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Andreas Breinbauer
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Editorial

Dear reader,

The latest issue of our series is called “Internationalization Strategies, Headquarter Location Policies and Innovation Management”. Four papers are dedicated to the research project „Nachhaltige sozio-ökonomische Handlungs- und Entwicklungsperspektiven im Hinblick auf den Headquarterstandort Wien“ at the University of Applied Sciences BFI Vienna, funded by the City of Vienna (MA 23). The closing paper addresses an additional topic and focuses on innovation in higher education settings.

In the first article, **Andreas Breinbauer** and **Johannes Leitner** focus on internationalization strategies and FDI-dynamics of companies from the leading emerging markets of the Black Sea Region, Russia and Turkey. The article maps out which motives are decisive for companies in their international investment projects, and which consequences would need to be drawn for the company location.

Following this, **Nathalie Homlong** and **Elisabeth Springler** provide an overview of Chinese outward FDIs to small European economies. To analyze the research question of “which location factors are of importance for Chinese companies when taking their location decision in Europe”, the paper focuses on Austria as well as other economies that are member states of the European Union and applies results from expert interviews to the specific situation in Austria.

The next article, written by **Johannes Jäger** and **Bianca Bauer** is about multinational firms from Latin America and their transnational strategies. Based on secondary data and expert interviews from Brazil, Chile and Mexico, they analyze those strategies and their potential for the EU, Austria and Vienna. The authors conclude by arguing that multinational corporations from Latin America represent an important potential source for economic development.

Furthermore, in his article, **Andreas Nachbagauer** provides recommendations to answer the question of what, in addition to well-known advice, can help a regional policy boost sustainable locations. He states that hard-fact location incentives will attract the settlement of new (regional) headquarters in the short-term, but will not be sufficient to maintain a branch, and he furthermore argues that soft location factors are becoming increasingly important when choosing a location policy.

Finally, **Jelena Crnoja** and **Jeanna Nikolov-Ramirez Gaviria** conceptualize qualitative idea and innovation management and depict the particular challenges in educational environments. The authors give a conclusive overview of which aspects and instruments are suitable to increase and promote innovation in higher education settings and which pitfalls to avoid.

I wish you an interesting read and we look forward to receiving your feedback!

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Andreas Breinbauer / Johannes Leitner

Internationalization strategies and FDI-dynamics of Turkish and Russian multinationals with reference to Austria/Vienna

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Abstract

"Companies leaving Vienna Stock Exchange", headlined the Austrian daily Die Presse on 7 October 2016 to explicate that since the economic crisis of 2008 the Vienna Stock Exchange has continuously been losing market capitalization, albeit only slowly. Nonetheless, recent examples show that RHI, acquired by a Brazilian group, is moving from the Vienna Stock Exchange to London, and also an Austrian heavyweight, Telekom Austria, has hinted at its new owner from Mexico not having any problems with leaving the Vienna Stock Exchange. Admittedly, that alone does not yet say anything about Austria's location quality, merely about the quality of the Austrian capital market. Still, the question of the strategic impact of FDI from emerging markets arises. This article therefore maps out which motives are decisive for companies in their international investment projects, and which consequences would need to be drawn for the company location. The article primarily focuses on companies from the leading emerging markets of the Black Sea Region, Russia and Turkey. The selection is based on the two countries' economic and political significance as well as the investment volumes in Austria over the past 10 years.[1]

1. Foreign direct investment from emerging markets in Austria

"Companies leaving Vienna Stock Exchange", headlined the Austrian daily *Die Presse* on 7 October 2016 to explicate that since the economic crisis of 2008, the Vienna Stock Exchange has continuously been losing market capitalization, albeit only slowly. Nonetheless, recent examples show that RHI, acquired by a Brazilian group, is moving from the Vienna Stock Exchange to London, and also the Austrian heavyweight, Telekom Austria, has hinted that its new owner from Mexico would not have any problems with leaving the Vienna Stock Exchange.

1 This paper is based on preparatory work in the framework of the research project "Nachhaltige sozioökonomische Handlungs- und Entwicklungsperspektiven im Hinblick auf den Headquarterstandort Wien" at the University of Applied Sciences BFI Wien, funded by the City of Vienna, MA 23.

Table 1: Most important target countries or countries of origin for FDI 2014 vs. 2015

Active				Passive			
2014		2015		2014		2015	
Country	**Mio. €**	**Country**	**Mio. €**	**Country**	**Mio. €**	**Country**	**Mio. €**
The Netherlands	6.039	Romania	1.288	Russia	954	Germany	2.914
France	216	Switzerland	704	The Netherlands	864	Luxemburg	1.053
Czech Republic	585	Italy	616	Luxemburg	648	Russia	1.044
USA	570	Belgium	594	Cyprus	558	Italy	417
Norway	504	UAE	553	France	430	GB	394
Russia	488	China	542	Japan	371	Cyprus	390
UAE	436	Luxemburg	486	Germany	290	Liechtenstein	338
China	359	Norway	457	Hong Kong	276	The Netherlands	321
Switzerland	351	Croatia	424	Italy	245	Japan	294
Slowenia	310	The Netherlands	407	Liechtenstein	234	Czech Republic	69

Source: ÖNB 2016

Admittedly, that alone does not yet say anything about Austria's location quality, merely about the quality of the Austrian capital market. Still, the question of the strategic impact of FDI from emerging markets poses itself. This article therefore maps out which motives are decisive for companies in their international investment projects, and which consequences would need to be drawn for the company location. The article primarily focuses on companies from the leading emerging markets of the Black Sea Region, Russia and Turkey.

The reasons for the extensive analysis of these two countries are manifold. On the one hand, Russia and Turkey are the most important political and economic powers in the Black Sea Region (Russia in 2015: worldwide GDP ranking Nr. 12, Turkey GDP ranking Nr. 18) and both are economically and politically closely linked to the EU.

Seeing how interwoven the economy is with its politics, Turkey definitely belongs to those countries whose political development has a strong influence on the business environment. The EU is Turkey's most significant trading partner (2015 approx. 40% of the total volume, WKO 2015), and vice versa: Turkey is the EU's fifth largest trading partner. However, relations with the EU hit a dramatic all-time low at the end of 2016 when in reaction to the military coup in July 2016, the Turkish government set measures in place that do not correspond with the democratic standards of the EU, and so straining their accession process. Austria was in fact the first EU country to demand that the accession negotiations be discontinued altogether. This political development not only affects foreign investment in Turkey, but also the internationalization activities of Turkish corporations going abroad, and especially those going to Austria.

Relations with Russia are similarly complex. As a result of the annexation of Crimea as well as the conflict in Eastern Ukraine, the EU and the USA have issued economic sanctions. Nevertheless, in the case of Russia, Austria is attempting a diplomatic balancing act between maintaining its traditionally good relations with Moscow, on the one hand, and showing loyalty to EU partners with regard to the sanctions on the other. Particularly Austrian corporate representatives have criticized the economic sanctions, such as Christoph Leitl, who in an interview with the daily paper “Der Standard” in December 2015 described them as “absurd”. The Minister of Economic Affairs and Vice-Chancellor Reinhold Mitterlehner can be said to support such criticism as he was quoted in an orf.at press release from November 2016 saying “Sanctions are not the right long-term measure to build a good future cooperation”.

2. Methodology

This analysis is based on qualitative research methods. Firstly, this paper aims to gain a more profound insight into the motives and reasons why Turkish and Russian corporations are, or rather are not, investing in Austria. (cf. Atteslander 2010; Diekmann 2014) Moreover, we are investigating the perception of Austria from the perspective of Turkish and Russian entrepreneurs. Finally, another interest of this paper lies in collecting data regarding the internationalization strategies of Turkish and Russian multinational organizations as well as the dynamics of foreign direct investment with a special reference to Austria.

In order to be able to answer these questions, we proceeded in three steps. To start with, through a comprehensive literature analysis, we analyzed and mapped out the current state of research on the dynamics of internationalization and foreign investment patterns of emerging markets multinationals, in particular Turkish and Russian companies. Based on this literature, we developed a questionnaire and a strictly literature-based category system. The semi-structured questionnaires were used in narrative interviews that we conducted in Istanbul and Vienna between autumn 2015 and winter 2016.

Our interview partners were consistently high-ranking decision-makers from relevant Turkish or Russian multinationals or the owners of such companies. Various industries are represented, such as food and drink & tobacco, mechanical engineering, fashion accessories, transport and logistics, as well as banking and financial services providers. In addition, we consulted with experts from intermediary organizations such as the Austrian Business Agency (ABA), the Austrian Economic Chamber (WKO) or Headquarters Austria (HQ Austria). The latter group served to relativize and classify the companies’ statements.

The category system was then the grid we used to analyze and interpret the transcripted passages. (cf. Mayring 2015; Mayring 2002) This inductive approach enabled us to draw on existing literature, but also to supplement it with the insights from our survey, which creates added value.

3. Turkish direct investment in Austria

Austrian-Turkish economic relations display a note of discord. On the one hand, the trade balance is evenly-matched. In 2015, goods worth approx. 1,4 bn. Euro were exported to Turkey, and vice versa: goods worth 1,46 bn. Euro (WKO 2015) came from Turkey to Austria. However, the picture regarding foreign direct investment (FDI) is quite different. Despite Austria's rather low profile in Turkey, it is doing quite a lot of business there (see Table 1). The total investment volume (holdings of active FDI) of Austrian companies during the period 2002-2015 amounted to approximately 9.34 USD, which was the second highest value after the Netherlands; in 2010 and 2011, Austria was even the largest foreign investor in Turkey. In the following years, investment in Turkey declined dramatically. In 2015 Austria was no longer among the top 20 investment countries.

On the other hand, the investment activity of Turkish companies in Austria is quite low especially when compared to Russian companies (see Table 3) (This and the slowdown of FDI in 2015 prove the above-mentioned discord). Koc-Holding, which belongs to the Arcelik-Group, are in the lead after acquiring Elektra Bregenz and Grundig in 2002. Together with their own brand Beko, a 10% share of the Austrian household-goods market is being targeted (WKO 2015). The state-owned Vakifbank and the Turkish-based Deniz Bank are represented in Austria with a branch network. Since November 2013, Kärntner Chemson AG (company name: Chemson Polymer - Additive AG) has been owned by OYAK Group (pension funds of the Turkish armed forces).

Table 2: Holdings of active direct investment in BRICS and Turkey of Austrian corporations (in MM Euro)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
BRICS	5.580	6.461	7.759	10.323	12.731	12.989	12.235	9.645	9.981
CEE	52.765	53.537	55.311	60.560	61.845	67.336	66.786	59.593	60.828
Russia	4.071	4.716	5.346	6.639	7.966	8.577	8.351	5.608	5.102
China	617	889	1.369	2.259	3.006	2.493	2.020	2.014	2.675
India	63	90	158	251	235	231	239	300	370
Turkey	2.727	1.973	2.860	4.386	5.116	5.961	4.181	4.944	4.378

Source: ÖNB 2016

Table 3: Holdings of passive direct investment from BRICS and Turkey in Austria (in MM Euro)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
BRICS	6.988	5.981	10.086	9.069	10.605	12.624	18.233	30.786	32.299
CEE	2.137	865	4.796	5.207	6.130	7.279	10.652	20.032	21.174
Russia	2.888	1.803	4.921	4.976	5.576	6.590	10.298	19.722	20.781
China	-3	-15	117	509	582	542	551	545	553
India	185	160	141	103	106	114	113	116	135
Turkey	132	69	179	192	185	191	147	161	137

Source: ÖNB 2016

In addition to, or rather despite, the turbulent domestic situation in Turkey and the sub-optimal bilateral political relations between Turkey and the EU/Austria, it can be assumed that great potential exists in the medium and long-term.

In the following, the internationalization strategies of Turkish companies will be dealt with and subsequently examined, i.e. how Turkish companies estimate the Austrian investment market, which factors inhibit or promote further involvement, and what measures could be taken from Austria's side, if desired, in order to increase the FDI flow from Turkey.

3.1 Internationalization strategies and activities of Turkish companies

According to established internationalization models, such as Dunning's Eclectic Paradigm (ownership-location-internationalization = OLI) and the Uppsala model, there has been a gradual downgrade of internationalization or internationalization activities by corporations. According to the Uppsala model, via indirect and direct export to foreign direct investment, and as per Dunning, from exporting through licensing to foreign direct investments. In any case, the Outward Foreign Direct Investments (OFDI) are the highest form of the internationalization of companies, which is why they are the focus of this discussion.

Turkey counts as one the largest emerging (market) economies next to BRIC states (Gülsoy et al 2012: 5; Gammeltoft at al 2010: 255) and is also counted among the MINT countries in the literature (Mexico, Indonesia, Nigeria, Turkey; Lee/Gereffi 2015: 324). Multinational enterprises (MNEs) from these countries will be termed emerging economies multinational enterprises (EEMNEs).

The success of EEMNEs in foreign markets is described in the literature as having specific competitive advantages that distinguish them from MNEs from established industrialized countries. As late arrivals in the mature markets of the West, of which they still have comparatively little knowledge, successful EEMNEs are compelled to implement innovations more quickly: to be specific, process and product innovations as well as innovations in their business models. Additionally, they need to streamline value chains more quickly and/or make them more flexible, and above all obtain quicker access to innovative technologies or know-how through M&A, whereas the Chinese MNEs are particularly active regarding the latter (Williamson 2015: 225). As a general rule, this results in EEMNEs having their innovation and development hubs abroad while the R&D centers of the MNE are close to the headquarters in the home country (Williamson 2015: 227).

This requires EEMNEs to have more flexible processes in order to transfer their know-how from the periphery to the headquarters or other branch locations. As a result of these framework conditions, EEMNEs must often be better prepared for volatile environmental conditions than established MNEs in order to respond flexibly, not only in other emerging markets, but also when competing on a global scale. The flexibility and success of the EEMNEs, however, is partly based on the fact that women and migrants work for very low wages under precarious employment circumstances in unprotected areas (Lee/Gereffi 2015: 323).

What are the specific framework conditions of Turkish EEMNEs? The internationalization of the Turkish economy, starting with an export-orientation of companies, did not begin until the early 1980s when the regulations for business activities were liberalized and companies were massively supported through export subsidies from the state (Tatoglu/Demirbag 2008: 655). Only then did strategic and systematic business planning become possible, also in an international context. Larger and older companies had a higher willingness to go abroad (Yilmaz et al. 2015: 985). Specifically, this was an essential OFDI driver for the most important corporate groups in Turkey, the Koc and Sabanci Groups, in this period; although it should be noted that a considerable proportion of large Turkish companies are family-owned, and in the beginning these companies' activities were generally less strategically oriented abroad (Parnell et al. 2012: 550). The liberalization and the resulting opening up of the Turkish market for foreign direct investment increased competition on domestic markets, which thus required a geographical diversification and expansion into international markets. Numerous empirical studies (see Parnell et al. 2012: 551) showed that in different segments of the Turkish economy, the predominant strategic focus had for a long time been on cost leadership as per Porter (1980). The main reason for this is that due to the uncertain framework conditions, this strategic orientation was most likely to pay off (Köseoglu et al. 2010). The first foreign activities, as a rule, concerned neighboring countries, where surely a higher risk could be expected, but also higher profits (Yilmaz et al. 2015: 986). These included, after the fall of the Berlin wall, the successor states of the Soviet Union, especially Turkic states, the Balkan, and the Near and Middle East (Erdelik 2008: 755 et seqq.). In the new neighboring markets in Eastern Europe or the Turk republics, experience from the Turkish market could be transferred very well - experience which established players from the West who were entering these markets were lacking.

Pressure from competition on domestic markets led to the improvement of products and services both in Turkey and abroad as well as encouraging R&D efforts and the development of in-house technology.

As "late arrivals" in developed foreign countries, access to distribution channels, compliance with higher environmental and technological standards, and above all the build-up or upgrade of a brand ("winning brand loyalty) (Gülsoy et al. 2012: 24) came with big challenges, especially because the adjustment times were comparatively very short (Gözde et al. 2015: 985).

Moreover, there were and still are push factors in Turkey that accelerate(d) outward activities. This includes, for example, the comparatively bad business environment. Both personal taxation and corporate taxation were and still are much higher in Turkey than in those countries where Turkish corporations were investing. Particularly unpleasant were the frequent and unpredictable changes in tax laws, which made long-term planning difficult. Unfavorable macroeconomic conditions, including the high rate of inflation, were a dominant theme, especially until 2003. Added to this were the still comparatively high costs for raw materials and energy (Yosun/Çetindamar

2013). So, the general economic, but also political, instability accompanying Turkish companies made doing business in Turkey increasingly risky (Erdelik 2008: 746 et seqq.).

All these factors led the Turkish economy to expand initially into the geographical neighborhood primarily, and later into more distant markets. The growth of OFDI in the 1990s was rather high in comparison to the rather low base-level as well as in comparison to the BRIC States, showing on average an annual growth of 156% (see Table 4).

Table 4: Outward Foreign Direct Investment (OFDI) flows Turkey compared to the BRIC-States

Region	Annual OFDI Flows in Mio. USD		Annual growth in %	
	1990-99	2000-08	1990-99	2000-08
Turkey	163	1,050	156	66
China	2,323	14,079	15	165
Russia	1,382	18,533	36	151
India	70	6,659	144	176
Brasil	925	7,867	51	123

Source: Gammeltoft et al. 2010: 258

A real internationalization thrust came with the free trade agreement or rather the customs union with the European Union in 1996. With similarly low production costs and comparatively shorter and less risky supply chains, Turkey was able to position itself as “little China”. Sales point deliveries to Europe could be arranged within one week, while by sea from the Far East, freight transport takes on average about 33-35 days (Breinbauer 2014: 3). This is in a time of shortened product life cycles, where flexible delivery and delivery times are just as important as low wages, a decisive competitive advantage. Vehicles are the main export good. Turkey is the largest producer of buses and the third most significant automobile producer in Europe. What is remarkable is that primarily foreign OEMs that – as mentioned above – aim for cost leadership (e.g. Fiat) are relocating to Turkey. The opening of the Turkish market to foreign players has increased competition on domestic markets while at the same time opening up opportunities for Turkish companies to expand into EU markets.

A further OFDI driver for many Turkish organizations was the access to technology and brands. Through a joint venture with the DuPont Group, Sabanci gained access to polyester production, for example, and through a British joint venture, Koc gained access to 717 Grundig patents. This was an important reason for the internationalization initiative of the Arcelik group (part of the Koc holding), which included the acquisition of Elektra Bregenz in 2002 (Gülsoy et al. 2012: 24).

The accession negotiations since 2005 represented an additional thrust, which at least has led to the sector approaching EU standards (with regard to environmental regulations etc.) more (Uzel 2013: 31). By opening the domestic market to foreign corporation for FDI from the US and the EU, additional pressure is being placed on Turkish companies to become more competitive, globally as well, which has been supported by the Turkish government through numerous measures.

3.2 Austria as a business location from the perspective of Turkish corporations

Within the framework of empirical research, seven expert interviews were conducted (approx. 1.5 - 2 hrs.) in Turkey and three in Austria (see Appendix). Out of all of the 10 interviews, six interview partners were top managers or owners of Turkish companies, and one person was a regional manager from an international company in Turkey. The rest of the interview partners were high-ranking employees from the foreign trade offices of the Austrian Chamber of Commerce and the Austrian Business Agency.

In Table 5, the OFDI drivers are summarized with regard to Austria/Vienna as an investment location.

