signing potential (or actual) regional trade agreement can be used as a tactical manoeuvre to protect one's interests during multilateral negotiations. Whalley (1998) gave an example of the USA, which influenced its negotiation (multilateral) partners to complete the Uruguay Round agreement. Hence, if multilateral partners were reluctant and slow to react, it was

widely expected that the USA would immediately start the bilateral negotiations with other regional partners.

Understanding all motivations for the signing the RTA goes beyond current thesis, but identification or at least highlighting the core motive will assist us in the selection process. We are looking for the RTA that demonstrates continues positive behaviour towards integration among all participating members as deeper economic integration creates 'natural' environment for the MNEs (Thomsen 1995). Within this 'natural' environment, multinational enterprises can trade as they wish (i.e. to choose 'natural' partners, to choose a more suitable location). This highly integrated economic environment helps to uncover true motivations of multinationals as MNEs are not constrained by borders and governments. Hence, MNEs can follow the rationalisation motivation and adopt footloose behaviour.

The Link between FDI and Regional Integration

For many decades, the influence of Multinational Enterprises on the global economy in the areas of the economics, political and social affairs has been acknowledged. MNEs affected trade development, knowledge and technology innovation, global financial flows and developed new managerial practices (Young and Brewer 1999). Although, global power (i.e. monopoly) of the Multinationals has been highlighted years ago (see Barnet and Muller 1974), global strategies of the MNEs (the way how enterprise coordinate its network on the worldwide level) are more recent research objective (Young and Brewer 1999). Due to the ability of the MNE to manage its overseas operation on the global scale, FDI influence on the economic development has been increased in strength and widened in scope as the whole regions have been influenced by the FDI inflows. As a result of such high impact, the integration processes have been affected by the MNEs' activities.

Activities of the MNEs orchestrate the process of regional integration as in the integrated economies MNEs can act freely and conduct business as they choose (Thomsen 1995). Hence, the contribution of the multinationals to the process of integration should not just be linked to a collection of responses to the challenges imposed by supranational governments (i.e. European Commission policy in the European Union), but with what MNEs bring to the host economy (i.e. organisation of

production facilities, new work practices), and how the free choice of the location shape the location determinants across the RTA.

FDI inflows promote the restructure of domestic companies and bring money to the economy (Djankov and Murrell 2002). When RTA members have unequal economic development, FDI will be beneficial for poorer members as it will provide those countries with the capital that is needed in for the restructuring process. Also, the technological advancement that is attributed to the MNEs such as the new quality standards will help to facilitate the economic development of poorer regions; thus, promoting their further integration (Zemplinerova and Benacek 1996).

Additionally, multinationals impact the development of policies that address the competition and industrial development on the supranational level as it is not possible to manage MNEs' activities nationally due to competition between RTA members for the FDI attraction. For instance, European Commission (EC) covers investment initiative for the whole EU in order to provide the long-term growth and prosperity (European Commission 2014).

Taking the above discussion into account, we conclude that FDI plays a critical role in the progress of international trade and can serve as an important vehicle for the further progress towards the integration of the RTA. Multinationals contribute to the process of regional integration with their unique recourses and capabilities that can support the overall integration of national territories as centres of production and consumption (Phelps 1998). Deeper integrated RTAs are likely to attract more multinationals through greater scale economies (Phelps 1998). This has an important implication for the development of our selection framework in terms of choosing the appropriate measures as more integrated regions attract more FDI; we will compare RTAs on the basis of their attractiveness for the MNEs investments.

Selection Framework

With the support of literature and consultations with supervisors, we have identified the four core elements that form the selection framework (Figure 10). The selection framework is holistic; hence, there are no preferences or order that is assigned to the indicators. Thus, indicators are applied simultaneously and have equal weight for the

final decision. After the application of each indicator, we provide a comparative table that shows the rank of the RTA relative to the indicator, where '1' is the highest and '5' is the lowest score. After all indicators are discussed, the final comparative table is provided.

This section is organised as follows: First, we identify the RTAs types that are the most suitable. Then, we will look for the FDI inflows to the RTA, as it will show the attractiveness of RTA for foreign investors. Next, we examine the link between FDI and RTA's development; hence highlighting to what extent the particular RTA is developed. Finally, we look at the diversity of the location determinant and motives that underlined the formation of the RTA.

