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Regional location of multinational corporation subsidiaries and economic development contribution: Evidence from the UK

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ABSTRACT

The regional location of multinational corporation (MNC) subsidiaries in their host country and their associated entrepreneurial output and networking activities are likely to affect their economic development contribution, measured in terms of technology and management know-how transfers; enhancement of innovativeness of other firms; and company spinoffs. This theme has considerable research and public policy value. We investigate the issue drawing from a large-scale study of 264 MNC subsidiaries based in the UK. The findings show that activities in developed regions are associated with higher economic development contribution than those in less developed regions. Moreover, entrepreneurial output and networking with partners external to the MNC system positively affect economic development contribution. Key implications of this study are that entrepreneurship critically influences economic development contribution, underlying the importance of the MNC subsidiary research stream; and that the policy practice of supply-side measures fostering entrepreneurial output and embeddedness in local networks seems to be appropriate to pursue.

1. Introduction

In this article, we investigate the effect of the regional location, in which subsidiaries of multinational corporations (MNCs) are based, on economic development contribution in their host country. Towards this goal, we provide empirical evidence from a large-scale study in the UK, distinguishing between developed and less developed regions in this advanced economy. Moreover, we explore the effects of entrepreneurial output and networking of MNC subsidiaries on contribution to economic development. The examination of entrepreneurial output is essential in as much as locations in a developed or less developed area can be connected to different entrepreneurial and innovative activities. Likewise the examination of networking is required since these activities are implemented by MNC subsidiaries through embeddedness in organisational networks of dissimilar regions. Therefore, our research objective is to investigate to what extent the location of MNC subsidiaries in a region, and their associated entrepreneurial outputs and networking activities, matter for economic development contribution to the host country. The economic development contribution in this article is defined as comprising technology and management know-how transfers; enhancement of innovativeness of other firms; and company spinoffs in the country. These long-run dynamic contributions of MNC subsidiary activities are contrasted with short-run static benefits, the latter referring to capital formation, employment, trade and the balance of payments (Dunning & Lundan, 2008).

Our study is important for research and public policy reasons. In terms of research, previous studies mostly focus on the effects of foreign direct investment (FDI) across

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countries (Barrell & Pain, 1999; Cantwell & Piscitello, 2005; Driffield, 2001; Fors, 1996; Frenkel, Shefer, Koschatzky, & Walter, 2001; Kumar, 1996; Odagiri & Yasuda, 1996) rather than across regions. Scholars have highlighted the significance of the region within the country (Buckley & Ghauri, 2004; Krugman, 1990; Nijkamp, 2003; Porter, 1990; Storper, 1992), suggesting that regions are increasingly becoming important milieus for competitive-enhancing FDI activities (Dunning, 2000; Porter, 1996; Scott, 1998). In a related vein, other researchers (Meyers, 2004; Sargent & Matthews, 2006; Wells, 1998) support the view that international business study has been relatively uninterested in analysing the contribution made by MNCs to economic development in their host countries. We seek to provide empirical evidence to fill this gap.

Our study is additionally valuable for research purposes since it builds on the idea of the 'entrepreneurial subsidiary' recently proposed by Boojihawon, Dimitratos, and Young (2007). This idea expands the notions of 'developmental' and 'creative' subsidiaries put forward by Young, Hood, and Peters (1994) and Pearce (1999), respectively. These two last terms describe those subsidiaries that access local resources and knowledge through dynamic linkages, which is a process resulting in beneficial implications for the host country economy. The idea of the entrepreneurial subsidiary also extends Birkinshaw's (1997, 1999, 2000) line of thinking on subsidiary initiative. Initiative concerns autonomous activities, risk-taking and proactive behaviour, and the use of resources beyond the control of the MNC subsidiary. Consequently, we posit that entrepreneurial subsidiaries are likely to act as independent actors in the MNC system; form embedded networks with other stakeholders; and contribute to economic development through spillover effects (cf. Birkinshaw & Hood, 1998; Blomström & Kokko, 1998; Graham & Krugman, 1995; Lall, 1980; Young et al., 1994), thereby impacting positively on the local country environment. In emphasising the subsidiary unit of analysis, we seek to fill a void in the literature that has so far examined the effect of MNC activities in the host country largely at the aggregate MNC level (Akbar & McBride, 2004; Cantwell & Piscitello, 2005; Dunning & Lundan, 2008).