Table 5: Austria's attractiveness to Turkish companies – OFDI drivers

OFDI-Factors	Relevance
Business-Environment in Turkey	Dynamic for liberal-western oriented MNE and SMNE; Orientation particularly towards Middle East or SEE, whereas strong competition with regard to the hub-situation is apparent to those familiar with this (E11, E1). Nevertheless, there is awareness of the function of an east-west-west-east hub (E8).
Push-Factors	Economic and political situation unstable, preference for government-related companies and business associations (e.g. Müsiad): Willingness of above all liberal-western oriented companies to go abroad is estimated as particularly high by the interview partners (E1) and as a result of the current political developments, has even increased.
Pull-Factors	Largest pull-factor for Austria: EU-member and so access to a bigger market (E6, E8, E9). Europe is generally viewed as a growth market, TR companies concentrate mostly on neighboring countries (E3) and if central Europe, then Germany. Several countries are also grouped into markets (E5). Even so, two of the surveyed companies see Austria, and specifically Vienna, as regional headquarters for the expansion into the European market (E8, E9). Austria's attractiveness as a market is otherwise estimated as rather low. On the one hand, this market is largely unknown (E3, E1, E6); there is no national brand "Austria" (in contrast to Switzerland) (E5, E6); additionally, the overwhelming involvement of Austrian companies in Turkey is largely unknown. Where there is awareness, the image of "Austria as an investment location" is not the best, particularly due to the visa requirements; besides, the market counts as small or is perceived as less attractive for high-quality products and services (E5, E6). Vienna / Austria is considered attractive as a possible hub due to its proximity to Turkey (flight distance 2 hrs.), the high quality of life and the market opportunities in the area of e-payment (E9). As a production location Austria is uninteresting from a Turkish point of view (E5, E10). For this reason, Austrian companies have not had good experiences at relevant trade fairs and have tried to inquire directly at Turkish companies, particularly in the industries such as gastronomy, hotel chains and retail (E1, E10, E11).
Resources	Less interesting for Turkish companies
Technology access	Interesting, but largely unknown
Market access	Because there is no Turkish global brand (except Turkish airlines), in the industrialized countries, market entry usually happens via the Turkish community. The Turkish community as a sales market for Austria, however, is perceived by the surveyed MNE as not particularly attractive (E6, E2). Partly because a downgrading of the brand is feared if the market entry should happen this way. The self-defined hub function for CEE and SEE is not apparent to Turkish companies. On the contrary: SEE is considered hegemonic to Turkey and is handled from there (E3, E5). The visa problematic is considered a particular hindrance (E1, E3, E6, E 9, E10, E11) or the difficulties in obtaining a red-white-red card (E9) as well as the high non-wage labor costs (E8).

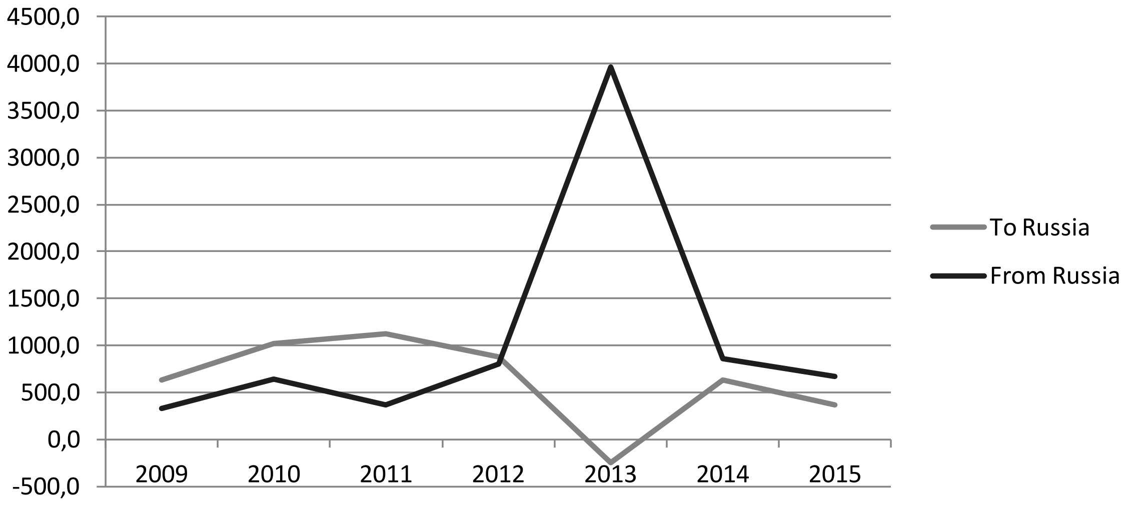
Brand access	In principle, brand access is very interesting, but there is no brand awareness with regard to Austria. Even well-known, global brands (Red Bull, Swarovski) are not associated with Austria (E2, E3). What can continuously be observed is an awareness of Austria as a tourism destination or culture nation. However, there is catching up to do. Within the Turkish elite, skiing is a wide-spread topic; however, skiing holidays are usually taken in France and in Switzerland. Austria is anchored in the minds of the interview partners as the number one ski (sport) nation.

Source: original research (E tags the interview partners)

4. Russian direct investment in Austria

Austria and Russia are quite a balanced pair when it comes to economic relations. The way foreign trade balances have developed over the past ten years shows an equally-matched result. 2015 records a slight surplus of Russian imports of € 459 million, compared with an export surplus of € 899 million in 2014. The foreign trade between Austria and Russia has not changed significantly in proportion to the total foreign trade up to the year 2014; imports varied between 2000 and 2005 between 1.7% and 2.3%, but the significance of Russian product imports has leveled off back to 1.8% since 2014. Only exports to Russia, measured against total Austrian exports, have been experiencing a continuous increase from 0.9% in 2000 to 2.5% in 2014 and down again to 1.5% in 2015. When taking a closer look at the most important commodities, it is particularly revealing for the analysis of the Russian economic structure.

Figure 1: FDI flows between Austria and Russia (in MM. €)

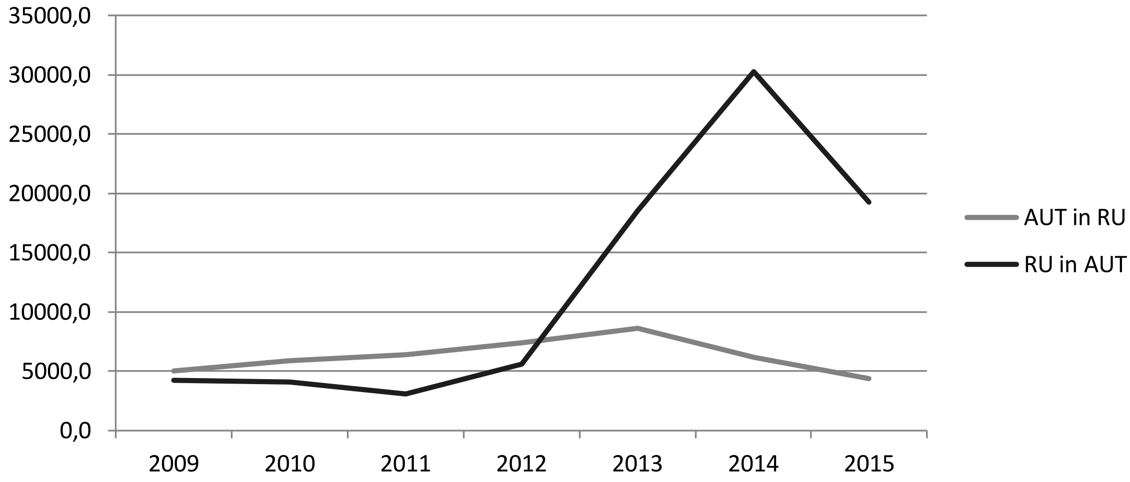


Source: wiiw 2016

While the Austrian products that are exported are proportionately added-value goods and technology, such as medical and pharmaceutical products as well as machines and appliances, the two most significant import goods from Russia are gas and oil. This focus on the exploitation of natural resources has led to a neglect of the industrial sector, from which Russia's economy has been suffering since the collapse of gas and oil prices.

In addition, the investment flows to Russia as well as from Russia reveal shortcomings in the Russian economy. Graphic 1 illustrates, on the one hand, the collapse of Austrian direct investment to Russia in 2013, which in 2014 show a slight recovery, but they sink again in 2015. At the same time, Russian direct investment in Austria showed a record-breaking increase in 2013, followed by a continuous decline until 2015. If the entire FDI to Russia were considered, not only the Austrian, a much more dramatic slump would be shown. In 2015 the FDI fell as a share of Russia's GDP to the lowest value in the past 20 years. Indeed, foreign investment by Russian companies has also declined sharply; however, to a lesser extent, resulting in a capital outflow of up to € 15 billion from Russia (wiiw 2016). As the cause of this negative development, a combination of several factors can be seen: Firstly, the Russian economy has shown significant weaknesses since 2012, which primarily have institutional and structural causes that were aggravated by sinking gas and oil prices as well as the economic sanctions. Moreover, the more restrictive international banking business, new Russian laws against capital outflow, and stricter EU-regulations regarding capital transactions as well as the depreciation of the Ruble have all affected the accounts (wiiw 2016).

Figure 2: FDI holdings: Russian and Austrian capital in AUT and RU



Source: wiiw 2016

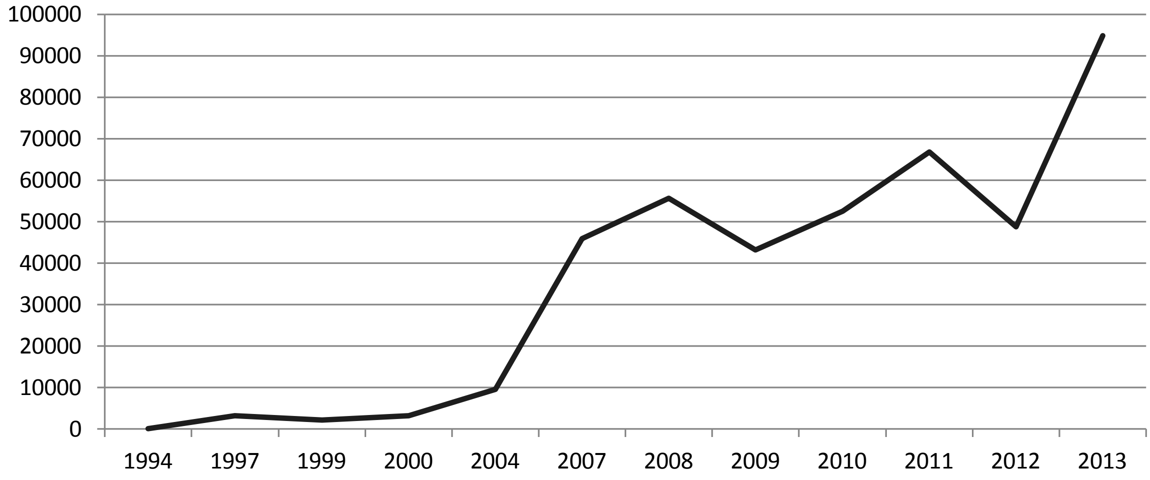
The significant increase of Russian capital in Austria can be explained as the result of the reallocation of Russian capital from Cyprus to Austria. Additional explanations are statistical revaluations of assets and new holding companies in Austria. Nevertheless, it must be kept in mind that the two main motives for moving Russian capital abroad are tax-savings and protection against expropriation. Against this backdrop, there are two types of Russian FDI that should be distinguished between: On the one hand, oligarchic capital that typically seeks protection and tax-savings, and on the other hand, capital from large leading Russian companies such as Gazprom, Lukoil, or banks like VTB-Bank or SBERBANK who are pursuing strategic corporate interests. The fact that a part of Russian FDI capital is the result of tax evasion, and that this capital goes back to Russia eventually (capital round-tripping), leads to an overestimation of the overall Russian FDI volume. Approximately 40% (Liuhto 2017: 260) of Russian OFDI capital is a case of round-tripping and, therefore, should not be classified as FDI. Typical destinations for this capital are the Bahamas, Bermuda, British Virgin Islands, the Cayman Islands, Cyprus and Jersey (Liuhto 2017: 248). The holdings of Russian OFDI in Austria must also be evaluated with this in mind. However, Austria and especially Vienna has been able to attract large Russian groups such as Gazprom, Lukoil, Sberbank, VTB-Bank and also Deniz-Bank, which is a part of the Russian Sberbank. For these companies, the dynamic of having locations in Vienna shows itself in examples such as Lukoil, which expanded its business in Austria and created a production site in this country.

4.1 Drivers and motives for Russian OFDI

Vienna has a long tradition of serving as a bridgehead to the West for Russian companies. A look at the history of Russian foreign investment shows that Vienna has long been significant for Russian, or rather Soviet capital, especially during the Soviet era.

If you follow the analysis of Russian OFDI strategies according to the model of the investment development path per Dunning (Dunning 1981, Dunning/Narula 1998), you can see that also Russian multinational companies apply this model. Czarist Russia was too weak economically to appear as a significant foreign investor towards the end of the 19th century and at the beginning of the 20th century, and was primarily a receiver of foreign capital from Europe. Above all, France, England, and Germany invested in rail infrastructure, petrochemistry, and banking. Conversely, at this time Russian capital was sent to China, Mongolia, and Persia (Bulatov 1998, 2001). Before WW I, the first Russian banks had begun to orientate themselves towards Western Europe. In the period between the world wars, the established USSR withdrew most of its capital from abroad; the only locations that were retained to promote trade were in Afghanistan, Iran, Mongolia and Turkey. As of the 1930s, investment dynamics, to as well as from Russia, came to a standstill until the 1970s. It was not until the economic reforms by Brezhnev towards the end of the 1970s that Russian companies again became active abroad and invested in 105 Western companies. Vienna was particularly interesting for Soviet companies as a location for banks and insurance firms. At the end of the 1980s, Soviet MNOs counted 161 foreign subsidiaries, nine of which were in Austria. An example is the Donau-Bank founded by the State Bank of the USSR together with the Foreign Trade Bank of the USSR in Vienna in 1974. After the collapse of the USSR, it was successively taken over by the VTB-Bank and entirely renamed VTB-Bank in 2006.

Figure 3: OFDI flows Russia (in MM. USD)



Source: UNCTAD

The first post-Soviet MNOs of the 1990s emerged from large state organizations who had locations in individual republics of the USSR that became autonomous states as a result of the disintegration of the Soviet Union and thus became multinational corporations by default. Of the ten largest Russian multinationals, four are state-run companies, namely Gazprom, Rosneft, Sovcomflot and Russian Railways (Liuhto 2017).

Geographically, these companies focused on familiar territory: The Commonwealth of Independent States (CIS), and later on the Central Eastern European region, which are well-known from a historical perspective. The Russian OFDI boom began in 2000 and held up until the financial crisis in 2008; nevertheless, a renewed climb can be seen on Graphic 3 until 2011 and again as of 2012. Russian companies prefer to invest in metallurgy, natural gas and oil, as well as the chemical industry (Andreff 2017). As already mentioned, one of the motives for Russian FDI is most certainly tax-savings, which is made apparent when looking at the countries with the highest amount of Russian capital holdings in 2011: Cyprus, the Netherlands, and the British Virgin Islands are in the lead followed by Switzerland and Luxemburg. Apart from tax havens, Russian OFDI is orientated according to the following criteria: (1) Countries that are important export destinations for Russian products, such as Austria, France, Germany, Spain, Turkey, and the UK. (2) Countries that demonstrate a cultural, historical, and linguistic proximity to Russia, such as the entire CIS region, and (3) more distant countries, such as the US and Canada. Since the mid-2000s, Russian MNOs have oriented themselves increasingly towards Asia and Africa. Although Latin America did not play much of a role for Russian capital up until now, this has recently started to change (Koval 2017). An interesting aspect of Russian FDI strategy consists of wanting to anchor Russian influence internationally and establish soft-power in replacement of military presence. (Driga & Dura 2013). The lines between political positions and high-ranking business management positions in the large state owned enterprises (SOEs) are quite blurred, as can be seen by the former Gazprom CEO, Dmitry Medvedev, or the former Rosneft CEO, Igor Sechin, who was appointed Deputy Prime Minister.

The large SOEs internationalized by acquiring technology: Where Russian industrial policy profited through modern technology, so did Russian foreign policy by strategically securing influence. However, the influence of Russian corporations is not comparable to that of China since there is no overall state strategy in the background. Instead, one could speak of isolated ambitions that should selectively transport and support Russian interests (Andreff 2017).

In addition to Russia's strategic industrial and foreign policy interests that can be evaluated as push factors for the expansion of Russian capital, questions regarding economic factors arise with regard to the promotion of MNOs' internationalization. Relevant investigations have arrived at very different conclusions. Andreff (2017) has come to the conclusion that Russian MNOs, on the one hand, want to enter new markets by investing locally in order to strengthen their presence in their most important export markets. This strategy applies to the CIS region, but also to Western markets where Russian companies have had to assert themselves against intense competition. On the other hand, their strategy consists of investing in markets to attain access to raw materials. This applies to oil and gas companies in particular, who are pursuing vertical integration through cross-border acquisitions in order to attain raw materials this way. In Western markets, the acquisition of modern technology is in the foreground. Yet, what does not seem to play any role are efficiency considerations through foreign investment, even though Russian MNOs are active in low-wage countries.

In addition to the results of Andreff (2017), Kalotay & Sulstarova (2010) have established that Russian MNOs are building on their competitiveness and specific know-how with regard to restructuring weak businesses in the oil and gas industry as well as in the steel and iron industry. They see their strength not in technological superiority, but in organization and management. An additional factor for Kalotay & Sulstarova (2010), and thus in accordance with the analysis of Andreff (2017), is the opening of new markets that are financed via the enormous return on capital employed from the steel and iron industry. A third competitive advantage of Russian MNOs is their familiarity with local business processes and the institutional environment in the CIS regions.

Williamson (2015), on the other hand, sees the competitive advantage of Russian MNOs in their privileged relationships to political decision-makers in Russia, where benefits can be gained as a result of favoritism (Leitner/Meissner 2017, Leitner 2017, Meissner 2017). Innovation and increased efficiency are neglected for preferential treatment. In addition, there is an insecure institutional environment in Russia, which hinders innovation and efficiency (Rochlitz 2016; Rochlitz et al. 2016).

A close connection to Russian politics as a competitive advantage is supported by an analysis of a case study regarding Gazprom, where the two most important factors for internationalization are seen to be, on the one hand, access to gas, and on the other, support from the Russian government (Holtbrügge/Kreppel 2012: 10). The expansion of VTB-Bank was also supported by the Russian government through capital grants (Holtbrügge/Kreppel 2012: 11).

4.2 Austria as a business location from the perspective of Russian corporations

The perception of the location Austria diverges in many aspects from the Turkish results, which is why they have been presented separately. Moreover, the results are based on secondary empirical analyses and are structured differently than the Turkish results. Nevertheless, the same OFDI grid is used in the analysis as in the Turkish companies.