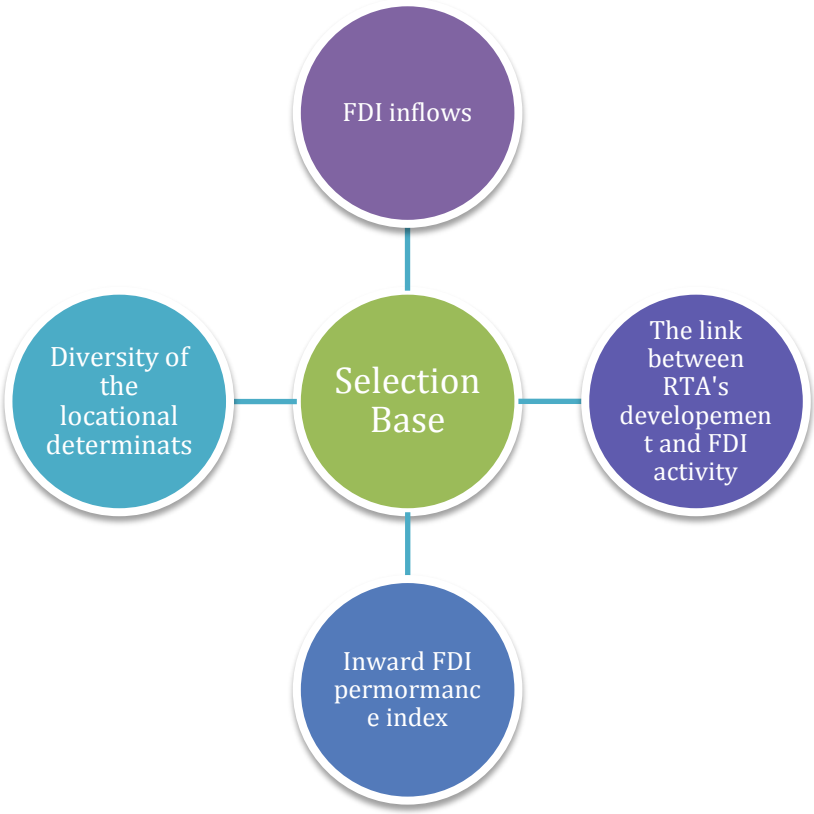

Figure 9 The Core Elements of the Selection Framework

Initial Selection

The purpose of this step is to make an initial selection of several RTAs for their further analysis. One of the critical issues that has to be addressed here is that a single country can be a member of different RTAs; thus, it will be difficult to separate the

characteristics of those RTAs (De Lombaerde and Van Langenhove 2005). Hence, in order to exclude the possibility of overlapping memberships, we decided to divide the world into the following physical regions: North America, South America, Europe, Asia and Africa. We are not dividing the world by the continents, as it will not allow the separation between Europe and Asia. We excluded the Australia, as it does not have any continental physical links with other countries.

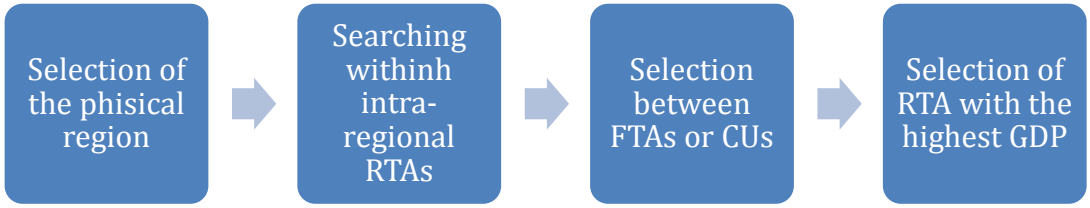

Figure 10 The Illustration of Step 1 of the Selection Framework

We use the World Trade Organisation Regional Trade Agreements Information System (Wto 2014) to select RTAs. Figure 11 above illustrates the process of the selection step-by-step. Step 2 is to select only RTAs in which members have physical links with one another because proximity can facilitate integration. Additionally, an RTA should consist of at least three members. For the second step, we select only RTAs that are free trade area or customs unions because doing so allows more opportunities for integration. For step 4, if there are several suitable RTAs, we select the one with the highest GDP.

Therefore, the following regional unions have been identified (Figure 12): North American Free Trade Agreement (NAFTA), European Union (EU), Southern Common Market (MERCOSUR), The Asia-Pacific Trade Agreement (APTA) and the Southern African Development Community (SADC).