The present investigation is also important for public policy. The gap in economic prosperity between developed and less developed regions has been a vital issue on the UK public policy agenda since the middle years of the 20th century (Ashcroft, 2002). Other countries, such as Germany or Ireland, face similar challenges as regards their public policy priorities linked to inward FDI (e.g. Alecke, Alsleben, Scharr, & Untiedt, 2006; Ruane & Uğur, 2005). In general, the value of the economic contribution of MNC subsidiaries in different regions of the host country has been debated (Christodoulou, 1996; Siler, Wang, & Liu, 2003; Turok, 1993; Young, Hood, & Dunlop, 1988). In this article, we provide recent evidence that compares subsidiary contributions to economic development between developed and less developed areas in the advanced UK economy.

In relation to the UK, the British government, facing a deteriorating regional problem in the late 1950s, offered differential regional policy incentives (grants for capital investment) to induce FDI in the 'assisted' (poorer and peripheral) areas of the north and west of the country. Although these incentives proved particularly attractive to MNCs, their contribution to economic development was much debated (e.g. Hood, Peat, Peters, & Young, 2002; Young et al., 1994), leading Firn (1975) to famously describe less developed regions as 'branch plant economies'. As Brown (2002: p. 130) noted, '[This] term was used to depict a regional economy which was highly dependent upon truncated manufacturing operations of multinational enterprises with few decision-making powers, bringing little in the way of self-sustaining economic development to the host economy'. Corroborating this point, Ashcroft and Love (1993) cast doubts on whether spillover benefits from MNC subsidiary activities occurred to any significant degree in British peripheral regions. Nevertheless, current policy thinking in the UK (and other countries) being applied since the early 1990s focuses upon 'the importance of supply-side drivers to economic development and the key roles played by entrepreneurship, skills, new technology and appropriate infrastructure in stimulating output growth' (Ashcroft, 2002: p. 22).

The role of entrepreneurship in the enhancement of economic development has been confirmed in the literature (Acs & Armington, 2004; Acs & Storey, 2004; Audretsch & Keilbach, 2004; Braunerhjelm & Borgman, 2004; Van Stel & Storey, 2004). On this point, Schumpeter (1934) argued that entrepreneurship and innovation are the most critical factors for productivity, employment and economic prosperity. Recently, Audretsch, Keilbach, and Lehmann (2006) have also provided evidence in support of knowledge spillovers from entrepreneurship, linking entrepreneurship to economic growth and performance. Entrepreneurship and innovation additionally foster economic growth at a regional level (Suarez-Villa, 1993). In this article, along the lines of current policy practice, we seek to explore to what degree entrepreneurial and network activities implemented by MNC subsidiaries do indeed contribute to economic development.

This article is organised as follows. Section 2 provides an overview on empirical studies elaborating on the notions of regional location, entrepreneurial output and networking. In doing so, it presents the hypotheses that guide the conduct of this research. Section 3 presents the methodological aspects concerning sampling, data collection and measurement of variables. Section 4 elaborates on the statistical analysis and discusses the findings of the study. The concluding section provides a summary of the article; and explores research and public policy implications.

2. Research background and hypotheses

2.1. Regional location

Studies on the dynamic benefits of FDI spillovers (Driffield & Munday, 2000) show that FDI may be attracted in particular regions due to their already existing positive externalities. In support of this argument, Lall and Narula (2004) noted that subsidiaries undertaking complex activities require high levels of local competence in terms