Table 6: Austria's attractiveness for Russian companies – OFDI drivers

OFDI-Factors	Relevance
Business-Environment in Russia	Russia's business environment is perceived differently depending on the region but also on the size and ownership structure of the company. The smaller and the further away from the political center (especially regarding networks), the more critically the business environment is described. Essential factors are political risks such as corruption, favoritism, and institutional ambiguity in a country shaped by "state capture". Consequences can go as far as expropriation, so called "corporate raiding".
Push-Factors	An essential push-factor is legal uncertainty, especially regarding all property rights. A strong oligarchically shaped economic structure motivates capital outflow.
Pull-Factors	Austria is seen as geopolitically neutral, which from a historical perspective, is very important for Russian companies. The resulting path dependencies prove to be significant for Austria as a location. Additionally, Austria is seen as a hub to the EU. The presence of international organizations such as the UN, OSCE, OPEC is also mentioned in particular. Finally, the high quality of life, predictable politics, and the bilateral diplomatic relations that are estimated as very good speak for Austria. The central geographical location is also regarded as equally important, with excellent connections to Europe and post-Soviet regions.
Resources	Resources are hardly of any importance to the Russian companies present in Austria as GAZPROM, LUKOIL etc. tend to perceive downstream opportunities.
Technology Access	Access to modern technology is for Russian industrial policy of particular importance as Russian companies saw little incentive for investment over the years due to the political and institutional circumstances. This has changed significantly since the economic sanctions, and now Russian industry has to produce high-quality products that used to be imported themselves. Here Austria is mentioned explicitly because of the local "Hidden Champions", usually family companies, which are specifically targeted by Russian companies. LUKOIL produces lubricants in Austria due to the availability of modern technologies.
Market Access	Austria as a market is definitely viewed positively, especially in downstream areas for Russian oil and gas companies. However, this only applies to raw materials companies. For banks, Austria as a gateway to and from the EU is in the foreground. Other products such as machines etc. would hardly be able to compete.
Brand Access	Brands that are active in Vienna are not in the foreground for Russian companies. If you look at the structure of Russian MNOs, then you can see mostly B2B products in the industrial sector. In the banking sector, they prefer their own brands.

Source: original research (Rostec, Lukoil, Sberbank, VTB-Bank), questionnaire from TSP 2009.

5. Conclusion for Russian and Turkish direct investment in Austria

In the headquarters-database of Headquarters Austria (Effective 1.12.2015), there is not one Turkish headquarters listed out of 362 regional headquarters of multinational enterprises. The survey of Turkish companies shows that Austria as a business location is generally quite unknown, and is perceived as a small, not very high-quality market. For this reason, the opinion of the Turkish companies surveyed is that Austria is not interesting as a market for high-quality goods and services. The situation with Russia is somewhat different because the headquarters-database (Effective 1.12.2015) has 6 Russian corporate headquarters listed in Vienna. These include, for example, SBERBANK, Lukoil, VTB-Bank, Deniz-Bank, which belongs to SBERBANK but acts independently, and Centrex, a company in the natural gas sector. For Russian companies, Austria is interesting as a market, a technology location, and in its function as a hub to the EU. Moreover, the traditionally very positive diplomatic relations between Russia and Austria favor Austria as a headquarters location. However, it is necessary to differentiate exactly which Russian capital comes to Vienna for which purpose, for a considerable part has merely the intention of finding a safe tax-haven.

For Turkish companies, Europe is perceived as an important business location and a target area for economic activity; however, no longer in its former intensity. Within the EU, a North-West orientation for OFDI has developed, i.e. the main target areas are Germany, the Benelux countries (notably the Netherlands) and Scandinavia. At the same time, Turkish companies have strengthened their activities in the Middle East, although the political situation in the neighboring countries is seen as an inhibiting factor. The political developments in the neighboring countries of Turkey, especially in Syria and Iraq, are a major source of uncertainty, but also Iran as well as the crisis in Israel are factors that strongly influence the envisaged role of a transit and logistics hub.

In summary, the following conclusions could be made.

1. For Turkish companies, Austria is largely unknown as a business and investment location, and in contrast to Switzerland, there is no brand image such as “Made in Austria”. Austria, and in particular Vienna, is perceived as a cultural destination. The latter also applies to Russian companies, who also appreciate Austria as a business location.

2. Those Turkish experts surveyed who are involved in economic exchanges with Austria were well aware of Austrian companies’ excellent niche quality. Overall, however, the image, if present at all, is perceived as not particularly attractive: the market is too small and it is too expensive as a production location. The EU membership is seen as a big plus. In contrast, Austria’s image is basically positive for Russian companies. Political neutrality and membership in the EU are important arguments for using Austria as a bridgehead.

3. Due to the very late arrival in the world market compared to other Emerging Economies Corporates (EEC) and that there are actually no global Turkish brands (except Turkish Airlines), many of the surveyed companies rely particularly on the Turkish community

as their first sales-hub in target countries as part of its internationalization strategy. One possibility is to approach the market through the respective Turkish diaspora community. Due to the perception that the Turkish community in Austria does not have much buying power, this strategy is not implemented in Austria. For example, there is a Turkish bank that has its largest sales outside of Turkey in Austria, and even it attaches importance to the fact that the Austrian (and following) German market is addressed in its entirety. Russian companies, on the other hand, have a historical relationship with Vienna. Since the 1970s, Vienna has been used by Soviet “Red Multinationals” mainly in the banking and insurance sectors. This created the foundation for path dependencies, which are still relevant today. A relatively wealthy Russian community has settled in Vienna, who are not necessarily viewed as a sales-hub than as an enrichment to the general living standard – in accord with the motto: birds of a feather flock together.

4. A major difference in the perception of Austria as an investment location, and especially Vienna, from the Turkish perspective is that its verifiable (see Musil, 2012, Breinbauer & Schuh 2011) and self-defined role as a hub for CEE and SEE is not visible, or rather is seen as a competitor. The Turkish companies that we interviewed deal with the south-eastern European market either directly from Turkey or directly in the south-eastern European countries. Austria is seen as an entry port to the EU or part of the German-speaking target market without a specific hub function. This is a clear difference to Russian MNEs, who perceive Vienna explicitly as a gateway to the EU or to the West. This perception is flanked by a wide range of Russian-speaking services in the legal and business consulting market. Above all, the Vienna-based Russian banks use Vienna to accompany Russian companies into the EU, but also to introduce Western companies into the Russian market.

5. In order to increase Austria’s attractiveness as a hub for expansion into the EU or for OFDI, the following measures are considered:

   – Targeted presence at trade fairs in those areas where Austrian companies are very strong: e.g. water treatment, smart cities etc.

   – Specific improvements of aspects of the location considered a disadvantage: mainly visa problems, administrative processes, personal taxes, etc.

   – Communicating its political stability and stressing the presence of other international organizations such as the UN, OSCE, OPEC, etc.

If more Turkish investment should be attracted, a targeted appeal from investors is urgently needed. One proposal submitted to the interviewees was viewed very positively: Targeted branding where the cultural aspects are connected to the business aspects of the location. As skiing is a wide-spread hobby for many Turkish managers, an invitation for a few days of skiing combined with cultural events in a relaxed atmosphere could be offered so the Austrian economy could be promoted as a high-quality investment location.

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Nathalie Homlong / Elisabeth Springler

Chinese outward FDI to small European economies – what makes some countries more attractive than others?

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Abstract

In the last years, Chinese companies have increasingly become important investors beyond the country's own borders. Most of China's outward foreign direct investments (OFDI) are conducted in Asia (about 62% of OFDI flows in 2013). While only about 6% of Chinese outward foreign direct investments are directed at Europe (OFDI flows in 2013; EY 2015), strong increases can be observed in recent years. However, Chinese investments are strongly concentrated in a few European countries. With just EUR 436 million out of a total of almost EUR 46 billion in Chinese OFDI to EU member countries (cumulative FDI stocks from China 2000-2014; Haneman/Huotari 2015), Austria is among the European countries that have received only little OFDI from China. This holds although Austria has managed to attract relatively high levels of FDI in general. This raises the question which location factors are of importance for Chinese companies when taking their location decision in Europe. To analyse the research question, the paper is focusing on Austria as well as other economies that are member states of the European Union. Criteria for attractiveness for FDI are deducted from an alternative approach of economic theories and are applied for Austria. Results from expert interviews are applied to the specific situation in Austria.[1]

1. Introduction

The impact of Chinese FDIs to Europe (OFDI) has increased sharply in the last years. However, data shows that European Economies attract OFDIs from Chinese not equally strong. When focusing on a potential different development between so called Old and New or small and large Member States of the European Union no clear pattern can be seen. Since the global financial and economic crisis of 2008/2009 the different developments of European Union Member States have been emerging as economies show different paths of economic development and seem to be more dependent on foreign direct investment inflows inasmuch as national investment strategies can hardly be financed. Simultaneously these additional financial means seem to be important to re-boost economic development.

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Following neoclassical approaches to FDI inflows, no explanation for the uneven development between European Union Member States can be given. When taking a historical view on the roots of internationalization theories and searching for a combination of questions with the location theoretical analysis, the works of Stephan H. Hymer can be seen as a possibility to offer a theoretical alternative. Then focusing on this theoretical approach, a broader scope of analysis is offered and allows for a more differentiated view of the *ownership structure* of the *investing* firm and the *institutional and spatial framework* the firms operate in. State capitalistic analysis of Nölke (2013) pronounces the institutional differences between so called *Northern Multinationals and Southern Multinationals.*

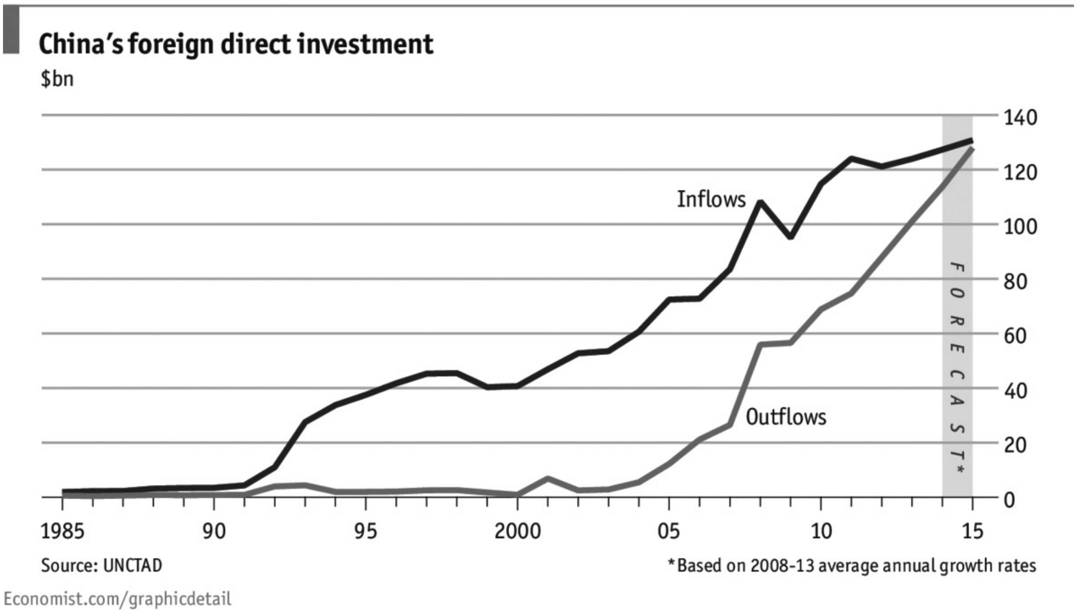
This paper draws on this analysis and derives the position of Austria as a location of FDI inflows from a combination of this alternative theoretical view with expert interviews. The necessary institutional and structural background to attract FDI inflows are the crucial indicators in the analysis. Based on the discussion of the necessary institutional and structural prerequisites to attract FDI inflows policy advice on how to increase location attractiveness can be given.

Based on this, this paper is structured as follows: Firstly, the development of foreign direct investment from and to China is investigated in Chapter 2, Chapter 3 gives an overview of the theoretical analysis and Chapter 4 shows the analytical impact on Austria.

2. FDI in China: inflows and outflows

Since the 1990s China has been receiving increasing amounts of foreign direct investment and has been among the top destinations for FDI worldwide, ranking e.g. first in 2014 (Australian Government 2015). FDI has played a crucial role in China's economic development, with positive impacts on productivity, economic and trade growth. This is also reflected by the fact that in 2014 foreign invested companies accounted for about 46% of China's exports and imports each, with an especially dominant role within high technology exports (Morrison 2015: 13). China's economic development over the past decades has led to a changing trend with respect to FDI. The country has transitioned from a pure receiver of FDI to a major player in terms of outward foreign direct investment. With outbound foreign investment flows of over USD 100 billion, China has become the third largest overseas investor (EY 2015). This has also been actively supported by the Chinese authorities. China's 12th Five Year Plan (2011-2015) encouraged mainland companies to invest in greenfield projects and to carry out mergers and acquisitions abroad. The aim of the "go global" policy has been to improve competitiveness and to increasingly enter international markets (Davis 2013). Consequently, as can be seen in figure 1, outward FDI has experienced strong growth in recent years, and in 2015 FDI outflows from China for the first time reached about the same level as FDI inflows to China.

Figure 1: FDI in China: Inflows and Outflows



Economist, 2014

With 58% of China's outward FDI a lion's share is directed at Hong Kong. This is followed by Latin America with 13%, offshore financial centres with 12%, Europe with 6%, North America and Southeast-Asia with 4% each, and Australia and Africa with 3% each (outward flows in 2013; EY 2015: 3). However, since Hong Kong and offshore centres are frequently used as a gateway for OFDI from mainland China, but are often not the final destinations of Chinese OFDI, these figures draw a distorted picture. Adjusting for *round-tripping* and *off-shoring,* the distribution of Chinese OFDI flows is estimated at 50% to Asia, 17% to Europe, 14% to North America, 7% to Africa and Oceania each, and 5% to Latin America (Garcia-Herrero et al. 2015: 8). As a general trend, in recent years Chinese OFDI has been increasingly targeted at developed countries as opposed to developing countries.

When looking at total Chinese OFDI to Europe, the highest flows went to the UK, followed by Russia and Germany. All three countries are among the top 10 destinations for China's OFDI (for 2013, EY 2015). For M&A deals Germany has been the country with the highest number of Chinese M&A transactions in Europe (with 21 deals in Germany, followed by 14 deals in France, 13 in the UK and 12 in Italy). Regarding the value of M&A deals in Europe, the UK, France and Italy were in 2014 leading in Europe (KPMG 2015: 12). As shown in figure 2, the value of cumulative investments by China to EU countries varies strongly. The largest economies in the EU attract high investments. However, among the remaining countries the pattern is less clear. While a few of the new EU member states – Hungary and Romania – have received large investment amounts from China, the rest of countries in this region has received comparably little investment. Also among the smaller EU15 no clear pattern can be observed, with comparatively little investment to Denmark, Finland, Ireland and Austria, but substantial investments to the Netherlands and Portugal on the other hand. Leading sectors are farming and food, (renewable) energy, real estate, automotive, financial and business services, industrial equipment and communication services (Baker/McKenzie 2015; European Chamber 2013).

The main motives and areas of activity for Chinese OFDI in Europe are:

- Increasing competitiveness on the Chinese market: acquiring European technology and recognized brands
- Competing on European and global markets: R&D activities in the EU
- Acquiring European strategic assets, established marketing networks, distribution channels
- Manufacturing of core and complex components in European facilities
- Setting up assembling facilities in European low-cost countries

(EU SME Centre 2014; Hanemann/Huotari 2015).

Figure 2: Chinese OFDI to the European Union, Value of cumulative investments 2000-2014 in billion EUR.

Source: Haneman/Huotari 2015: 15

As can be seen, knowledge intensive industries and activities play a leading role. Chinese companies frequently aim at entering sectors, where European companies have developed especially highly innovative, operational and managerial expertise. Accordingly, knowledge intensive services account for 67% and high-tech manufacturing for 17% of the value added activities of Chinese owned companies in the EU (in terms of assets; EU SME Centre, 2014). As a mode of entry, mergers and acquisitions (M&A) are gaining in importance. The number of *greenfield investments* clearly exceeds those of the number of M&A (69% of the deals), however, the value of M&A is substantially higher than those of greenfield investments (86% of the value; Baker/McKenzie 2015; Nicolas 2013). While Chinese state-owned enterprises (SOEs) were at the forefront of Chinese OFDI to Europe at the beginning, now a majority of M&A by Chinese companies (in terms of volume) is carried out by private Chinese firms (EU SME Centre, 2014).

3. Theoretical background to analyse FDI

On the one hand the theoretical discourse of the main determinants for foreign direct investment is connected strongly to the characteristics of the goods produced on the respective market. On the other hand, entrepreneurial motives for the accession of a new market and protection of existing markets are in the centre of the discussion. The later mainly deals with the analysis of cost structures, in terms of direct production costs as well as indirect costs with reference to innovation processes. The aim to reduce transportation costs is added to this cocktail of different cost structures in the case of the protection of existing markets. Conversely to this, market potential is the main focus whenever it comes to the accession of new markets, while cost structures are of minor importance (see for more details among others Kinkel 2003: chap. 2.7; Altzinger 1998).

When taking a closer look to the motives for FDI, it becomes already evident, that firstly the structural and institutional features of the host countries are neglected and that secondly the analysis of the specific entrepreneurial structure that the investing firm is characterized with, is missing. *John Dunning* is the main contributor to the research of these traditional views of *location attractiveness* within mainstream economic analysis. Therefore, in the following firstly the approaches of mainstream economic theory according to Dunning and their explanatory value for the uneven developments in OFDI in Europe are discussed and secondly alternatives with a focus on the blind spots of mainstream economic analysis, mainly ownership structures and structural-institutional characteristics of investing companies, are discussed.

3.1 Logic of mainstream economic analysis in location factor theory and its weakness

Since the 1980s the analysis of *location attractiveness* and respective internationalization strategies are discussed within the eclectic paradigm, the so called OLI paradigm. John Dunning (see among others 2000: 1998) has mainly contributed the development of and further research in this strand of economic argumentation.

The OLI paradigm comprises the elements: Ownership, location and Internationalization. The explanatory value of these three pillars is weighted differently in economic literature. While among others Ethier especially emphasizes the factor *Internationalization,* Dunning describes the three elements as *three-legged chair,* with equally weighted factors that guarantee the stability of the system described (Dunning 1998: 45). Using this trichotomy, specific criteria for individual case scenarios can be derived. Ownership related advantages can be derived for example from knowledge, which is *"sowohl schwer identifizierbar als auch schwer transferierbar"* (Fuchs/Apfelthaler 2002:42), while advantages with respect to internationalization can be derived from the company's activities abroad and advantages for specific locations are concentrated on a spatial view.