A note on China. To include an RTA in which China has full membership and which consists of more than two members, we selected APTA. Although APTA has a lower integration level (Partial Scope Agreement), we felt it was necessary to include an RTA with China because it is the second largest economy in the world with an average GDP growth rate of 7.60 % in 2013 (Unctad 2015).

Union Title	Union Type	Member Countries	Region
NAFTA	Free Trade Area	**Canada; Mexico; United States of America**	North America
EU (28)	Customs Union	**Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovak Republic; Slovenia; Spain; Sweden; United Kingdom**	Europe
MERCOSUR	Customs Union	**Argentina; Brazil; Paraguay; Uruguay; Venezuela**	South America
APTA	Partial Scope Agreements	**Bangladesh; China; India; Republic of Korea; Lao People's Democratic Republic; Sri Lanka**	Asia
SADC	Free Trade Area	**Angola; Botswana; Lesotho; Malawi; Mauritius; Mozambique; Namibia; South Africa; Swaziland; Tanzania; Zambia; Zimbabwe**	Africa

Figure 11 Selected RTAs (source: Unctad 2012; Wto 2014)

Indicator 1

Regional integration is an important element of the modern economic landscape. Also, it impacts the flows of FDI. It is suggested that integration effort of the RTA will increase the flow of FDI by opening up opportunities for investors and creating policies to facilitate the FDI (Unctad 2012). *FDI inflows* "are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans" (The World Bank and The Imf n.d., p.344). For many countries, FDI inflow is the biggest source of external capital, and it is expected to assist with the implementation of sustainable development policies (Phelps 1998). Hence, we will use this indicator in order to estimate the attractiveness of the given RTA for the MNEs investments.

Measure: FDI inward flow (% of the world inward FDI). This indicator highlights to what extent the RTA is attractive for the foreign investors. We use the data from 2004-2013 as it allows capturing the numbers before and after the financial crisis of 2008.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
APTA	10,9	9,5	7,0	6,0	9,3	11,5	10,8	10,1	11,8	11,5
EU	31,0	50,5	39,7	43,2	30,3	29,7	27,0	28,8	16,2	17,0
MERCOSUR	3,3	2,4	1,7	2,2	3,3	2,4	4,6	5,0	6,4	5,9
NAFTA	21,8	15,6	21,5	18,2	21,8	15,0	17,6	16,9	16,6	19,8
SADC	0,6	0,8	0,2	0,6	1,0	1,3	0,8	0,7	1,0	1,3

Table 18 RTA inward FDI (% world inward FDI) (source: Unctad 2015)

Table 18 shows that SADC attracts the smallest share of the world FDI compared to other RTAs in table 11. It can be due to the general lack of progress in terms of integration effort in RTAs in Africa in SADC particularly (Unctad 2012). RTA members attempt to reach the deeper economic integration with highly impractical tight time frames that result in only partly implemented RTAs. Also, UNCTAD (2012) see a

problem in the overlapping memberships in African RTAs, as it constrains the integrations and FDI. Although SADC has implemented new policies in recent years and liberalised the investment climate, the integration did not have a high impact on the inward FDI. The main problem for investment in SADC is the lack of coordination and consistency UNCTAD (2012).

Numbers indicate that MERCOSUR attracts less FDI than NAFTA, EU and APTA. Despite that MERCOSUR is the most impressive RTA project in the South America, and it is moving towards the development and integration (Unctad 2012; 2015). Therefore, the FDI inflows are expected to increase with time as MERCOSUR implements steps in order to create a friendly environment for investors. All MERCOSUR members executed different reforms that were aimed to provide economic growth through more liberal policies towards foreign investors and incentive concessions. MERCOSUR members' implemented steps to provide greater protection for the FDI, by signing the Buenos Aires Protocol and the Colonia Protocol in 1994. However, these protocols are still not ratified by any member of the RTA (Unctad 2012).

In 1990, there was a strong growth of FDI that was related to the adoption of new policies, but in 2000, a sharp decline was recorded due to the economic recession (Unctad 2012). However, since 2004 it was the beginning of the new wave of FDI to the MERCOSUR that are related to various policy changes related to the locking FDI in the RTA; hence, these changes affected the MNEs strategy (Unctad 2012). MNEs have been given tax incentives that have resulted in the burst of FDI started from 2011; this trend continues at the present moment.