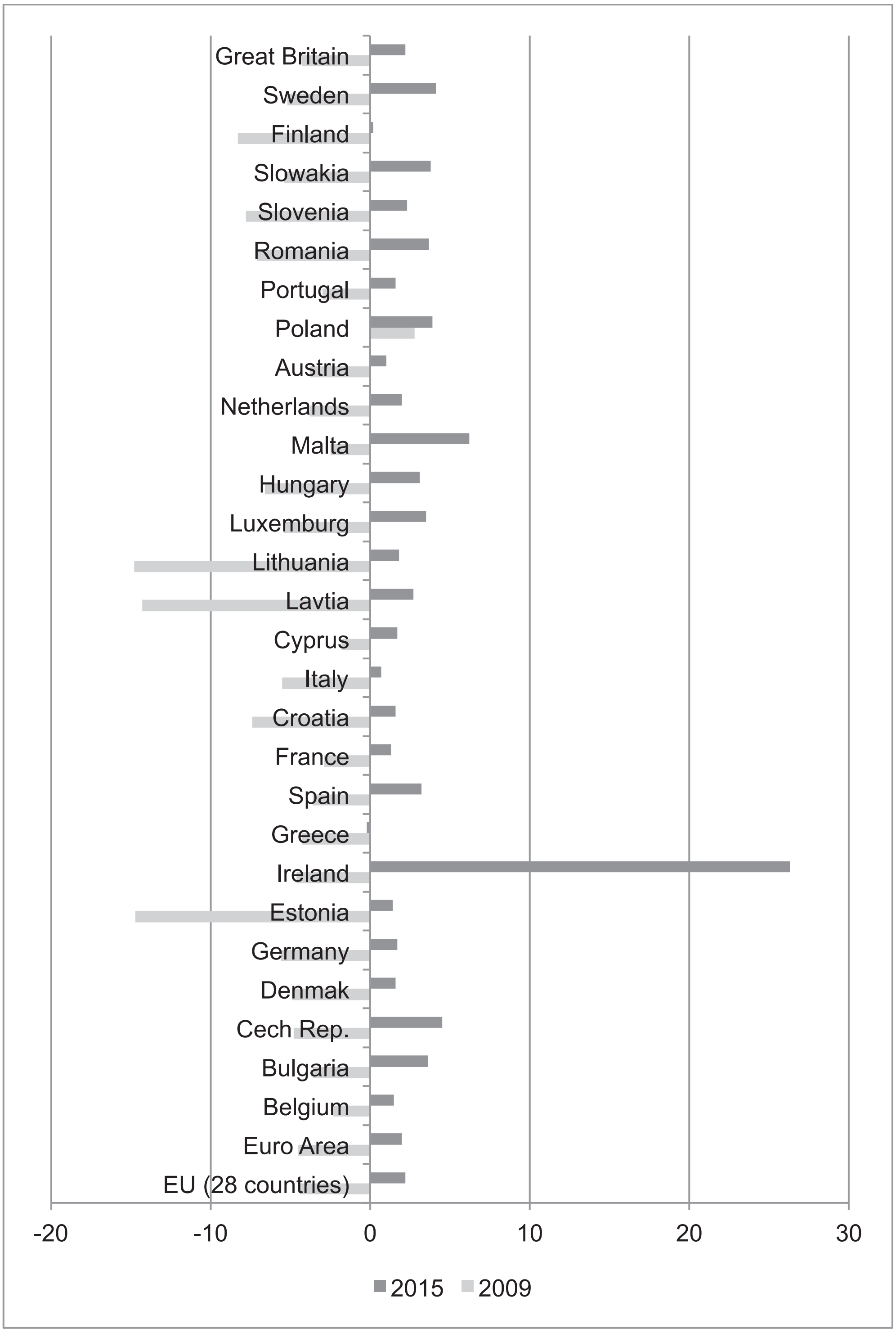
Following this approach, a location specific analysis can be further divided into *economic, social and political variables.* Depending on the types of FDI clustered by Dunning (1988:53), which should show the various reasons for foreign direct investment that might be market, resource or efficiency based, or focus on strategic assets, different results of economic and social variables are assumed. For example, in the case of an efficiency based reason for companies to invest are mainly driven by low labour costs, while foreign direct investments based on market enlargements depend on high levels of consumption and a higher wage and income level. As presented in Part 2, Chinese FDI to Europe is mainly driven by competitive advantage of the respective company on the home market and market enlargement motives.

The impact of the OLI paradigm presented above as to be critically evaluated from the point of view of foreign direct investment inflows from an emerging market bears significance for two reasons:

- On the one hand the OLI approach can be criticised for the minor explanatory value of the neoclassical approach, which becomes visible in the derived indicator set as a mixture of social, economic and political indicators (see among others Homlong/Springler 2012).

- On the other hand, the OLI eclectic paradigm is also discussed critically for FDI inflows from *emerging markets* by those economists who in general assume a high explanatory value of this theoretical approach. Numerous theoretical as well as empirical studies (see among others Buckley et al 2007; Ramasamy/Yeung/Laforet 2012; Huang et al 2017:176) show that for the case of emerging markets ODFIs other than mainstream economic approaches have to be used to estimate future developments and impacts. Berning/Holtbrügge (2012: 191) analysed 62 articles in 15 peer reviewed journals dealing with the impact of OFDI from China and their theoretical foundations for the explanation of the internationalization of Chinese firms. The following results can be derived: *"As an important theoretical contribution our study reveals that – according to the vast majority of analysed studies – traditional internationalization theories, such as Dunning's OLI paradigm, the RBV and the Uppsala process model, are unsuitable for explaining Chinese OFDI."*

Figure 3: GDP Growth in % (compared to previous year) in 2009 and 2015

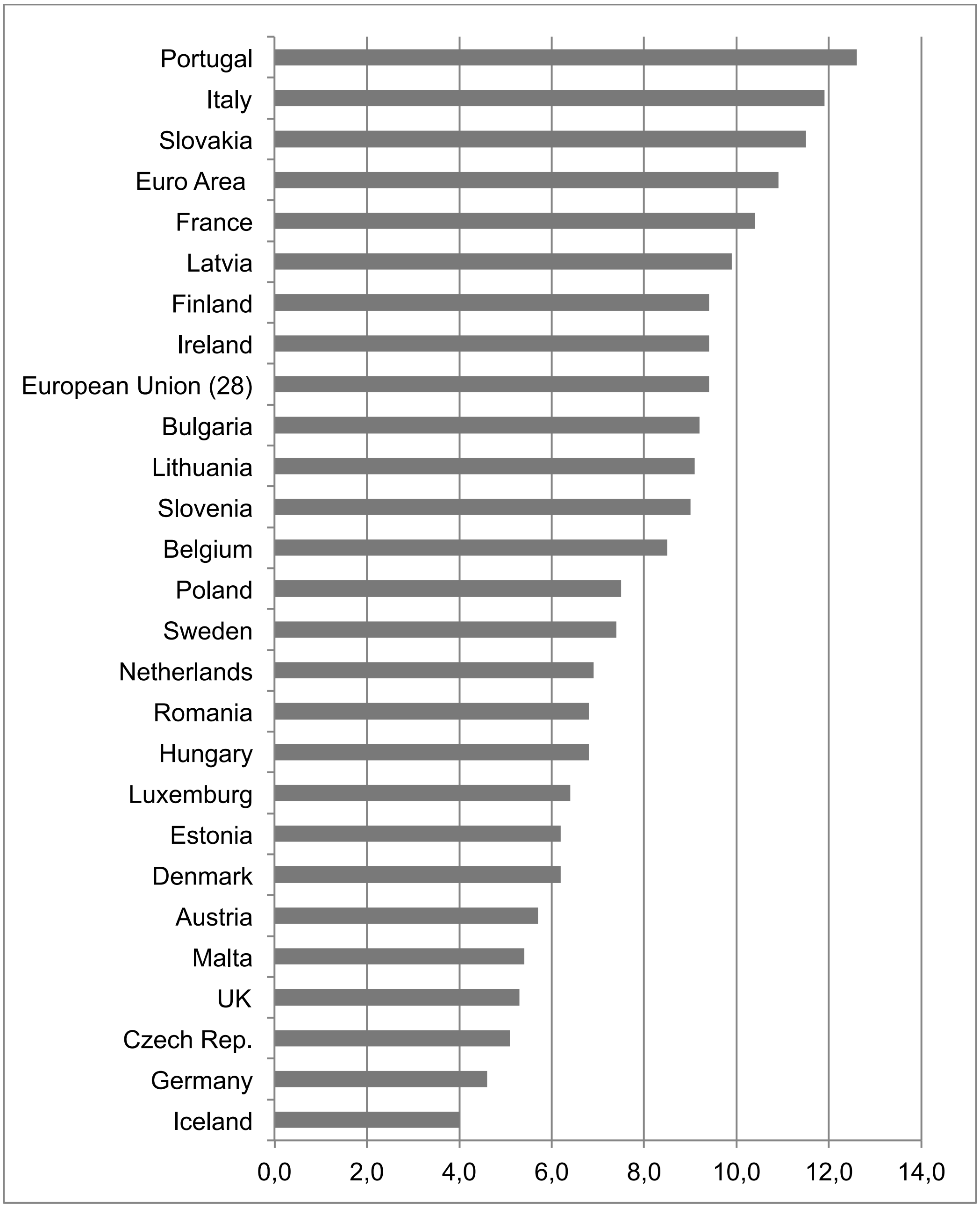


Source: Eurostat Datenbank; own illustration.

Apart from these critical observations regarding the theoretical explanatory value, no evidence for the differences in location attractiveness can be found, when applying Dunning's categories of *economic, social and political variables* to the European situation.

Figure 3 shows the development of GDP growth, which serves as main criterion for the *economic setting* as part of Dunning's eclectic paradigm. It becomes evident that states that received high amounts of FDI inflows from China and those that are lagging behind this trend show similar economic growth paths. In the year 2008/2009 when the global financial and economic crisis set off, Germany, Italy, France, but also the Netherlands faced an economic downturn. The economic recession in Austria, which received only minor FDI inflows from China, followed the same trends. With a decrease in GDP growth of 3.8% the economic downturn in Austria was minor in comparison to other European economies. Only Poland was an outlier with a positive growth rate in this year. Conversely to that Greece showed a shrinking economy in both of the selected time periods. Summing up, based on this empirical evidence, economic development does not serve as an explanatory variable for the different levels of FDI inflows from China. Similar evidence can be found when discussing the development of another important variable within the category of economic indicators of the OLI paradigm: the unemployment rate. Following the hypothesis of the OLI eclectic paradigm, a high unemployment rate would lead to an inflow of FDI out of efficiency reasons, or to minimize production costs. Low unemployment rates would lead to inflows because *of market access reasons.* As shown above (part 2; see as well Di Minin/Zhan/Gammeltoft 2012: 191), the later reason is crucial for investments in Europe. Hence, one might assume that those European economies with low unemployment rate attracted the highest share of Chinese FDI inflows. As figure 4 presents, no such trends can be observed in Europe. While economies, like Italy and France show higher unemployment rates than the Netherlands or Germany, Austrian unemployment rates are with 5.7% lower than those of the Netherlands and higher than those for Germany in the year 2015. Despite this evidence, Italy and France received FDI inflows well above those of Austria. As the discussed economies are all member states of the European Union, also other indicators of the category *economic variables* within the eclectic paradigm converge (e.g. inflation rates) and cannot serve as critical explanatory variable. The same argument holds true when focusing on the *political and social environment* as categories of Dunning's eclectic paradigm. Due to the membership in the European Union, overall macroeconomic as well as political and social indicators converge. Institutional and structural features which differ well between European Union Member States and can be observed as part of the underlying economic policy approach (e.g. more or less liberal, stronger or weaker social protection as regards retirement schemes, collective bargaining structures) are not taken into account within the eclectic paradigm (see among others Dunning 2000; critical discussion see among others Homlong/Springler 2012).

Figure 4: Ratio of unemployed by labour force 2015



Source: Eurostat Database; own illustration

3.2 Alternative Approach to explain OFDI

Apart from further developments of the eclectic paradigm within the narrow neoclassical setting, an alternative view emerged simultaneously to the analysis of John Dunning with the works of Stephen Hymer. Only few years after the influential work of John Dunning (1958), Stephen Hymer discussed the different impacts of FDI and capital movements from an entrepreneurial point of view in his dissertation (1960) (see Buckley 2011:61). Hymer's idea was to *"to escape from the intellectual straightjacket of neoclassical type trade and financial theory and move us towards an analysis of the multinational enterprise"* (Dunning/Rugman 1985: 228). Despite numerous critiques (see among others Dunning/Pitelis 2008) regarding especially the logic and assumptions of value added of a multinational enterprise applied in Hymer's dissertation, his work nevertheless can be seen as a starting point of an alternative view on the theory of FDI.

The theoretical impact of Hymer's works can be split into two (Ietto-Gillies 2002) or three phases (Buckley 2006; Pitelis 2002), depending whether his article written in 1968, which shows a discontinuity in his work, is seen as a separate phase of not. His dissertation is influential at any rate, which is also called *radical phase* (Ietto-Gillies 2002:43; Buckley 2006 on the other hand declared the third phase in his trichotomy as radical phase) due to the fact that a multinational enterprise is seen as institution for international production rather than for trading goods. This allows of a disequilibrium analysis. In his last phase (depending on structuring – his second or third phase), Hymer links the activities of a multinational enterprise with the development of a global capitalistic system and shows that asymmetric development as well as poverty might emerge due to the activities of a multinational enterprise (Buckley 2006: 143). Hymer's papers of the early 1970s assumed that foreign direct investment is mainly conducted by multinational enterprises of developed economies and directed towards developed economies. In this phase his analysis applies a discussion of *hierarchical structures* within multinational enterprises, *power relation* due to industrial concentration and *global asymmetries* within the framework of FDI attractiveness. These elements are crucial for the further analysis within an economic alternative to the neoclassical paradigm.

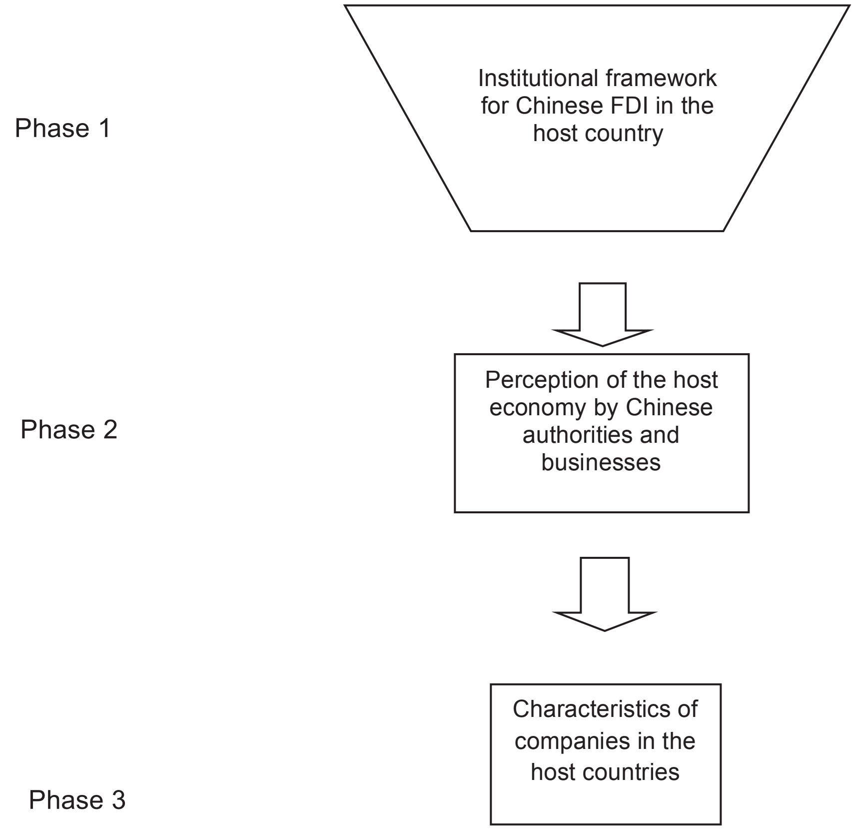
Within the framework of political economy, the so called *Southern* (multinational enterprises from less developed economies) and *Northern Multinationals* (multinational enterprises from developed economies) (Brennan 2011) are distinguished according to their different organizational structure as it regards *hierarchy, control and global disequilibria.* Institutional embeddedness and the derived institutional differences between *Southern and Northern Multinationals* are meaningful for the deduction of criteria for the OFDI attractiveness of economies for *Southern Multinationals.* Hereby, Nölke (2013) focuses not only on the differentiation of control and information within a company but brings *state influence* and the *specific ownership structures* of Southern Multinationals into the centre of analysis.

On the basis of this alternative framework, the following section of this paper derives specific institutional characteristics and phases that explain the attractiveness of nation state for OFDI from China and its Southern Multinational enterprises.

4. Analysis of China's perception of Austria

In their quantitative analysis of the determinants of Chinese outward foreign direct investments Buckley et al (2007: 514) arrive at the following conclusion: *"Chinese firms that invest abroad have to straddle environments, institutions and rules that differ probably more than for any other outward-investing country in the world. … Theorising on the strategy of firms, especially those* *from emerging countries, needs to pay greater attention to the influence of home country institutions.”.* That means that the institutional framework is of special significance for Chinese foreign direct investments. Institutional framework in this context means the way in which the receiving country fosters the influx of FDI from China, and that China thereby receives support for its industrial and economic development policies.

Figure 5: Phases for the analysis of potential recipients of Chinese OFDI



Source: Own figure, own presentation.

Figure 5, which is based on expert interviews that were conducted in spring 2015, shows the phases for access to foreign direct investments from China for developed countries. Phase 1 is about the institutional framework for Chinese direct investments and addresses the following questions: Which attitude does the developed industrialized country have towards foreign direct investments from China? In which way do companies of the developed country receive support in taking contact with Chinese companies? The first contact with a company is established in phase 1, while phase 2 focuses on the perception of the host economy by Chinese businesses and authorities. Phase 3 does then zoom in on the characteristics of the company that is a potential recipient of Chinese OFDI.

Figure 6: Derived indicators for the analysis of attractiveness for OFDI from China, applied for the case of Austria

Indicators in each phase	Perception	Assessment
Phase 1: Institutional framework in Austria		
– Door opener events	Focus is mostly on FDI from Austria; few networks for Chinese FDI to Austria	-
– Attracting key persons for future cooperations	Acquisition of Chinese students and increased cooperation between educational institutions	-
Phase 2: Perception of Austria by Chinese bureaucracy and businesses		
– Image as business location	Perception of Austria and especially Vienna mostly connected to culture and tourism, not as business location	-
– Image of business culture	High level of flexibility and quality	+
– Attractiveness of geographical location		+
– Quality of life for Chinese expats	Culture, affordability, environmental standards	+
– Supply of qualified work force	Training on the job; dual education system	+
– Market size	Small national market, but access to EU market	0
– Investment climate	Performance in international rankings	0
Phase 3: Characteristics of Austrian companies – attractiveness for Chinese direct investments		
– Company structure and size	Small and medium sized companies, less attractive	-
– Brand recognition	International recognition of national brands	-
– Ownership structure	Family owned businesses – strong national connection seen as negative	-
– Access to technology	Possibility to get access to technology and know-how	-

Source: own presentation, own analysis.
Based on expert interviews with Gradt, Grasser, Luo, Maier, Marchetta, Spitzl, Wang W., Wang Y., Wimberger, Zheng

Indicators can be assigned/attributed to each of these phases. These indicators reflect the characteristics of the respective phase. It is important to note that the perception of the fulfilment of each criterion about the attractiveness can vary between host- and sender country of foreign direct investments. Not the quantitative fulfilment of indicators by the host country counts, but rather the perception by the country that undertakes foreign direct investments. Figure 6 lists the most important criteria that can – based on expert interviews – be attributed to each phase. Figure 6 also shows how well Austria performs in each of these criteria according to the perception of Chinese businesses and institutions. Here it becomes evident already in phase 1 that Austria does not have a positive starting point for Chinese foreign direct investments. Door opener events, for example, focus mainly on the promotion of Austrian foreign direct investments in China, but rarely the other way round. The interviewed experts considered the creation of sustainable business networks as crucial for the perception of the Austrian institutional framework conditions for Chinese investors. The networks can best be strengthened by involving key networking persons. Since research and development are essential factors for Chinese foreign investments, the support of university and student cooperation is advisable. Presently some collaborations in this sector do exist, but these include only a limited number of students and do not aim at attracting Chinese students. As described above, phase 2 deals with the perception of the host country from the viewpoint of the investing company and the country of origin of the investor. In this phase the potential of Austria as a business location is generally seen as positive or neutral. A neutral assessment (shown in figure 6 as “0”) shows that Austria is not standing out in any special way from other European countries. In this phase the quality of life for Chinese staff, the geographical location and the attractive cultural environment receive positive assessments. However, Austria is not so much perceived as a prime business location, but rather as a centre for culture and tourism.

This perception is also evident in phase 3. Both company size and ownership structure, with many family-owned businesses, are not considered as conducive to foreign direct investments from China. Access to technology is evaluated as rather limited, while the educational system receives a positive evaluation in phase 2. In case of company mergers, a potential technology transfer is expected, but the access is considered to be limited here. Another important element in phase 3 perpetuating the trend in phase 2, is the image of Austria as a business location in general. One aspect here is recognition of Austrian brands. In both areas Austria is not performing highly according to Chinese perception, therefore the attractiveness of Austria as a business location is considered to be rather limited.

5. Conclusion

As empirical observations show, mainstream economic approaches – mainly driven by Dunning’s eclectic paradigm – do not offer an explanatory value for the different OFDI from China to Austria. It is shown that alternative views offer the potential for higher explanatory value. Based on the differentiation between Southern and Northern Multinationals, three phases are put into the centre of the analysis, which focus on the significance of the nation-state of the sending economy of FDI and the institutional and structural perception of the host economy.

When structuring the perception of Austria’s enterprises accordingly, it becomes evident that Austria’s companies should improve their perception to attract more OFDI from Southern Multinationals. It seems to be of special importance to show a specific and straight forward strategy in the first phase. So far the Austrian State has been in the background and not active and pronouncing the advantages of Austria as business location when cooperating with Southern Multinationals. On the contrary, is seems as if Austria’s strategy focuses only on setting up national companies as FDI investors in emerging economies and not as recipients. Additionally, is has to be mentioned that so far FDI inflows are always regarded as having a positive impact on the host economy’s development and economic structure. The impact of the specific features of *Southern Multinationals* on the national industrial sector and their meaning for control and power relations has not been discussed so far. These questions deserve further analysis in research to be applied on the basis of the analytic framework presented in this paper.

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Experts interviewed:

Gradt, Raymund: Trade Commissioner, Advantage Austria, Shanghai, Mai 2015

Grasser, Hans: CEO, China Business Forum, Vienna, April 2015

Luo, Xiaodong: International Liasion Department Director, China International Chamber of Commerce for the Private Sector, Peking, Mai 2015

Maier, Vera: Commercial Attaché, Advantage Austria, Peking, Mai 2015

Marchetta, Sara: Vice President, European Chamber, Peking, Mai 2015

Spitzl, Helmut: Acting Director Attaché for Science and Technology, Austrian Embassy, Peking, Mai 2015

Wang, Wei: Chairman, China Mergers & Acquisitions Association, Peking, Mai 2015

Wang, Yanguo: Secretary General Vice Chairman President of the Presidium, China International Chamber of Commerce for the Private Sector, Peking, Mai 2015

Wimberger, Knut: Managing Director, Fronius, Shanghai, Mai 2015

Zheng, Kangbin: General Manager Financial Service Center, China International Chamber of Commerce for the Private Sector, Peking, Mai 2015

Johannes Jäger / Bianca Bauer

Transnational Investment Strategies of Latin American Multinationals: Implications and opportunities for Europe / Austria / Vienna

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Abstract

The current economic situation is characterized by low growth and high unemployment. Against this background the question arises to which extent investors from emerging markets may potentially contribute to economic development in the EU/Austria/Vienna. Empirically, this paper focusses on multinational firms from Latin America and their transnational strategies. Based on secondary data and numerous expert interviews in Brazil, Chile and Mexico those strategies and their potential for EU/Austria/Vienna are analysed. It is concluded that multinational corporations from Latin America represent an important potential source for economic development.[1]

1. Introduction

Considering the current economic situation in Europe, which is characterized by low growth and high unemployment, the question arises as to how far investors from emerging markets can contribute to economic development. Particular attention is paid to the extent to which the establishment of regional headquarters can be part of such a strategy. Empirically, this paper focuses on multinational firms from Latin America and their transnational strategies. Over the last couple of years these have become major foreign investors in Europe. After a general brief overview, the three most important countries – Brazil, Mexico and Chile – are analyzed with regard to their internationalization success. In addition to the analysis of already existing data, the findings are particularly based on numerous expert interviews conducted in these countries as part of the project financed by the City of Vienna (see Appendix). Furthermore, the framework paper (Jäger/Springler 2015) is used as a basis on a theoretical level.

2. Context

Capital tends to expand and advance into new markets (Smith 2008). While up until a few years ago, foreign direct investments were almost exclusively made by the core states of the world

1 This paper is based on preparatory work in the framework of the research project "Nachhaltige sozioökonomische Handlungs- und Entwicklungsperspektiven im Hinblick auf den Headquarterstandort Wien" at the University of Applied Sciences BFI Wien, funded by the City of Vienna, MA 23.

economy, companies from emerging markets are now increasingly seen as international investors in other emerging markets, but also more and more in countries of the core of the world economy (Jones 2004). Latin America plays an important role in this respect. In 2013, active foreign investments in Europe amounted to USD 115 billion (UNCTAD 2014: xiv). On a theoretical level, considering unequal and dependent global development as well as the predominant role of multinational companies from the core (Petras/Veltmeyer 2007) the question arises whether this initiates a trend, which is at least a partial reversal of traditional center-periphery relationships, or if it leads to a rise of parts of the semi-periphery in the world system (Wallerstein 2004). It also raises the question of the economic, political and social consequences of both the country of the investments' origin and the recipient country. Although these questions are not the focus of the discussion, they provide the context for the analysis of the strategies of emerging market multinationals from Latin America and their current and potential importance for Europe / Austria / Vienna. However, as a discourse-analytic critique of the academic analysis of emerging market multinationals clearly shows, there is the danger of taking a Eurocentric perspective (Rieder 2016). Even if the perspective of Europe / Austria / Vienna is taken, it should be done with a sufficiently critical distance.

The internationalization of Latin American companies is inextricably linked to the transformation of the respective national development strategies. The domestically-oriented import-substitution industrialization strategies have been followed by more externally oriented development models. Although they often show strong extractivist features and they are characterized by financialization processes (Jäger 2012), with that, the basis for the expansion of capital abroad was created. This indicates a clear trend towards more internationalization and a greater importance of active foreign direct investments (FDI). This is accompanied by an increased analysis of emerging market multinationals from Latin America, the so-called Multilatinas (Kandell 2013). Of the 30 largest Multilatinas, 10 are from Brazil, 8 are from Mexico and 7 are from Chile (Olaya et al. 2012). Even in absolute terms, these three countries are the most important source of active direct investments from Latin America. In 2015, the foreign direct investments in Mexico summed up to USD 12 billion, in Brazil to USD 3 billion, and in Chile to USD 15 billion (OECD 2016, figure 1).

Figure 1: Outward FDI flows: Brazil, Chile, Mexico (2005-2015) in billion USD

Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brazil	2.517	28.202	7.067	20.457	-10.084	22.060	11.062	-5.301	-1.180	2.230	3.072
Chile	2.183	2.171	2.573	8.041	6.487	10.226	12.470	17.252	8.780	11.857	15.550
Mexico	6.474	5.758	8.256	1.157	9.604	15.050	12.636	22.470	13.138	7.463	12.126

Source: OECD (2016), FDI flows (indicator). doi: 10.1787/99f6e393-en (Accessed on 21 Sept 2016)

The following main part of the paper consists of a short empirical overview of current transnationalization strategies of Latin American companies. The core part of this paper presents detailed case studies of the selected countries. Conclusions are drawn regarding the investment potential in Europe / Austria / Vienna. This approach deliberately avoids putting a tight focus on Vienna in order to gain an insight into the broad dynamics of the processes and their overall potential - also with regard to the role of headquarters.

3. Country case studies

The country case studies are based on literature and data, but mainly they are based on a systematic evaluation of the expert interviews carried out within the framework of the project. As a general rule, direct investments with regard to the GDP are of different significance in the evaluated countries. Since 2010, Mexico's share of FDI abroad has been above 1% measured in terms of GDP. In 2012 the figure was almost 2%, which has now declined. Compared to Brazil and Mexico, Chile invested significantly more. In 2015 Chile's investments abroad were 6.48% of GDP (see figure 2).Hence, Chile is one of the leading countries compared to other OECD countries. However, Chile's stock of passive direct investments is significantly higher than the stock of active foreign investments (OECD 2016), which still stresses the asymmetrical form of international integration.

Figure 2: Outward FDI flows: Brazil, Chile, Mexico (2005-2015) in percent of GDP

Location	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brazil	0.28	2.55	0.51	1.21		1.00	0.42			0.10	0.17
Chile	1.77	1.40	1.49	4.48	3.77	4.70	4.97	6.50	3.17	4.59	6.48
Mexico	0.75	0.60	0.79	0.11	1.07	1.43	1.08	1.90	1.04	0.58	1.04

Source: OECD (2016), FDI flows (indicator). doi: 10.1787/99f6e393-en (Accessed on 21 Sept 2016)

Hence, while the absolute significance of these three countries is relatively comparable for active FDI outflows, the relative significance of active FDI is very different.

3.1 Brazil

In Brazil, it was possible to establish a comparatively differentiated and strong industry within the frame of import-substitution industrialization. Also, the break of the development regime in the course of neo-liberal politics in the 1980s and 1990s was not as dramatic as in other Latin American countries. Large parts of the industrial structure remained. Nonetheless, the Brazilian economy also shows strong elements of financialized accumulation patterns (Becker et al 2010, Bin 2016). The extraction of natural resources also plays an important role in this country. Due to the increase of raw material prices in the 2000s, Brazil was also characterized by a significant process of reprimarisation (Jäger/Leubolt 2014). Since the neo-liberal reorientation since the 1980s, the share of profits on national income has increased considerably. This was emphasized through an increase in profit opportunities in the financial sector when the Plano Real was implemented. At first an exchange rate targeting regime was pursued followed by inflation targeting (Vernengo 2008). These policies have contributed to a concentration of capital. During the high interest rate regime, the national development bank BNDES granted credits for companies at favorable rates, which meant a significant subsidization for companies (Hochstetler/Montero 2013), and therefore opened up opportunities. The interaction of the economic structure, the accumulation pattern and the institutional conditions, is responsible for the consequences of the shape and dynamics of the expansion strategies of Brazilian companies. Besides this peculiarity described by Nölke (2014) as state capitalism 3.0, the instabilities of the accumulation regime lead to strong cyclical developments which cause a strong fluctuation of active direct investments. As the Brazilian currency acts as an important (speculative) investment currency, boom periods lead to considerable speculative capital inflows and, thus to an overvaluation of the currency. On the one hand, the profits are high and develop dynamically, but on the other hand, the expansion abroad can be relatively favorable in such an environment. If a devaluation of the currency occurs during a crisis it will have negative effects on expansion strategies (OECD 2016).

3.1.1 Transnationalization strategies of Brazilian companies

For a long time now, Banco do Brasil has been an important state bank, supporting Brazilian companies to expand abroad. This bank has a location in Vienna as well. As early as 1972, the first foreign office in London was opened. The goal was to attract financial resources for state-funded development projects in Brazil. The financial sector was thus among the pioneers regarding international expansion of Brazilian companies. Large state-owned companies such as Petrobras have also many years of experience abroad. However, the share of foreign direct investments of the GDP was still very low in the 1970s and it even declined significantly during the crisis in the 1980s, but then it rose sharply and exploded in the period of 2004 - 2010 (Masiero et al. based on UNCTAD 2012).

Many companies expanding in the 2000s could benefit from the preceding privatization policies and the related concentration of capital. However, in the course of the Neo-Desarrollismo from 2002 onwards, Brazil has again experienced an increase in significance of the state's active role regarding economic development. The national development bank BNDES was a key player regarding state industrial policies. It pursued economic policy goals through co-ownership and subsidized loans. Since 2002, considerable support from BNDES has also been explicitly used for the expansion of Brazilian companies abroad. Besides cheap loans for expansion or foreign acquisitions, the development bank's direct involvement in companies also plays an important role. Between 2005 and 2011, BNDES provided a total of approximately 6.8 billion USD for the expansion of Brazilian companies abroad (often for the takeover of companies), while the total active direct investments in the same period were about 39.5 billion USD. In the current crisis, the active FDI flows have declined significantly. In 2009 as well as 2012 and 2013, the active FDI flows were clearly negative (OECD 2016). Hence, Brazil is a country where the expansion abroad in the form of FDI plays a relatively small role and there is no distinct geographical reorientation of accumulation strategies of Brazilian companies. Furthermore, the multinational companies under survey say that their return on international investment is lower than that in Brazil (FDC 2014). This indicates that there is a higher degree of monopolization in Brazilian markets. However, capital outflows often occur in the form of portfolio flows (Banco Central do Brasil 2016), which clearly shows a high level of financialization of the Brazilian economy. Nevertheless, due to the size of the country as well as the developed industrial structure, Brazilian companies play an important role as foreign investors in general and also in Europe.

3.1.2 Specific investment strategies and procedures

In any case, the expansion strategies of Brazilian companies must be understood with regard to the background of accumulation patterns as well as the specific institutional background of the state. The state plays a significant role, also with regard to the expansion to Europe. Between 2000 and 2010, the EU was the second most important destination for active FDI after Latin America (Masiero et al. 2014). In the course of a company survey of 66 large Brazilian multinationals it has also been shown that Europe plays and important role. More than 30 of these companies are active in the USA and Argentina. Between 11 and 20 companies are also active in Portugal, the UK and Germany. Austria belongs to the groups of countries in which between 2 and 10 of the major Brazilian multinationals under survey have branches (FDC 2014). The multinational companies active in Europe are very heterogeneous in terms of their structure and the industry. However, the majority of companies active in Europe are production-oriented. In Portugal, 20 years ago the first Brazilian companies expanded in the construction sector through acquisitions. Expansion also took place in other areas, mainly as a result of acquisitions. An overview based on data from the CEPAL of companies currently active in Europe, and which supported by BNDES have invested in Europe, can be found in Masiero et al. (2014: Table 7.3). The most important countries in the EU are Portugal, the United Kingdom and Germany. Austria is not mentioned by any multinational company as the most important location in Europe. Besides takeovers, Greenfield investments also play a role. The importance of BNDES regarding financing is considerably higher for Greenfield investments than for takeovers (Masiero et al., 2014).

3.1.3 Evaluation of Europe and the location factors

The interviewees regard the efforts of Brazilian companies to open international locations as not very strong. Due to the double tax treaty between Austria and Brazil as well as the favorable taxation of companies compared to other EU countries, Vienna is an attractive location. However, Brazilian companies do not really know about this factor. Bureaucratic problems seem to be a lot lower compared to Brazil and Germany. Vienna is also regarded as a good location for start-up companies due to financial and strategic support. Austria’s EU membership and legal certainty as well as the economic stability and the high quality of life are also regarded as positive location factors. Likewise, the Viennese economic culture and networking opportunities are considered to be positive due to its central location in Europe. However, growing xenophobia in Austria as well as nationalism are classified as dangerous developments.

3.1.4 Potential for investments in EU/ Austria/ Vienna

Vienna or Austria in general is already regarded as a relevant location for investments from Brazil. On the one hand, Vienna is an important recipient of portfolio investments (Banco Central do Brasil 2016), and on the other hand, some companies are already located in Vienna, of which the Banco do Brazil in Vienna can be regarded as the most important company considering the market entry of other Brazilian companies. The current poor economic development in Europe is regarded as little problematic from the Brazilian’s point of view. This is even so as Brazil is currently experiencing a profound political and economic crisis. The high labor costs in Austria do not seem to be relevant for the location decision. However, many companies do not even know about the Austrian location. Therefore, the interviewees suggested specific advertising campaigns or developing joint projects with Brazil in order to make the location more attractive. It was also suggested that direct flights between Vienna and Sao Paulo could increase the attractiveness of the location. Considering the fact that state institutions such as BNDES are highly important regarding financing and strategic business decisions, it is also useful to consider possible partnerships on an institutional level.

3.2 Mexico

After the debt crisis in the 1980s, Mexico has changed its development model and has pursued a neoliberal transformation process. A neoliberal economic policy, based on the liberalization of foreign trade, financial and investment flows, as well as the privatization of enterprises, is the ongoing strategy. This model is still strengthened today by free trade agreements, which the country formed with one region or several states, such as the North Atlantic Freetrade Agreement. Mexico has a total of 11 free trade agreements with 46 countries, one of which is with the European Union. This shows that Mexico's development strategy focuses on external orientation, wherefore the export sector plays a crucial role and accounts for a large share of Mexican GDP (Salgado et al 2012, Secretaria de Economía Desarrollo 2013). With the outward orientation, the FDI flows have also increased towards Mexico. These are mainly from the USA, the Netherlands and Spain. To attract and gain more FDI flows is one of the strategic points of the Plan de Desarollo 2013-2018. Furthermore, it is the goal to strengthen the participation in global value chains and to increase investments. Mexico is, therefore, concentrating on strengthening already existing free trade agreements, such as with the European Union, but it also aims to form new ones, such as the Pacific Alliance with the member states Colombia, Peru and Chile. The Asia-Pacific region has also been identified as a strategically important region for the Mexican economy. In addition to the strengthening of trade flows with the identified dynamically growing regions, investments abroad are part of the development model. Thereby, the international orientation of Mexican companies should be supported and promoted through foreign investments projects of Mexican companies (Plan de Desarrollo 2013).

3.2.1 Transnationalization strategies of Mexican companies

After the debt crisis in the 1980s, Latin America was attractive for FDI from the USA, Asia and Europe. Mexican companies began to expand and turned into internationally operating companies. Primarily, companies expanded in the form of mergers & acquisitions and less frequently in the form of Greenfield investments. One Mexican company took a lead role at this time, namely Cementos Mexicanos (CEMEX). CEMEX already bought two large Spanish cement companies at the beginning of the 1990s. Further takeovers followed to expand into the US and Latin American area. Today CEMEX operates in Africa and Asia, and is now a global leader in that industry. Other Mexican companies have also opted for global expansion with takeovers and acquisition of shares. The telecommunications company América Móvil acquired Simple Mobile in the USA to subsequently invest in telecommunications companies both in the Netherlands and in Austria (Telekom Austria). In 2010 Grupo Bimbo also started its expansion course. After the initial takeover in the USA by Sarah Lee's Bakery, Bimbo also took over the branches in Spain and Portugal. Besides its strong presence in the food sector, there is also an expansion of Mexican industrial chemistry companies, in the USA, India and China, as well as in other Latin American countries. These examples show a transnationalization strategy in the areas of production (cement, chemicals, automobile, food) and services. Altogether there are 32 large Mexican companies which have subsidiaries or branch offices abroad. 70% of these have their branches in the USA. 98% of Mexican foreign direct investments flow to the USA. This concentration onto the US- American market is caused due to the geographic proximity, the large market volume of the USA, and due to the North American free trade agreement. Besides the US market, Mexican companies invest in Central and South America. One example is América Móvil, which is the largest mobile radio provider in Latin America (Daniels et al., 2007, Mexico Business Blog). Santiso (2008) explains this rise of Mexican multilatinas, on the one hand, with the proximity to the USA, and on the other hand, with the better access to the international and national capital market. Moreover, the domestic markets were under strong pressure. This pressure could be reduced through expansion and diversification of sales, markets and production sites. This and the financial dimension were the driving force for internationalization. The multilatinas had easy access to international and national capital and the international capital market was accessible at the same conditions as for companies from other OECD countries (Santiso 2008).

3.2.2 Specific investment strategies and procedures

The above mentioned examples show the expansion strategies of large multinational companies in Mexico. Therefore, the state of Mexico plays an important role. It provides support in the form of already concluded bilateral free trade agreements, as well as in the form of free trade alliances. Moreover, within the Secretaría de Economía the organization Promexico is also integrated. Together with the Banco de México, it is the coordinator and promoter of Mexican foreign investments. Although Banco de México offers support in the area of financing, Promexico plays a more important role. Promexico supports companies in internationalization and expansion abroad. Promexico contacts local and state authorities of the targeted country and informs the company about rules, tax regulations and any relevant location information. To gain this particular information, Promexico works together with offices around the world. Every Mexican company can approach Promexico, but mostly the big companies have sufficient resources to make their own market analyzes. The interviews show that mainly small and medium-sized enterprises need that support. Furthermore, Promexico actively reaches out to Mexican companies, if a market for a particular product abroad is recognized. The interview partners confirm due to already attended projects by Promexico that the main market for Mexican investments are the United States, followed by Latin America, Asia and lastly Europe. The US market is the most attractive one, due to the proximity and NAFTA. In addition, Mexican companies know more about the American market than the European one. Although Europe is considered as an attractive market, so far it was only used by a small number of Mexican companies. By cooperating with Mexican companies, Promexico supports companies in the expansion of export markets. It also provides support for the acquisition of companies located in the target country and for opening sites for distribution purposes.