APTA came into force in 1976 and held memberships of Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka. In 2002, China joined the RTA with the full membership (Mikis 2007). APTA was accounted for 11% of world trade in 2005, and the share of their interregional trade increased by 50% in 2001-2005 (Mikis 2007). Hence, APTA's interregional trade is beyond the average compared to other Asian RTAs.

Economic growth of APTA alongside with substantial FDI flows; which influenced directly and through spillovers (Bende-Nabende et al. 2001). Also, FDI has been more

efficient in promoting the growth rate that different liberalisation policies (Bende-Nabende et al. 2001). Additionally, the availability of skilled labour force and low manufacturing cost stimulated inflow of FDI to APTA; thus, promoted further development.

	RTA Rank for Indicator 1
APTA	3
EU	2
MERCOSUR	4
NAFTA	1
SADC	5

Table 19 RTA Rank for Indicator 1

NAFTA and EU have the highest FDI inflow as % of the world FDI inflows; hence these RTA are the most attractive for foreign investments (Table 19). These can be a result of the overall development of the RTA, the implementation of special FDI policies and availability of the skilled labour force.

Indicator 2

The development of the RTA is related to the FDI (Phelps 1998). However, before diving into the discussion about how we can highlight the relations between FDI and development, we feel necessary to define FDI outward flow, as in combination with FDI inward flow it represents an important measurement for IDP. *FDI outflows* "are the value of the outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intracompany loans, net of receipts from the repatriation of capital and repayment of loans" (The World Bank and The Imf n.d., p.344).

IDP (see Dunning 1981; Dunning and Narula 2010; Narula and Dunning 2000) is an extensively developed theory that explains both inward and outward FDI (Stoian 2013). "The IDP provides a means for describing and analysing the underlying reasons for FDI-induced restructuring at different stages of development" (Dunning and Lundan 2008, p.330). IDP is closely linked with Dunning's eclectic paradigm (OLI) (see Dunning 1988b). The main idea of IDP is that the configuration of OLI characteristics in the country will change with time due the business of foreign MNEs that invest into the location, and domestic MNEs that invest abroad. Hence, with IDP it would be possible to explain the determinants of these changes and how these changes affect the development of the country (Dunning and Lundan 2008). Thus, IDP is a tool for understanding the interrelations between country's development and investment (Dunning and Narula 2010).

The relationships between FDI and development of the country can be analysed against IDP (Narula and Dunning 2000). According to Dunning and Narula (2010), there are five stages of country's evolution; here each stage represents a gradual step forward; hence countries in stage 4 are more developed compared with countries in stage 3. Although Narula and Dunning (2000) used the IDP in order to estimate the stage of a single country's development, it is also applicable to the RTAs.

In stage 1 economy, neither attracts nor produces FDI. In stage 2, the location advantages have been developed; thus country attracts FDI, but the production of FDI is negligible. In stage 3 country is industrially and technologically developed; hence, attract a substantial portion of FDI, but the outward FDI is still smaller than inward.

Stage 4 reflect the significantly advanced economy, where outward FDI is higher than inward. In stage 5 that indicates the most developed country, both inward and outward FDI are in high volume and balanced.

It is important to mention that we are not making 'predictions' of how much FDI should be in the RTA for further development; we focus on highlighting the current stage of RTA development. Hence, the stage of the IDP reflects the RTA's integration into the world economy and highlights what kind of supranational institutions affect them (Dunning and Narula 2010).

Therefore, we are looking for the region that has a higher stage of development and can accommodate the bigger number of MNEs with different needs. For example, stage 2 economy attracts resource and market-seeking investments predominately and cannot accommodate strategic asset seeking motivation (Dunning and Lundan 2008). The graphical illustration of IDP is presented on the Figure 13. Net outward investment (NOI) is calculated by subtracting inward FDI from outward FDI. Therefore, when the NOI is negative, the location attracts more FDI than invest abroad; hence, this implies earlier stage of development.

Measures: Investment Development Path (IDP). As IDP requires as comprehensive time frame as possible, we made the analysis starting with the earliest possible data that is available in UNCTAD (2015). *Aim:* To highlight the current stage of RTA's development.

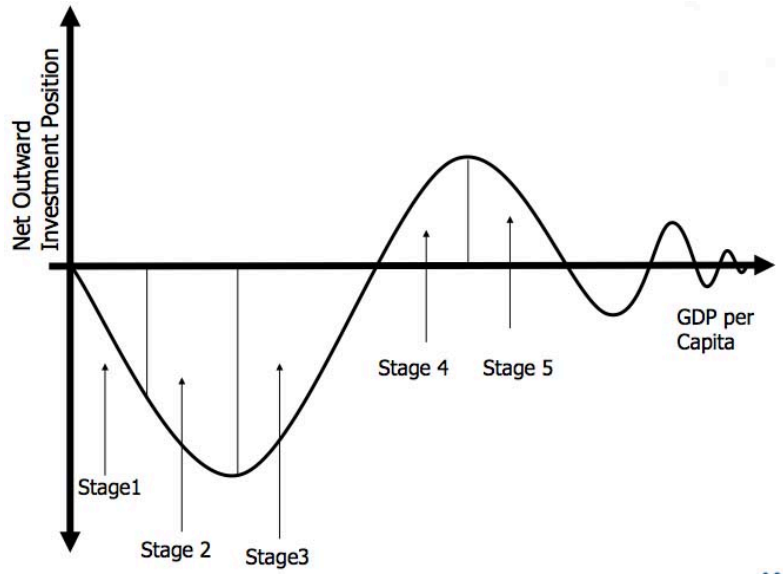

Figure 12 Graphical IDP (adapted from Filippaios 2014)

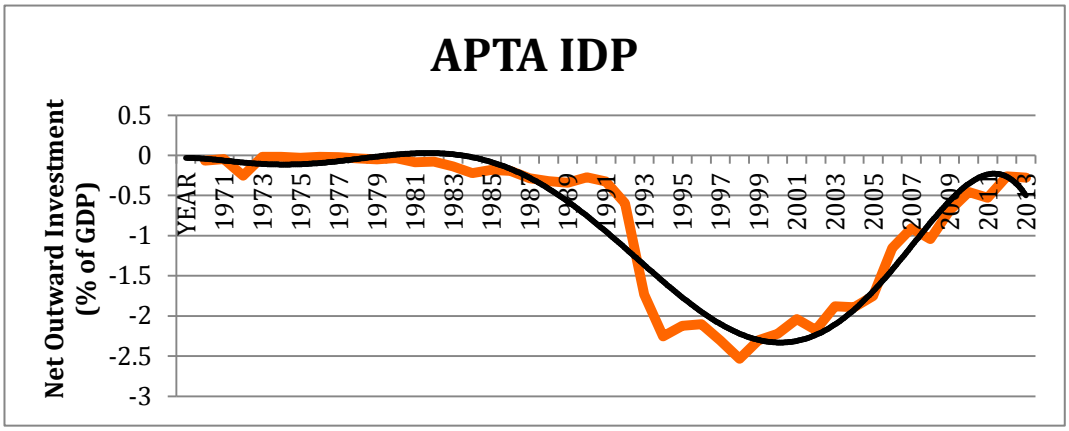

Figure 13 APTA IDP (source: Unctad 2015)

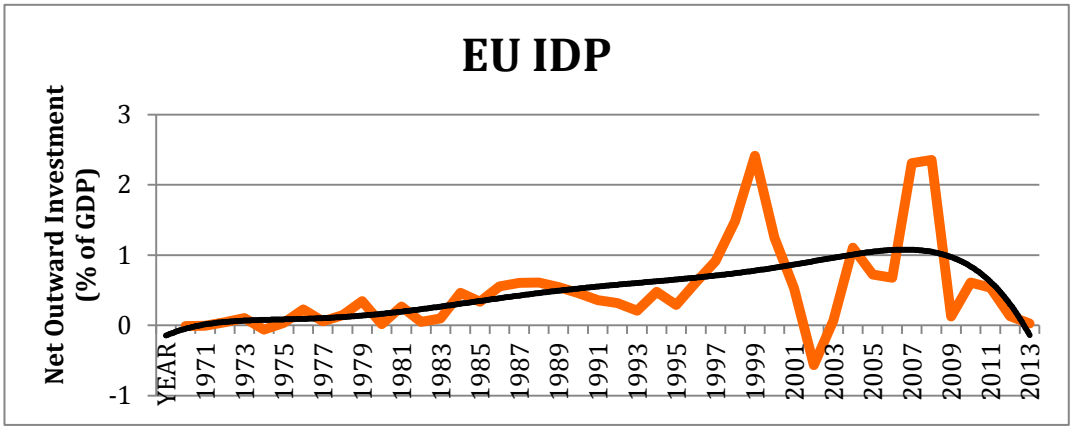

Figure 14 EU IDP (source: Unctad 2015)