3.2.3 Evaluation of Europe and the location factors

The interview partners perceive the European market as very attractive and important, although the US is the first market for Mexican expansion. A very good infrastructure and common rules and standards protected by the European Union, are, in general, the reason why Europe is attractive as a market. Furthermore, the high purchasing power is regarded as an advantage, as Mexico, apart from the USA, is surrounded by countries which have a significantly lower purchasing power than Europe. The focus of Mexican companies is on Central Europe with Germany, Switzerland, France, Spain Belgium and Great Britain. According to Promexico, the sectors with the highest investments are the agricultural sector, the food and drink sector and the chemical industry. Promexico has already supported some small enterprises operating in the furniture and fashion sector. Europe, in general, is seen as a very diverse market. The interview partners are convinced that there are some differences between the individual European states. Eastern Europe is perceived as less attractive. Although the production costs in this region of Europe are lower, there are other risks for entrepreneurs; one interview partner lists corruption. Mexican companies have fewer advantages to invest in that region. Opinions about the language barriers differ among experts. While one interview partner thinks that Spain is the best opportunity for Mexican companies to enter the European market due to the same language and similar culture, others have a different opinion. Large companies expand one way or another, as the main focus is on the conquest of new markets. As soon as an acquisition in another country is possible, the language is no longer decisive. The very well-trained and specialized workforce is seen as an advantage of the European market, but the labor force is perceived as very expensive. That the target country belongs to the European Union is regarded as very important by experts, as this ensures stable legal structures and conditions. The euro as a single currency is not considered an advantage nor as a disadvantage. However, due to the crisis at that time the currency union was assessed as very deficient by the interview partners.

3.2.4 Potential for investments in EU/ Austria/ Vienna

Since the entry of América Móvil, there has been one Mexican company with a regional headquarter in Vienna. The Mexican multinational Cemex was active in Austria, but the company locations of Cemex were taken over by the Rohrdorfer Group at the end of 2015. Vienna is considered a great choice as it is centrally located in Europe and also because Austria, in general, is a member state of the European Union. However, Austria and especially Vienna are not very well-known among Mexican companies. In general, the interview partners associated Vienna with culture, theater, history and music, but not with an attractive business location. Moreover, it is the general opinion that Austria is not known enough in Mexico, as vice versa. An important step would be that Austria increases its presence in Mexico. Other locations such as London, Barcelona and Bilbao closely work together with Promexico and hold so-called investment seminars. For that, Mexican companies are invited and the location gets the chance to present itself and its advantages for international companies. The conversation with a CEO shows that there should be incentives for Mexican companies to invest in Austria. Those incentives could be tax reductions or subsidized investment loans. All experts said that Vienna had to advertise itself much more in Mexico. Moreover, it is necessary for a city to define the direction it would like to develop as a location. According to the surveyed experts, Vienna is currently targeting tourism. For the CEO, it is crucial that Vienna changes its strategy to attract investments in specific sectors. One possibility would be to set up a cluster in Austria, where specialists, universities and international companies can get in touch. In the end, however, it is crucial for a state or a city to decide which strategy to pursue, and then communicate this to the target group.

3.3 Chile

Chile is the country in Latin America, where neoliberal economic policies and an external-oriented economic model have already been implemented very early. As a consequence of the transition from a domestic-oriented industrial production to the extraction of natural resources, it was above all this extractive sector and the non-tradable sector that grew dynamically (Jäger/Leubolt 2014). The economic conglomerates (grupos económicos) which developed during the neoliberal dictatorship in the 1970s and 1980s, benefitted from natural resource rents and monopolistic market structures. They as well benefitted from favorable privatizations also from important parts of the welfare state, such as the pension system (Fazio 2000). The suppression of trade unions kept wages low and corporate income was hardly taxed in practice. High profits were generated and used for the expansion of extractive activities as well as the non-tradeable sector (Mayol/Ahumada 2015). Based on high market concentration and high profits, substantial amounts of capital were accumulated. Due to the limits of the Chilean market and the decline in dynamics counting on extraction of resources, the large and, later also, the smaller Chilean capital groups began to seek investment opportunities abroad. The recent economic decline together with the decreasing returns on international financial markets as well as a dynamic progress of social disputes have prompted large corporate groups to find alternatives through foreign direct investments. Hence, also the recent global crisis is partly responsible for the current expansion strategies.

3.3.1 Transnationalization strategies of Chilean companies

Experts think that the number and volume of existing foreign investments deviates from official statistics. Overall, around 400 Chilean companies have locations abroad and about 40 of which are active in Europe. The two companies that are most strongly represented in Europe account for about two-thirds of the total investments made in Europe (they are also among the interview partners). Around 15-20 years ago, Chilean companies significantly started to enter foreign markets, especially in neighboring countries and in the region. As a result, they expanded to North America and later to Europe. Currently, there are numerous projects expanding into Central America and Cuba. High growth potential is seen there. The goal is to access these markets as early as possible and to establish positions. The main reasons for expanding into this region are geographic and cultural proximity as well as linguistic advantages. Moreover, market structures as well as regulations are similar to those in Chile, which makes expanding easier.

In Chile there is surprisingly little FDI from China and also vice versa. The Chilean accumulation pattern could also be a major reason for that. While foreign companies in China are primarily active in industrial production, Chile's share of the industry has been significantly reduced. That Chinese investors are not really interested in Chile can be mainly explained by the fact that cheap access to natural resources and infrastructure is now limited because privatization already dates back a considerable time. Moreover, few technologies from Chile seem to be interesting for China. Furthermore, compared to other Latin American countries Chinese credits for Chile are not important due to macroeconomic conditions (Banco Central de Chile 2016) and therefore China cannot exercise power as a relevant creditor.

A central prerequisite for Chile's capital getting transnationalized is the accumulation of capital, as described above, which led to the formation of large business conglomerates and large private wealth. Foreign capital played therefore quite an important role as companies that were cheaply acquired through privatization were restructured and then expensively sold to foreign buyers. The presence of foreign capital in Chile is also seen as a guarantee for the maintenance of liberal property rights and policies (hardly any or no corporate taxes, neo-liberal economy), since also foreign countries have a material interest. The Chilean experiences to reach socialism at the beginning of the 1970s are still vivid to the representatives of capital, and the horror of redistribution and socialization and, thus, the partial disempowerment of capital interests are still in many minds. As the large corporate groups have emerged from redistribution and neoliberal politics during the dictatorship to their advantage (Fazio 2000), they still advocate liberal policies. The latest social and political developments, which for the first time also raise the discussion to tax capital as well as to push back the market, make transnationalisation strategies even more attractive in order to protect themselves against potential redistribution. Moreover, markets in Chile and South America are no longer growing dynamically. The market concentration in Chile is often so high that even a further concentration would only offer limited opportunities for an increase in capital accumulation rates (Fazio 2014).

3.3.2 Specific investment strategies and procedures

The expansion strategies of the Chilean companies are linked with the background discussed above. In general, the state takes part in these strategies, in so far that it provides the legal basis for the possibility and protection of Chilean investments abroad through many mainly bilateral free trade agreements. A bilateral free trade agreement with the EU has already existed for some time now. This was also supported by the Chilean Chamber of Commerce (SOFOFA). If such international regulations are not respected then state institutions will use political pressure to implement the interests of Chilean companies abroad.

In practice, there are no relevant Greenfield investments. The expansion takes mainly place due to the acquisition of existing companies abroad. This was also the predominant strategy in Latin America. It facilitates market entry and due to saturated markets in Europe it is seen as the only possible strategy.

For medium-sized companies as well as for investors in particular, state institutions have now become increasingly important. Since 2014, there has been a department in the Ministry of Foreign Affairs that specifically supports foreign expansion of SMEs as well as of investors (ProChile). It not only compiles information for individual markets and collects potential investment projects in particular countries, but trips with potential investors to the respective target countries are also organized in order to find investment opportunities. Based on market analyzes and market entry opportunities, Central America and Cuba as well as Colombia were chosen as investment targets. However, it was also requested to explore investment opportunities in Vienna / Austria and, therefore, organize an investors' trip as soon as possible. This shows that personal contacts and path dependency could play an important role to attract investors from a region. If they want, the City of Vienna could immediately implement this through the contacts made during the project.

However, this state support is not relevant for large corporations or capital groups as they themselves have sufficient resources to gain knowledge about potential markets and investment opportunities. There are departments / experts that specifically cover questions considering international expansion. There are different strategies. In some cases, the right investment opportunities are actively sought. In other cases, "hot tips" are placed via networks. However, it is also possible that due to personal preferences (less because of profitability) owners prefer to invest in certain countries/ sectors. Particularly important are private equity firms and investment banks, which offer companies for sale to potential buyers in Chile. These offers are then examined by the companies and should they be cheap and compatible with the companies' expansion strategies, they are also bought by the companies.

The expansion strategies are mainly concerned with market development and the establishment or expansion of a market-dominating position as well as an access to technologies. This also includes that learning effects regarding work organization and management in the home country are potentially expected for example in the case of an expansion to Europe, as the organization structures of European production companies are characterized by high labor productivity. It was also mentioned by the interviewees that due to an expansion to foreign markets there is the opportunity to move up from being a regional player to a global player in the respective market areas.

For those companies that are partly acquired for strategic expansion, a majority interest is generally aimed at. However, if not possible otherwise, minority interests are also accepted. This form of strategic investments is aimed for the long-term. Moreover, there are also medium-term oriented investment strategies of some corporate conglomerates or investors who tend to follow the logic of private equity firms and buy companies cheaply, restructure them and then try to sell them more expensively.

3.3.3 Evaluation of Europe and the location factors

Europe, in general, is seen as an important, large and rich market. Even if the current crisis is perceived with some surprise or concern, the idea is that Europe will recover. The crisis is also seen as opportunity to cheaply acquire a company or company shares. On the one hand, the euro is weak, and on the other hand, due to the crisis many companies are rated relatively low and they can be bought for a reasonable price. The differences within Europe between the individual countries are clearly perceived. For example, countries such as Romania are regarded as problematic due to corruption and legal uncertainty. There is a high knowledge about the economic development as well as the respective markets and individual companies in Europe. Positive factors for Chilean investors are the liberal policy on foreign investments in Europe, legal certainty as well as the euro. Strict rules take some time to get used to, but they are not regarded as problematic. The companies consider the issue of labor costs / taxes / infrastructure costs, etc., as irrelevant, since they produce for the European market in Europe and here the conditions are the same for everybody and competitors have the same costs.

There is the general tendency not to interfere too much with corporate structures as far as strategic acquisitions are concerned. In any case, the manager is from Chile, or new leaders are recruited from the country. Considering the high level of internationalization of Chilean companies and managers, cultural differences are not perceived as problematic.

3.3.4 Potential for investments in EU / Austria / Vienna

The purchase of companies is regarded as the central gateway for a market entry. It is about market access. The creation of new capacities is not on the agenda considering the stagnation trends in Europe. It was also noted that it could be better for Austria / Europe to set clear criteria for foreign investments, rather than to pursue this very liberal policy. Fact is, however, that there is a great potential for expansion on the part of Chilean companies, as they have spare capital and growth and profitability decrease in Chile. After opening up markets first in South and then in North America, the next potential market for expansion after Central America is seen to be Europe.

With regard to Austria / Vienna, there are no special preferences. The location is considered attractive and the framework conditions are considered to be good. If there are companies that can be purchased cheaply and that fit the profile, it is assumed that appropriate investments will be made. Companies with specific technological know-how (mining, agriculture, forestry) that also allow specific markets (for instance in related areas of the value chain) to be opened, are particularly interesting. Foreign investment may also strengthen the company's equity base and thus the company's foundation in Europe, but in the long term it could lead to increased capital outflows.

Such integration in value chains can have advantages, but also disadvantages, since decisions relevant to the location are only oriented on profit maximization logics. Joint ventures are considered to be interesting for Austria and Vienna, as there could be an advantage for both parties and relevant decision-making opportunities can be made at the location of Vienna / Austria. This could be important as far as the location is concerned. Investments that tend to follow a private equity logic can potentially be more problematic for the location, but also create opportunities.

Regarding regional headquarters, the strategy is to keep the structures rather lean. However, if several sites are acquired simultaneously during an acquisition, it must be individually decided as to how to continue with the development of the structure. The establishment of a regional headquarter in Vienna in order to open up Eastern Europe or other parts of Europe is neither considered nor aimed at.

It is, in general, obvious that path dependency plays a central role and it would be important from an early stage onwards to attract suitable investments - for which, however, precise criteria have to be developed - or to prevent more problematic investments. A specific economic policy strategy towards foreign investments, which particularly considers the complementarity with the regional economic structure, would therefore be suitable for Vienna / Austria. This raises the question of how certain investments can be complementary to existing value chains. Attracting non-strategic investors from Chile who are more likely to follow a private equity logic should be relatively simple. Therefore, however, it is important to precisely know about the companies, for which the respective investments are useful. Nonetheless, the long-term effects for the location of Vienna are still to be investigated, since a “sale” of companies in Austria / Vienna does not necessarily contribute to its long-term strengthening.

4. Comparative Conclusions

The expansion strategies of companies in the Latin American countries under study, which are most important for active foreign investments, follow a similar pattern and have developed quite dynamically over the last 10-15 years. While at first regional expansion was more important, a global orientation that also includes Europe has become increasingly significant. As at the beginning the expansion of Latin American companies was concentrating on the region, they are now undergoing a process of further expansion, with Europe also becoming an important destination.

Nevertheless, there are considerable differences between the expansion strategies of the individual countries, which are closely linked to the development patterns and the always changing economic situation in the individual countries. This also requires a detailed analysis with regard to further developments. Whilst Brazil is, in general, very significant for foreign direct investments, it is not really important relative to GDP. These are higher in Mexico, and exceptionally high in Chile, so that over the last couple of years this small country has had the highest active foreign investment flows in absolute figures. This is mainly connected to the specific economic structure as well as the high profits and the high financial resources available to companies. In Chile, the specific active state support for the expansion of companies has only just begun and is only interesting for smaller companies, since it mainly concerns available information. In Mexico, the state plays a more important role considering expansion, while in Brazil the state has actively supported foreign investments through loans and participations through the Development Bank since 2002. This results in different information channels and decision-making structures that are important for the expansion of companies in the individual countries.

Moreover, it is important to differentiate between different investor groups and investment types. While Greenfield investments are very rare, especially with the exception of Brazil, primarily acquisitions and participations are used as the forms of expansion. It also makes a difference whether companies are planning long-term expansion strategies with regard to expanding their productive accumulation strategies or whether the expansion takes the form of private equity investors, with the aim of increasing the value of companies for a short time through restructuring. That is, different transnationalization strategies in different countries of Latin America are of different value or interest for potential destinations of Latin American capital.

The survey also showed that potential destinations need a clear strategy to attract companies, sectors and forms of investment that complement each other, enable an adequate fit into value chains, and are valuable for the further development of the site. This requires a clear sharpening of the profile, it should be clearly communicated and it also requires a change of strategies. In the countries of origin, it is important to work together with the respective institutions or companies and develop joint strategies to draw attention to Austria. The focus on positioning Vienna as a regional headquarter location (gateway to Eastern Europe) is insufficient considering the changing geographies and corporate strategies (the structure being as lean possible) and is not attractive from the viewpoint of Latin American companies.

However, an active and systematic approach to attract foreign direct investments from Latin America has been missing until now. Depending on specific accumulation processes in the individual Latin American countries, it will, nonetheless, continue to push into Europe. Regarding the assessment of investments from Latin America, in general, the function of the city as Vienna being a regional headquarter (which may also be the case) is less important. In fact, rather the impact of investments regarding the regional economic structure must be considered (Firgo/Mayerhofer 2016), taking into account the specific different strategies of Latin American transnational capital. As this influences the extent to which Latin American investments have a concrete impact on further regional accumulation dynamics. The great interest as well as the explicit offer from Chile to undertake an investors' trip to Vienna / Austria, as it was mentioned in the interviews, should be examined by the responsible institutions as soon as possible. Trying to develop a substantial co-operation with BNDES from Brazil or the Banco do Brazil as well as establishing links with Promexico are also considered to be promising strategies. Taking into account the path dependency of investment processes and transnationalization strategies, time also plays an essential role and, therefore, currently existing "windows of opportunity" should be used. This also implies that further research efforts are urgently needed to further develop appropriate strategies and to provide opportunities for their implementation.

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Appendix: List of interviews[i]

Interviews Brazil (September – November 2015)

Institution	Name	Role	Relation	Interview
BNDES	Denise Andrade Rodrigues	Senior Advisor to President	Brazilian Development Bank	15.09.2015
InterGest	Carlos Sidarta da Silva	Comercial Consultant	Brazilian Consultant	06.11.2015
ATS Brasil	Luis Fernando Camilotto	Chief Financial Officer	Brazilian Consultant	10.11.2015
IWD	Ingo Walter Dostal	Industrial Consultant (car industry)	Brazilian Consultant	03.11.2015
Runa Consultoria	Hans A. Schaeffer	Consultant for new business development	Brazilian Consultant	05.11.2015
Austrian Business Agency in São Paulo	Ingomar Lochschmidt	Consul of Austrian commercial department	Advantage Austria, SP, Brazil	15.10.2015
Opux	Eduardo Catto	Brazilian Investor	Plans to open a subsidiary in Vienna	07.11.2015

Interviews in Mexico (August – September 2015)

Date, Location	Name	Institution	Role
28.09.2015, Mexico City	-	Medium-sized enterprise in the food industry	CEO
08.09.2015, Mexico City	Osorio Ponce Ana Laura	Promexico	Director for Europe and Africa
08.09.2015, Mexico City	- Leaman Rivas Miguel Ángel - Orantes Bazan Adriana Lorenia - Alcalá García Jorge	Promexico	- Executive director for internationalization projects - Director for internationalization projects - Vice Director for internationalization projects
15.09.2015, Mexico City	Smeke Zwaiman Jorge	Universidad Ibero	Director of Instituto Estudios Empresariales

i Besonderer Dank für die teilweise Durchführung und Auswertung von Interviews gilt Manuel Preusser und Sabine Stelczenmayr.

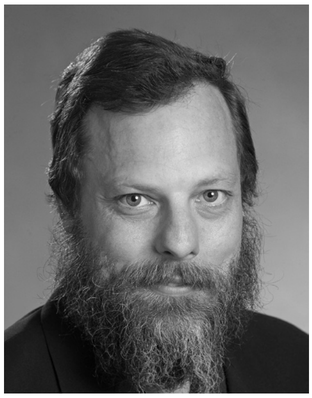
Interviews in Chile (21-25 March 2016)

Name	**Institution**	**Role**	**Relation**
Pedro Reus	SOFOFA (Chilean Chamber of Commerce)	Head of International Department	Expert for the foreign expansion of Chilean firms
Andrea Tokman	Quinienco (Holding Luksic group)	Chief Economist	Largest economic group in Chile; one of the three most important investors in Europe
Charles Kimber	Arauco (Largest wood processing firm in Chile)	Head of Commercial and Corporate Department	One of the three most important Chilean investors in Europe
Mario Benavente and Patricia Herrera	Chilean Ministry of Foreign Affairs	Head of ProChile (Department of Foreign Investments) Assistant	Supporter of the foreign expansion of Chilean corporations and investors
Hugo Fazio	CENDA, research institute	Member of the Board of Directors, Researcher	Expert in the foreign expansion of Chilean firms
Andrés Barriga	Holding Sigdo Koppers (Industrial services)	Head of Investment Department	One of the three most important Chilean investors in Europe
Eduardo Busquets*	Comité de Inversiones Extranjeras	Vice Director	Committee for attracting foreign direct investments to Chile

*Interview conducted in May 2015

Andreas Nachbagauer

Sustainable location policy – a view from inside of the corporation



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Abstract

The "war for new locations" has recently gained wide attention. Mostly overlooked is however the question whether these establishments are sustainable in the sense of lasting for a longer period. Furthermore, most of the literature seems to define the corporation as a black-box. But concentrating on the long-term effects requires a closer look at the internal side of the company.

A sustainable location policy depends on the long-term internationalisation strategy of and the organisational set-up within the multinational organisation. Internationalisation motifs of companies now entering Europe are connected to strategic assets (or knowledge)-seeking strategies. The regional or local unit's chances to exist in the long run depends on the distribution of internal control and responsibilities. Both the effects of internationalisation strategy and configuration are ultimately connected to the (power of) respective managers and units. Thus, the contributions of micro-political actions and power games on the location's stability are of importance.

This article argues that hard-fact location incentives will attract the settlement of new (regional) headquarters in the short-term, but will not be sufficient to maintain a branch; rather, fulfilling these requirements is merely the ticket to enter the game. Consequently, soft location factors are becoming increasingly important when choosing a location policy.

The final considerations are devoted to the integration of previous deliberations to answer the question from inside of the corporation: What can help a regional policy to boost sustainable locations in addition to well-known advice? My recommendations comprise: choosing carefully whom to attract; staying attractive with always new specials offers; raising sunk cost; and using micro-politics and networks.

1. Introduction

Location policy[1] has recently gained wide attention, but only under a specific aspect, i.e. tax consideration and protectionism, as the new Trump administration announced to "punish" companies moving to or establishing new production sites across the US border, and at the same time to lower corporate taxes on operations in the US. In the same vein, British Prime minister Theresa May has suggested to lower corporate taxes to attract business – or rather to prevent existing ones to evade the UK and ease Brexit ramifications.

1 This paper is based on preparatory work in the framework of the research project "Nachhaltige sozioökonomische Handlungs- und Entwicklungsperspektiven im Hinblick auf den Headquarterstandort Wien" at the University of Applied Sciences BFI Wien, funded by the City of Vienna, MA 23 (Nachbagauer 2015, 2016).

Within Europe, a vast amount of EU regulations and rulings of the ECJ is devoted to the distorting effects of subsidies, tax regulations, infrastructure measurements and other financial and non-financial benefits targeting the attraction of new business. But (business) voices demanding for lower taxes, higher subsidies and best infrastructure on the tax-payers expense are still noisy, regime shopping and negotiation is still en vogue despite Lux Leaks.

With the economic up-rise of so-called emerging markets, the influx of multinational companies of this breed has gained ground in Europe (UNCTAD 2015, Hanemann/Huotari 2015). Recent years have been marked by a dramatic rise of foreign direct investment especially from China and Hong Kong, now second and third in international rankings, and to a minor extent from the Russian Federation. Developing Asia has overtaken North America and Europe as region with the largest FDI outflows. With new players searching for investment alternatives, a race to the bottom between the old economy countries to attract them has started.

Attracting local branches and regional headquarters is thus quite prominent both in research and on the business pages of major newspapers and networks. Despite that, mostly overlooked is the question of whether these establishments are sustainable. What happens once the spotlight of public attention focusses on the next opening ceremony? Furthermore, most of the literature on location and location policy is devoted to (regional) economic aspects. These approaches seem to define the corporation as a black-box only, whose behaviour can be described by a model of stimulus – reaction in (solely) economic terms.

Contrary to that, regional research asserts that hard-fact location incentives will attract the establishment of new subsidiaries in the region in the short-term, but will not be sufficient to maintain a branch (Cortrie 2009; Kauffmann/Rosenfeld 2012; Thießen 2005). Rather fulfilling hard-fact location requirements, i.e. factors like transport, real-estate, legal, political and taxation is merely the ticket to enter the game. On the other hand, the guess is obvious that settlements attracted by low taxes and high subsidies react quickly with the re-settlement when more favourable conditions are provided elsewhere. Consequently, soft location factors are becoming increasingly important when choosing a location policy.

I argue that a sustainable location policy depends on long-term internationalisation strategy, organisational set-up and power distribution within the multinational organisation. Concentrating on the long-term effects – sustainable in the sense of lasting for a longer period – a closer look at the internal side of the company is necessary. But also, thinking of sustainability as quality of work life is obviously an issue of internal considerations. In general, the more strategically independent, powerful and self-assured a branch or regional headquarter is, the more sustainable the establishment will be. In order to keep up an established regional headquarter or branch in the long run, it is necessary to shape the relationship between branch and host country in a more intense way, especially to integrate the corporation – or, to be more precise, the main players of the company – into the regional environment.

The article proceeds as follows: In a first step, internationalisation theories are examined to characterise motifs and strategies of multinational corporations now entering western European countries. We will regularly find such locations in a very advanced stage of the internationalisation processes. Most prominent motifs are connected to strategic assets-seeking strategies, demanding both closeness to knowledge generating institutions and highly qualified employees.

Next, location decisions are discussed regarding varying configurations of control within international corporations: does the sustainability of a location differ depending on strategic composition, form of organization and distribution of competences? Based on the concepts of Bartlett and Ghoshal (1989) and more recent considerations on integration and autonomy, it becomes clear that regional or local unit's chances to exist in the long run are quite diverse based on the respective configuration.

The effect of internationalisation strategy or configuration is ultimately depending on the (power of) respective managers and units. Thus, a third part is devoted to the questions connected to micro-political actions and power games. I interpret strategy as strategising (strategy as practice) and will examine three types of managerial power games in different arenas of organisations.

The final considerations are devoted to the integration of previous deliberations to answer the question: What can help a regional location policy to boost sustainable location policy in addition to well-known advices. My recommendations comprise: choose carefully whom to attract; stay attractive with always new specials offers; raise sunk cost; and use micro-politics and networks.

2. Internationalisation motifs and strategies

2.1 Birds of a feather flock together

Strategy and structure of multinational companies are the result of a continuous optimization process. The main idea of the Uppsala school of internationalisation (Johanson/Wiedersheim-Paul 1975, Johanson/Valne 1977, 1990) is that decisions within the process of internationalisation are less based on economic factors (i.e. differences in costs and demand), but mainly on behaviour-based concepts such as learning, knowledge, experiences and micro-political (power) processes (Aharoni 1966). The existing structure and strategy are the result of learning processes based on success and failures of earlier decisions and past structure and strategy.

Market penetration follows the closeness of the markets. However, closeness is not defined by physical proximity but by the psychological distance resulting from factors such as language, culture and management behaviour, education and industrial development. Embedding in knowledge networks is important, as well as the availability of people who can live the foreign culture not only in the host country but even at the company's headquarters. I refer in particular to the human potential of migrants. Many people with an immigrant background have a hybrid identity, with feelings equally near to two or more cultural areas, as well as in-depth knowledge about language and behaviour of other cultures (Wippermann/Flaig 2009). If society and company permit these people to live this diversity, they can help to reduce the psychological distance to promising markets.

Companies internationalise step by step. The knowledge gained from the different stages of the internationalisation process represents the basis for the further development. This results in a path dependence at the factual level of sunk costs: capital, products, technology and knowledge have been invested in certain markets, the commitment in these markets is high. On a psychological level, a lock-in effect arises: just because the strategy was successful in the past, the dominant pattern of the decision is reviewed, fixed and receives a deterministic character (Sydow et al. 2009). A decision path will provide the company with an unquestioned faith and identity: Although flexibility and customisation options in changing environmental conditions might be restricted, this significantly facilitates internal coordination and group identity – and ultimately secures the sustainability of the location.

2.2 If you don't know it – buy it!

Globalisation and the change from simply transferring production to recognising the high-end of the value chain promoted new models explaining foreign investments. The eclectic paradigm of Dunning (1977, 1980) combines different theories to explain the multidimensional and complex decisions necessary in the internationalisation process. For direct investment to be successful, both ownership advantages and internationalisation advantages, as well as location advantages are necessary. While ownership and most of the internationalisation advantages can be shaped by the company itself, location advantages depend on the host country or rather the fit between business requirements and site conditions.

Throughout the years, the theory was expanded (Dunning 1988, 2006) to incorporate factors such as endowments of the countries as a basis of the locational advantages, structure variables for strategic decisions, trade between group companies and divestments. The inclusion of decision motifs for international production sites represents a significant expansion (Dunning 1995, 2000): The model distinguishes between closeness to market (market-seeking), improved access to resources (resource-seeking) and the pursuit of global efficiency (efficiency-seeking). With multinational companies in Europe market-seeking strategies were pre-dominant, usually effected by trade and foreign direct investments, while efficiency- or resource-seeking strategies were usually confined to the low-tech area (such as, for example, the textile industry).

For one of the richest regions in the world, the notion of resource-seeking must be redefined to fit specific knowledge-intensive value-adding processes. The requested resource is expertise, either as applied know-how in the form of highly qualified employees, or as theoretical know-how in the form of closeness to knowledge generating institutions (research centres, clusters, etc.). Consequently, in later publications, these three motifs are supplemented by the search for property benefits through acquisition (strategic asset-seeking), most notably acquisition of local knowledge (Ferdows 1989). Local assets then include, inter alia, innovativeness, sophistication and the presence of innovation clusters. These strategic assets are connected to soft and personal factors – areas that directly address employees, and are judged by them.

For a sustainable relocation of the headquarters, especially the motif of strategic asset-seeking is interesting because ownership advantages pay off mainly long term. Like the Uppsala model, these considerations stress the cultural proximity to the branch markets: Ownership advantages in highly developed regions benefit heavily from access to specific management skills. Important are again the knowledge of local languages and regional practices. Investing in these skills will favour the sustainable establishment of a regional branch or headquarters.

Access to local knowledge needs cooperative arrangements and a strong embeddedness in the local environment. Local relationships are required, as well as a close and trustful contact with local institutions (Fisch 2001; Morschett 2007). While strategic asset (know-how)-seeking companies in Europe, especially know-how producing institutions, are dependent on close links to local networks, they at the same time work in a setting that is characterized by cohesive and cooperative employment relations. In such settings, employees and units tend to have high hopes of involvement and consultation at the workplace (Morgan/Kristensen 2009). It is therefore necessary to create long-term, safe and attractive jobs that promise an increase in the quality of work life and consideration of employee's interests (Loew/Brown 2006; Levering 1988). However, attracting high skill employees and creating long-term jobs with close connections to the environment also creates a commitment of the company to stay longer and entails high (social and financial) cost when leaving.

A high level of de-centralisation has been shown to increase motivation and creativity and thus to exert a positive influence on the innovation capability of a foreign subsidiary (Gates/Egelhoff 1986; Egelhoff 1988). But autonomous highly-trained and self-assured employees will be more likely to resist to transfers of practices, policies and processes coming from the headquarters – especially in the form of information shaping and collective resistance through coalition building. This comprises both internal stakeholders, such as regional headquarters and subunits, and external stakeholders, such as suppliers and customers, legal entities and education institutions (Bouquet/Birkinshaw 2008b). It is not unreasonable to expect that those units will also quite effectively develop resistance against any degradation or re-location move from the headquarters. These coalitions need an identity generating program, internally to underpin cohesion, externally to be presented to the head office as an alternative to prescribed frameworks. Regional location policy can support these sense-making efforts.

3. Organisational configurations

By determining the configuration of the organisation and by allocating rights, the company simultaneously decides on the distribution of control, risk and flexibility between headquarters, regional units and local branches. With increasing international integration, the complexity and requirements of management, structure and strategy spiral upwards. This necessitates the consideration of both the quantity of preconditions (such as legal situations, market structures, national cultures, ...) as well as the quality of requirements, i.e. the extent of differences between host countries and the diversity of relocated activities. Any attempts to manage strategies globally are faced with specific problems:

- Subsidiaries are self-interested entities (It is not obvious that they will agree to pursue a strategy that contributes to the wealth of the overall multinational corporation at the expense of local market success).
- Pressure to reduce costs limits the strategic autonomy of subsidiaries (Headquarters wish to standardize as much as possible products, processes and resources; subsidiaries wish to locally adapt products/services).
- Information asymmetries makes it hard to assess strategic proposals of local subsidiaries.
- Differences in culture, knowledge or capabilities obstruct strategic conversations between headquarters.

Since the first considerations on globalisation, a series of practical and theoretical solutions to address these tensions have been introduced into the debate, such as globalisation versus localisation, integration versus responsiveness, standardisation versus adaptation or centralisation versus decentralisation (Bartlett/Ghoshal 1989; Brooke 1984; Buzzell 1968; Levitt 1983). Regardless of the label, the point is that multinational companies are facing the challenge of adapting their strategies and business processes to regional conditions while at the same time maximising the advantages of an integrated approach through synergies (Lehrer/Asakawa 1999; Ambos/Schlegelmilch 2010).

Stopford and Wells (1972), for example, distinguish between the poles of product-oriented strategic business fields and structural variety according to geographical criteria depending on the importance of product or country. The integrated model drafted by Perlmutter (1969), based on value orientation and strategy in the cooperation of headquarters and branches, depicts three basic attitudes of multinational companies: ethnocentric, polycentric and geocentric. Later, Chakravarthy and Perlmutter (1985) added regiocentric as another variant. Although especially the last form seems promising to answer some of our questions, Perlmutter's conception is only scarcely used nowadays, except in human resources.

In the strategy debate, the most prominent and widely used model today is the conception of Bartlett and Ghoshal. This model is based on the classification by Perlmutter and Chakravarthy, combined with the four ideal types of international companies by Porter (1986), as well as the categories of differentiation according to Dunning (1979). Bartlett (1986) initially distinguished three, later together with Ghoshal (Bartlett/Ghoshal 1989, 1995; Ghoshal/Bartlett 1990) four types of multinational companies. International, multinational, global and transnational organisations are the four fields in a matrix spanned by two the two axes of global integration and local responsiveness.

3.1 Integration versus responsiveness

In an international company (coordinated federation), strategies are developed by the parent company and transferred to the subsidiaries, the centre claiming global decision-making sovereignty. This configuration was introduced in the extended version and has received little friendly criticism (Harzing 2000; Rugman 2005) both theoretically as well as empirically.

In multinational companies (decentralised federation), the national offices have considerable strategic autonomy and the entire company sees itself rather as a portfolio of national units. Towards the public, the subsidiaries act as quasi-local providers on the market, often under national (and traditional) brands. These companies combine establishing strong local presence with respect for national differences; the strategic focus lies on discovering and developing local opportunities.

Rugman (2005) argues that the spread between global integration and local customisation leaves an open space comprising important company-specific benefits such as transaction cost advantages, simplified transfer of knowledge or cultural integration opportunities. An intermediate unit is needed to bridge the gap. In large multinational companies, a regional headquarters is frequently introduced to allow for more central control functions. According to empirical results, real global companies are the exception, most of them by far are virtually region-bound or at least regionally structured (Enright 2005a, 2005b).

The most evident aspect of implementing regional headquarters is the shifting of problems from branches and the head office to the regional units, evoking special tensions there. On one hand, regional headquarters are a seat of management: they have strategic tasks and control subordinate units, they often have their own research and development centres and sales departments (Nell/Ambos 2013). On the other hand, they serve as intermediary between the parent and the executing parts of the company and represent the interests and concerns of the regional sites at the company centre (Wanner 2006; Schuh 2013). Thus, they are at the same time (strategic) management and recipients of (strategic) objectives. Furthermore, we expect power games to be an important issue at that level.

We can distinguish two ways of establishing this intermediate unit: 1) fractal: the relationship between regional headquarters and subsidiaries is similar to the one between headquarters and regional headquarters. In this case, the regional headquarters is little more than a centre to collect and distribute financial resources, its influence is small. 2) advanced: the regional centre takes over significantly more control tasks in relation to the branches. Here, the position of the regional headquarters is strong, it bears the overall corporate policy; branches are obliged to adopt the respective regional strategies. This model favours the development of a network at regional level. From their empirical data, Nell, Ambos and Schlegelmilch (2011) infer that this type is one of the most important operating forms of international companies.

In a global enterprise (centralised hub), common strategies addressing global trends are developed for the world market; strategies and activities are implemented centrally and top down. The global company strives to build cost advantages through centralised but world market-oriented activities. The advantages of general efficiency orientation are valued higher than its drawbacks, which are to be expected when adjusting to national peculiarities.

Over time, however, the parts of the company drift apart: larger local units gain importance and breed a more or less independent corporate identity. Thus, the global enterprise eventually converges to a geocentric attitude: independence from headquarters becomes more important, in particular when managers from outside the head office's country advance in the central hierarchy. You would therefore expect a hybrid corporate identity to be formed, guided by headquarters, key regional players and globally defined expectations (Harzing 2000). For practical and tactical reasons, many companies are actually not globally but regionally focused. In effect, the global company then converges with the advanced multinational model: the strength of the regional headquarters increases; it becomes an essential factor in strategic decisions.

International and type-1 (fractal) multinational companies allow for a limited strength of regional or local establishments. In type-2 (advanced) multinational companies and global corporations, the regional units may exert considerable influence depending on other factors such as strength of the respective management and need for regional market development. In non-regionalised global enterprises, the influence of regional units to the pursuit of strategies is low, whereas in regionalised global companies, it might be quite substantial. We would thus expect locations of type 2 multinational companies, and, though to a lesser degree, of global companies to be very stable and powerful, while regional units in multinational and international type-1 companies would rather be the object of headquarters decisions and their existence thus at the discretion of others' decisions.

3.2 A web of baby-headquarters

Bartlett and Ghoshal (1989, see also Doz/Prahalad 1991) later added two types, allowing for a combination of the two extremes of responsiveness and integration: the global matrix structure and the transnational network. These two versions aim to incorporate the issue of global integration and local adaptation into the individual subunits, thereby avoiding the need to solve the difficulties at the central level.

According to Bartlett and Ghoshal (1989; Ghoshal/Bartlett 1990), the transnational company (integrated network) seeks to integrate worldwide efficiency, local adaptation and global learning. By forming an organisational network the company tries to exploit globally dispersed and interdependent values and resources. Subsidiaries take on differentiated roles and make their functionality available throughout the network. In the long run, the locations will specialise and form differentiated centres for specific requirements. These are to a lesser degree regional control units as in international or multinational companies, but content-defined carriers of specifically designed know-how (Doz/Prahalad 1991). Tendentially and contrary to common belief, the headquarters can benefit more from the (knowledge) sharing than the branch from the knowledge of the central unit (Ambos et al. 2006).

Both the matrix structure and the transnational solution are not without problems: matrix structures often lead to conflicts and confusion, bureaucracy and inflexibilities; rather than balancing interests, one side of the matrix dominates. In addition to showing similar problems, transnational networks often also lack acceptance or at least clarity of responsibility: if everyone is responsible, no one feels responsible in the end (Ambos/Schlegelmilch 2010). Moreover, networks offer more opportunities for malicious, demotivating or opportunistic interventions of headquarters into the concerns of subordinate units (Foss et al. 2012).

Management of the network is complex and characterised by diverse interests. The control effort must not necessarily rest with corporate headquarters; regional headquarters can take on these functions as well – especially other than financial control. The configuration as network opens the possibility to assume new roles and gain positions of power in the network (Birkinshaw/Hood 1998) also for subsidiaries and regional centres (Bouquet/Birkinshaw 2008b; Najafi-Tavani et al. 2014). Priority is allotted to the living social relationships of actors rather than formal hierarchies, facilitated by an at least rudimentary common understanding of the company and the markets.