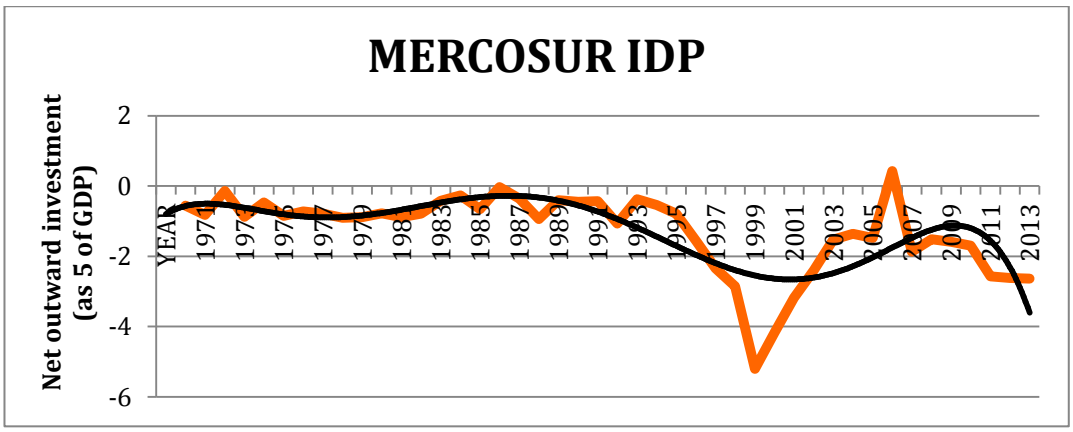

Figure 15 MERCOSUR IDP (source: Unctad 2015)

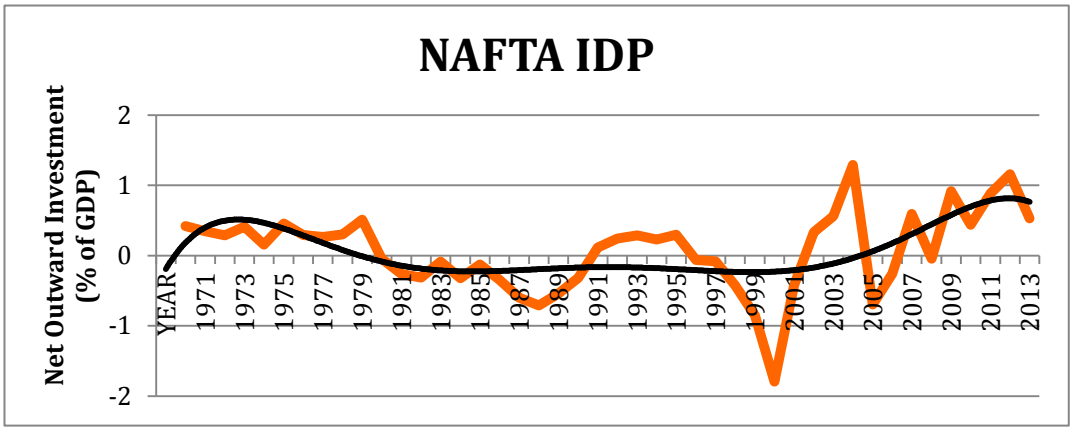

Figure 16 NAFTA IDP (source: Unctad 2015)

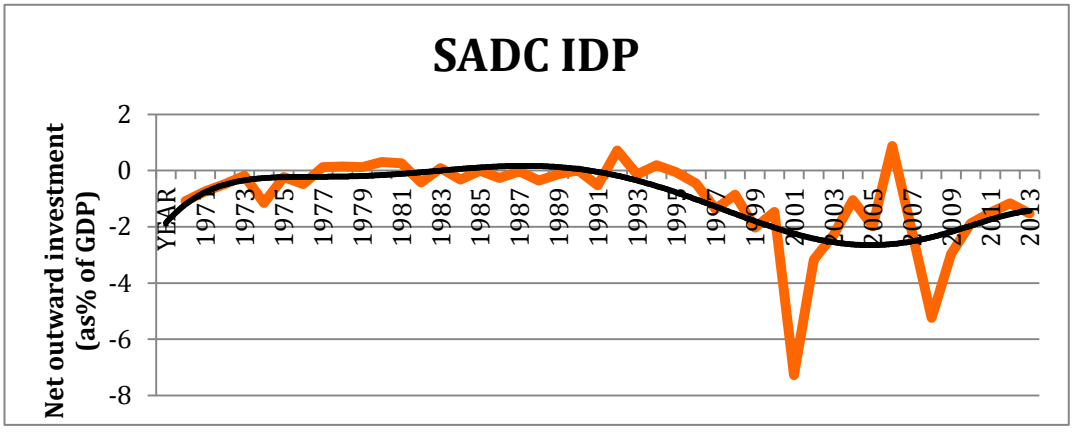

Figure 17 SADC IDP (source: Unctad 2015)

	RTA Rank for Indicator 2
APTA	2
EU	1
MERCOSUR	3
NAFTA	1
SADC	4

Table 20 RTA Rank for Indicator 2

FDI inflows and attractiveness of the RTA are related to the overall RTA's development. According to the IDP graph (Figure 18) SADC currently in stage 1; hence, there is little inward FDI and not enough location advantages that attract foreign investors. This raises serious concerns about SADC suitability as the research context.

MERCOSUR currently in stage 2 (Figure 16), which is characterised by increasing inward FDI, but still very limited outward investments. L advantages of the country are growing, and the market-seeking FDI is dominating. Although, UNCTAD (2012) predicts future growth for MERCOSUR, it can take years to complete the restructuring process of the RTA and move through the IDP stages. Stage 2 is just the beginning of the RTA's development process; therefore it is unlikely that MERCOSUR is suitable for a study context.

IDP Figure 14 that APTA is currently on stage 3, which is still earlier stage of development. Stage 3 characterised by increasing industry trade and investments, products that are adapted for the local consumers but still lacking innovation knowledge-intense FDI. Hence, this will limit the investment options for MNEs that aim to perform strategic-asset FDI.

According to the Figures 17 and 15, the most developed RTAs are NAFTA and EU. They are in stage 5, which is characterised as a knowledge economy. They attract inward FDI and generate the substantial portion of the world outward FDI. Therefore, at this point, NAFTA and EU are the most suitable RTAs (Table 20).

Indicator 3

The diversity of location determinants is one of the most critical parameters as it indicates to what extent the RTA can accommodate the needs of differentiated MNEs. In our study, we will investigate different MNEs from various industries. Therefore, it is critical that study context has a variety of location determinants, which match the FDI motivations of the multinationals.

There are four types of FDI motivation: resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking (Dunning and Lundan 2008). The *market-seeking* FDI aims to get access to local markets and usually related to market size, GDP per capita, market growth (AssunçãO et al. ; Cleeve 2008). The *resource-seeking* FDI aims to get access to the unique location resources (i.e. oil and gas), or those resources that are cheaper to obtain in the host country (Dunning 1997b). This FDI type is usually associated with lower unit labour cost of unskilled labour force and the pool of skilled labour, physical infrastructure such a road density and technology level (Unctad 1998; Wadhwa and Reddy 2011). The *efficiency-seeking* motivation is related to the rationalisation existing operations and associated with country's membership in the RTA (Unctad 1998). The *strategic asset-seeking* FDI seeks to advance MNEs' structure and strategy by creating new assets such as technology or organizational capabilities and can be measured with R&D expenditures relative to GDP (Dunning 1997a).

Measure: Resource-seeking determinant –Road density (km of road per 100sq. km of land area). Market-seeking determinant – GDP per capita. Efficiency-seeking determinant – RTA's ranking according to the integration level. Strategic asset-seeking determinant - R&D expenditures (%GDP).

Aim: to highlight the presence of different location determinants.

	Road Density
APTA	68.6
EU	133.7
MERCOSUR	15.3
NAFTA	37.9
SADC	11.6

Table 21 RS motive: Road Density

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
APTA	1316	1526	1783	2164	2522	2685	3165	3740	4063	4420
EU	26639	27744	29474	33967	36422	32422	32185	34710	32629	33916
MERCOSUR	3596	4615	5596	6917	8471	8239	10490	11611	11081	11045
NAFTA	32110	34185	36094	37598	38054	36208	37865	39324	40574	41533
SADC	1312	1480	1571	1749	1806	1761	2096	2326	2288	2196

Table 22 MS motive GDP per capita

	RTA Integration Ranking
APTA	3
EU	1
MERCOSUR	1
NAFTA	2
SADC	2

Table 23 ES Motive RTA's ranking according to the integration level

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average
APTA	1.4	1.5	1.6	1.6	1.6	1.7	1.8	1.9	n/a	1.6
EU	2.3	2.3	2.4	2.4	2.5	2.6	2.5	2.5	n/a	2.5
MERCOSUR	0.7	0.8	0.8	0.9	0.9	0.9	0.9	1.0	n/a	0.8
NAFTA	0.6	0.7	0.7	0.6	0.6	0.5	0.5	n/a	n/a	0.6
SADC	1.82	1.82	1.84	1.84	1.90	2.00	1.99	2.04	2.06	1.9

Table 24 SAS motive: R&D expenditures (%GDP)

	RTA Rank for Indicator 3
APTA	3
EU	1
MERCOSUR	3
NAFTA	2
SADC	3

Table 25 RTA Rank for Indicator 3

Based on data from the four tables 21-24, we have compiled a comparative table (Table 25) that shows that the European Union has a strongest performance in all four indicators. NAFTA gets a second place mainly due to the lowest performance in the R&D (%GDP) indicator. APTA, MERCOSUR and SADC all together got the third place as their performance is equally weaker compared to the EU and NAFTA.

Indicator 4

Here, we will use the inward FDI performance index that reflects *the proportion of the RTA's share of the world inward FDI and the RTA's share of the world GDP*. This index highlights the RTA's success in attracting inward FDI. When RTA's share of the world inward FDI equals, RTA's share of the world GDP index is equal to 1. When RTA's share of the world inward FDI is greater than its share in the world's GDP index – the index value is more than 1; a value that is less than 1 emphasises that the share of inward FDI is smaller relative to GDP. When index value is negative, it shows the process of divestment in the measured time frame (Harrison 2003; The Conference Board of Canada 2014). The mathematical formula is:

$$\textbf{\textit{inward FDI Performance index}} = \frac{\left(\frac{\textbf{FDI RTA}}{\textbf{FDI world}}\right)}{\left(\frac{\textbf{GDP RTA}}{\textbf{GDP world}}\right)}$$

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average
APTA	1.3	1.1	0.7	0.6	0.8	0.9	0.8	0.7	0.7	0.7	**0.83**
EU	1.0	1.7	1.4	1.4	1.0	1.1	1.1	1.2	0.7	0.7	**1.13**
MERCOSUR	1.5	0.9	0.6	0.7	0.9	0.6	1.0	1.1	1.4	1.4	**1.01**
NAFTA	0.7	0.5	0.7	0.6	0.8	0.5	0.6	0.6	0.6	0.7	**0.63**
SADC	0.9	1.1	0.2	0.8	1.4	1.6	0.8	0.8	1.1	1.5	**1.02**

Table 26 The proportion of the RTA's share of the world inward FDI and the RTA's share of the world GDP (source: Unctad 2015)

The first indicator - FDI inflows (% of the world) shows a significant difference between two groups of RTAs. SADC and MERCOSUR attracted significantly less of the world FDI (1.3 % and 5.9% respectively) compared to the APTA, NAFTA and EU (11.5%, 19.8% and 17% respectively) in 2013. However, when we compared RTA's FDI inflows relative to their GDP it shows a hugely different view of FDI performance. While APTA, NAFTA and EU attracted the largest amount of inward FDI, the GDP

adjusted performance measure highlights that SADC and MERCOSUR performed better on a relative basis.

Taking the average of the ten years (Table 26), it is evident that SADC and MERCOSUR have performed according to the expectations. Although China is the member of APTA, this RTA has performed lower than it was expected according to the index. Giving that NAFTA is a major outward FDI producer it has enough internal FDI; hence, there is much less foreign inward FDI flows to the RTA. EU has the best performance for the decade of 2004-2013 as it outperformed the expected predictions. Table 27 provides the ranking.

	RTA Rank for Indicator 4
APTA	4
EU	1
MERCOSUR	3
NAFTA	5
SADC	2

Table 27 RTA Rank for Indicator 4

Comparative Table

	Overall RTA Rank
APTA	3
EU	1
MERCOSUR	3
NAFTA	2
SADC	3

Table 28 Comparative Table

Based on discussion above we compiled a comparative table (Table 28) that shows that the European Union has a strongest performance in all four indicators. NAFTA gets the second place mainly due to the lowest performance in the R&D (%GDP) indicator. APTA, MERCOSUR and SADC all together got the third place as their performance is equally weaker compared to the EU and NAFTA.

The comparative table shows the average position of the RTA in the ranking. Therefore, we choose The European Union as the most appropriate RTA.