The influence of the branch on its own decisions as well as of regional headquarters on the strategy of their own location depends on their power within the network (Kleinbaum/Stuart 2013; Mahnke et al. 2012). This in turn is closely connected to unique (knowledge) resources and environmental contacts, centrality in the flow of information, and the persuasiveness of central actors. Strength in the network increases if the unit has control over other units' zones of uncertainty, if other units' performance depends on one's own actions, and if there are good alternatives or resources outside the network for one's own actions (Crozier/Friedberg 1979). The position in the network is however subject to constant change: centrality is contested again and again and must be defended against other locations.

3.3 Entrepreneurship versus integration

Actual functions and responsibilities are more important for decision and enforcement capabilities than structural factors. Based on an early idea by Chandler (1991), Alfoldi, Clegg and McGaughey (2012) discern two role sets for headquarters: The entrepreneurial role focuses on creating value and developing opportunities to ensure long-term profitability. The integrative role, on the other hand, focuses on preventing potential loss and helping to make the existing company administrable (Ciabuschi et al. 2012). Albeit sometimes with different headings, this dichotomy is consistent with most of the literature (e.g. Young et al. 2000; Wanner et al. 2004; Garvin/Levesque 2008; Ambos/Schlegelmilch 2010).

Based on their literature review, Alfoldi, Clegg and McGaughey (2012) conclude that almost all headquarter functions can be duplicated at the regional level – but with specific regional characteristics such as regional strategic planning, regional monitoring, and the like. In no case however did the authors find organisational adaptation tasks at the regional level: this role remains the primary responsibility of corporate headquarters. It stands to reason that regional units with an entrepreneurial role set can exert greater influence on the strategic choices for themselves and their subordinate offices.

Ambos and Schlegelmilch (2010) show that regional and local units differ in the degree of autonomy regarding regional production, changing the production process or building new production capacity, further development of tasks, existing products or product lines, and determining outsourcing to subcontractors. Managers of autonomous regional headquarters estimate their operation to be of greater value for the whole organisation, and they are vested with more authority (Ambos/Schlegelmilch 2010). Therefore, stability can be enforced more easily in autonomous regional headquarters with entrepreneurial character and is limited only by the lack of responsibility for organisational change processes. However, this increased effectiveness inside and downstream is accompanied by a lower impact of the regional unit at corporate headquarters: Mahnke, Ambos, Nell and Hobdari (2012) conclude in their study based on the same data set that greater autonomy of the regional units goes hand in hand with lower influence on headquarter decisions, if the regional unit is responsible for the same strategic matters at the regional level.

Summing up, regional units with an entrepreneurial role set exert a greater impact on themselves and their subordinate offices at the level of strategic decisions than those with an integrative role set, especially when these units are also autonomous. We expect these units also to be more stable in operation once they are founded.

4. Strategising, power and micro-politics

In many instances, I mentioned that the effect of internationalisation strategy or configuration is ultimately dependent on the (power of) respective managers and units. And the more complicated a company's configuration is, the more open it will be for power processes and micro-politics. Within a multinational company, the management of the central unit is responsible for strategy and a constant renewal process. Both can be described as games that (re)define power positions and profit opportunities for other actors and units. While turning to strategy as action and to micro-politics (Jarzabkowski 2004; Pye/Pettigrew 2006; Bouquet/Birkinshaw 2008b), the focus shifts from formal, written strategy papers to factual actions. Strategising is not mainly analysing, calculating and deciding rationally, but is open to a battlefield of conflicting interests in "strategic warfare", characterised by dynamics and risk-taking. This picture resembles the notion of emergent strategies (Mintzberg 1987) and incremental changes (Quinn 1978).

Quinn (1978) emphasises in his model of logical incrementalism that all subsystems are able to take strategic initiatives. Each subsystem has its own timing, its own sequencing, its own information and power needs. A company's entire strategy is then largely defined by the development and the interaction of the subsystems' strategies in an interactive step-by-step process. Based on the fundamental difficulty to establish a comprehensive strategy for long-term futures in new, innovative and changing environments, successful executives link rational strategic decisions to incremental processes, in which they purport rough targets and orientations but leave open the paths to these ends.

Mintzberg (1987) integrates these considerations into a more realistic model of strategizing. The implemented strategy is then an approximation or compromise of the intentional, calculated and reflected strategy and emergent parts, reshaped by adaptation needs, constraints and resistance in the roll-out. Thus, both individual actors and organisational parts with sustainability interests outside the corporate headquarters, as well as the (legal, political, social) environment can play an important role in the formation of a sustainable policy.

Ambos and Schlegelmilch (2010), in their case studies on the role of regional headquarters, demonstrated the importance of both the (internal) political considerations as well as the effects of previous decisions. The three most important reasons for the location decision of regional headquarters – maybe equally important to pure economic data – were: leverage (or avoiding excessive concentration) of power for certain units; personal preferences of the top management, e.g. personal circumstances, likes and dislikes of the top decision makers (and their families); historical coincidence and the persistence of earlier decisions. Another example shows the importance of political considerations when defining regions: Past massive government interventions, we will find Poland's Unicredit subsidiary Bank Pekao reporting directly to the Unicredit headquarter in Milano and not to the CEE regional headquarters in Vienna – that would hurt the national Polish pride if they had to report to much smaller Austria. But all these games are played at the corporate headquarters only.

4.1 "The question is which is to be master – that's all"

Corporate headquarters are supposed to be the most powerful party in a multinational company. They limit the scope of subsidiaries' strategic decision making in five principle ways: By influencing the strategic agenda-setting process directly, by allocating resources, by influencing subsidiary charters (mandates), by selecting management team members and through monitoring and rewarding. Regional and local units' existence thus seems to simply depend on the benevolence of corporate headquarters and their managers.

In their significant literature synopsis, Bouquet and Birkinshaw (2008b) have provided us with a conceptual overview of the power and influence of weaker parties in multinational companies. To achieve this, they distinguish between three strategic objectives, i.e. achieving legitimacy, controlling resources and gaining centrality; and two means of influence, i.e. challenging the status quo and entering political games. Employing both objectives and means, even low-power units will gain influence on the head office's decisions.

Critical resources are a main issue in power relationships. Traditionally, these were access to raw material, cheap labour, or access to (large) customer markets. But in global and mature economies sourcing and markets have become more and more diverse, quickly making the former resources obsolete. Today, subsidiaries use more sophisticated critical resources as leverage, for example providing strategic (local) information and knowledge, coming up with innovative ideas and practice, or providing specific technologies, expertise and talent to headquarters, other regional units and subsidiaries.

Regarding the company as coalition (Cyert/March 1963), the management of interdependencies and resources and the exchange of information are important to realise gains. Regional headquarters of multinational companies and central units of transnational companies must be understood first and foremost as a particularly important node within the communication network of the organisation. These units act as broker for their region and as interpreter of orders from headquarters. Furthermore, regional units are substantially embedded in their regional environment – this actually is one of their reasons to exist. Consequently, Bouquet and Birkinshaw (2008b) estimate the centrality and thus influence of this position to be high.

Centrality increases if the unit has control over zones of uncertainty, if other units depend on its own actions, and if there are good alternatives outside the network for its own actions (Crozier/Friedberg 1979). Regional and local units possessing or having access to unique (knowledge) resources or environmental contacts will gain power – if they manage to "sell" these complex and tacit sets of services to other parts of the company (Kleinbaum/Stuart 2013).

Centrality is always disputed, however. Ambros and Schlegelmilch (2010) cite a branch manager stating that he will cooperate with regional headquarters for common business issues, but for the "real important issues" he will turn directly to corporate headquarters. The same holds true if the company offers a wide range of opportunities to meet and interact with central persons directly, i.e. by nominating representatives from branch level to central committees, allowing for annual strategic forums with the possibility of publicising their achievements, pushing initiatives, and soliciting resources. Intermediate units will then be eager to insist that any issue must go through the proper channels.

4.2 The art of ambiguity

According to Küpper and Felsch (2000), organisational parts are entangled in a network of co-operative and competitive relationships, with management power evolving between these two poles of relationships. Within this framework, they define three types of management power in organisations: integrator, broker, and negotiator (Küpper/Felsch 2000; Hansen/Küpper 2009).

Integrator power arises at the intersection of cooperative power relationships and aims at uniting the interests of different units, thus initiating coalitions across departments and subsidiaries. Typical micro-political actions facilitate the group formation process, represent group interests to the outside and try to convince potential group members. On one hand, the power of the integrator is endangered by extensive institutionalisation; on the other hand, cooperation profits are based on stability. Thus, tactics will favour a medium level of routinisation, allowing for the exploitation of a certain degree of group member uncertainty.

The power of brokers evolves at the intersection of competitive power relationships. The broker function is based on the ability to bring diverging interests together and to draw up positive exchange relationships between organisational units or between the organisation and its environment. In principle, brokers facilitate a partial exchange of resources and promote the interests of all units involved by partial reduction of the alternately generated uncertainty zones.

Belief in the neutrality of the broker is vital; thus, the slightest indication of having been captured by one party is detrimental – brokers are always under suspicion of colluding with powerful units. Brokers wanting to secure their specific power in this situation therefore tend to support the weaker party while at the same time trying to convince the stronger party to be endangered. A frequently used means to impress allies and frighten dissenters is to raise potential threads of resistance or block branch behaviour against cutbacks and exploitation interests – and as a side-effect to promote a more long-term caring attitude. But support for the weaker party has its limits, as it is equally important not to lose head office acceptance. In fact, exerting broker power is to scintillate in the art of the prancing counsellor of ambiguity.

Negotiator power, a hybrid form, couples the integrator and broker functions with partial collusion from the leader of an opponent unit. Of interest is the inverse relation between the negotiator role's external and internal power: the more the branch dominates a competitive relationship with a supplier, the weaker is the internal power position. In contrast, the internal power of the external vendor grows in correlation with the inferiority of his company. Thus, from the perspective of internal negotiator power it is better to be number one in a weak business environment than to be still in the market in a strong environment.

Negotiator power can originate from outside appreciation. Thus, if regional units successfully manage to collude with either legal authorities, suppliers', customers' or competitors' units in setting up an advanced and publicly renowned programme and at the same time show their devotion to head office standards and do not challenge overall strategy, they will gain negotiator power. Additionally, we can count on an resulting lock-in effect if initial actions go unchallenged (Sydow et al. 2009): this lock-in effect makes a reversal of the once-landscaped local strategy both financially as well as corporate-culturally and psychologically more expensive. The "compulsion of the factual" (Fritz Morstein Marx) favours the (micro-) political position of autonomous offices and regional headquarters compared to their corporate headquarters. Thus, a variety of small steps at the regional level can ultimately lead to a sustainable local strategy.

4.3 Adaptation only!

Adaptation needs come naturally at an early stage of dealing with new environments. All models of internationalisation start with (reactions to) outside pressure. Slight modifications are more successful than large and sudden changes, because this opens up an opportunity to implement a local strategy as “pure operation” below global headquarters’ strategic threshold of perception (Bouquet/Birkinshaw 2008a; Carter et al. 2010). With revolutionary changes, actions aimed at dodging external requirements, such as relocations, can be more easily justified and enforced in-house. By contrast, the argument that one is merely complying with outside pressure to adapt to regional or local requirements and the possibility to justify this in the organisation as purely operational or administrative adjustment without any strategic claim vastly increase the regional or local scope for decision-making. Using operations, and in particular knowledge management, enables local units to influence strategy indirectly – and thus to be particularly effective. The ability to make operational changes below the threshold of perception for strategic challenge or contradiction increases with the degree of autonomy of the respective unit (Ambos/Schlegelmilch 2010).

Morgan and Kristensen (2006) describe the metaphor of “boy scouts’ subsidiaries” that follow the demands of the head office and do not go beyond their mandate. In the same vein, Bouquet and Birkinshaw (2008b) label behaviour that consists of yielding to the opinions, judgments and demands of head offices as deference. While we will certainly find many regional headquarters and subsidiary managers exactly matching this description, we will also come across more proactive managers pursuing a local sustainability for whatever reason. To be clear on this, there is nothing wrong with being a boy scouts’ manager: this could pay off personally in terms of both career and recognition as well as organisationally in terms of budget and centrality. But sometimes, personal interest and connections, local organisational identities and responsibilities are stronger than pure economic interests of headquarters. These personal and institutional attachments can be influenced, shaped and nurtured by the region of location by an open and welcoming culture.

Brunsson (1989) goes one step further and distinguishes between action – what really happens in the respective organisational production – and talk, addressing the political sphere. The latter is concerned with responding to the inconsistent requirements of the environments and the organisation’s desire to maintain its legitimacy in the face of these requirements. As subsidiaries are foremost controlled by a framework of benchmarks and capital transfers (Morgan/Kristensen 2006), they need to present a credible record and plausible figures in line with the strategic provisions and operational targets to enable the subaltern parts to pursue their own agenda. It is vital to achieve legitimacy, especially by presenting a good track record to the corporate headquarters and accepting the priority of top management decisions while at the same time not losing the acceptance of other subsidiaries and the respective regional stakeholders.

To live up to these double standards, it is helpful to understand the headquarters’ provisions in detail, to discern one’s own room for manoeuvre and at the same time to get an idea of the headquarters’ language, so that the barely sayable can be said. Bouquet and Birkinshaw (2008b) provide us with three means to pursue these ends: co-optation is the tactic to bring influential outsiders into one’s network; representation works the other way round, i.e. by having an advocate at the top management committees, either directly or – sometimes even more effective and reliable – via third parties. Both tactics bear the hope that these elites will provide the unit with useful informal information, expertise, and access to networks. The main road to truly understanding which areas are of importance and reducing uncertainty is feedback-seeking, either by monitoring the environment for helpful clues or by direct inquiry at the company headquarters.

All tactics mentioned above share one major problem: We must factor in the presence of expatriates. If nothing else, these managers are missioned to closely control and direct the subunit (Harzing 2001). Some regional headquarters will try to collaborate and buy-in these expats, even to proselytise them into sustainability. But the odds of being successful are conceivably low given the expats' short-term assignments, career interests, personal network bindings and, not least, their mandates. Loyalties are with the home country, and "going native" is highly unlikely.

5. Conclusions and recommendations

Literature usually - although not unanimously – classifies location factors into hard and soft factors (Thommen/Achleitner 2012). Hard location factors such as tax-regime, factor costs, transport and communication costs, but also infrastructure conditions or environmental requirements are most prominent in public awareness. While market size and potential, institutional and legal environment, quality of infrastructure, economic and political stability and work costs are still the most important criteria when comparing countries as targets for investments (Hornberger et al. 2011), these criteria are not sufficient to discriminate between nearby, economically (nearly) equally strong and integrated countries in open common markets like middle and west-European EU-members. And they are definitely not sufficient to position regions or secure them sustainable competitive advantages. Rather, fulfilling hard location factors expectations is not more than simply the license to enter the game. Much has been said on what is necessary to promote high-end regions (i.e. Schuh 2016; Antalovsky et al. 2015; Stadt Wien 2014). Recommendations based on that come as no surprise – at least for informed observers, and there is no need to question them. Rather, I will try to add some arguments based on previous considerations.

I argued previously that corporations searching for new locations in one of the richest regions of the world are mainly searching for specific strategic assets, mainly knowledge, be it research and development, specific market knowledge or production and infrastructure know-how. These companies are attracted by high-qualified workforce and well-established services, a well-developed infrastructure and high accessibility, political and economic stability and safety.

To account for that, regions should on the one hand offer and promote easy access to theoretical know-how, i.e. to innovation clusters, research and teaching institutions. Access to local knowledge needs cooperative arrangements and a strong embeddedness in the local environment, local relationships and a close and trustful contact with local institutions. On the other hand, as applied know-how in the form of highly qualified employees is crucial, labour markets should be open to that manpower. This call comprises not only legal and administrative non-restriction, but also an openness of mind and a culture of welcome. Even more so, teaching and research institutions, universities and universities of applied sciences must be more open and international in mind to breed the potentials of the future generation, and enable them to connect to foreign multinationals and provide for their specific management skills. Location theories stress the importance of cultural proximity, and regions can do a lot to both encourage learning of languages and sensitise for cultural diversity.

Some critics argue that foreign knowledge-seeking companies will transfer this critical resource to their home country once they have acquired or incorporated it, and will exploit market advantages from there, leaving behind an empty corporate shell, or even quit the country after skimming off know-how anyway. This threat is real and has to be accounted for. From an inside perspective, there are some options to prevent self-interest action of knowledge intensive multinational companies, or at least to alleviate detrimental effects:

1. Choose carefully whom to attract: mind organisational configurations
2. Stay attractive with always new specials offers
3. Raise sunk cost: Investment in people and brands, trust and image
4. Ally with friends: Use micro-politics and networks

5.1 Choose carefully whom to attract: mind organisational configurations

While attracting new locations, a consideration of the organisation allows the observer to estimate the future stability of the location – though with some residual insecurity. The first and best choice is a close look at the companies' past track record of location policies and sustainability approaches. A second hint for estimating the stability of the location can be found by discerning organisational configuration.

I have discussed which effect the manner in which regional headquarters are embedded into the corporate context has on the opportunities for sustainable location strategies. Regional and local units with an entrepreneurial role set exert a greater impact on themselves and their subordinate offices at the level of strategic decisions than those with an integrative role set, especially when these units are also autonomous. In such cases, the sustainability of the location can be enforced more easily.

Bartlett and Ghoshal (1989) distinguish international, multinational, global and transnational companies. While local units in multinational and international type-1 companies have only little power and are thus subject to foreign discretion, they can have a big impact and can act as a self-confident and autonomous part in global as well as type-2 multinational companies, depending on internal and external conditions. In transnational network companies, however rare, the potential for the sustainability of the location at regional or local level reaches its peak. Again, chances depend on intra-organisational constellations, especially power distribution. Branches in possession of unique (knowledge) resources, specialised functions, important environmental contacts and central in the flow of information are stronger and more stable than others – and these factors can be supported by the host region.

Apparently, perceived autonomy of regional and local units play an essential role. Successful strategies are characterised by a sense of ownership and a strong involvement of the branch in its own affairs. Furthermore, as a high level of de-centralisation has been shown to increase motivation and creativity and thus to exert a positive influence on the innovation capability, multinationals seeking knowledge advantages will be ready to grant more independence. This is also an agenda for the host region's location policy: Help local units to be as autonomous as possible!

5.2 Stay attractive with always new specials offers

Soft location factors ranking high at the location's marketing agenda, such as economic climate, social milieu and regional image, the quality of human resources and services, and a well-developed infrastructure, can be influenced through the region of location. High-end regions will particularly emphasize cultural heritage and social stability, living environment and education, recreational and leisure activities – issues addressing more the personal than the organisational interests.

Theory tells us that we can expect a U-shaped curve of cultural adaptation (Mendenhall/Oddou 1986): The phase of preparation and entry is marked by eagerness to learn new and exciting things, the mood is high and (maybe unrealistic) expectations are developed. In a second phase, confronted with the reality and after some disappointing events, we are hit by a reality shock (Hughes 1958, Hall 1959): Motivation and self-confidence reach the bottom, we feel uncomfortable and repelled. Ultimately, and only if we "survive" the second phase, are we ready for role-taking and role-making, and thus are able to respond to day-to-day challenges in a proper way – we have learned to take the "new reality" as self-evident and natural (Schütz 1972).

Certainly, many interest groups, private and state organisations make a huge effort not only to attract new business, but also try to ease the start in the new location both for the organisation and for relevant persons. Alas, it seems that awareness of politics and administration is (too much) concentrated on attracting, locating and onboarding new acquisitions and companies. Managers sometimes get the feel of being overlooked and left alone, once the honeymoon period is over. And the beauty of the environment and the easy access to the cultural heritage, ever so exiting for freshmen, will become normal or even boring when getting used to it.

Most problems stem from unrealistic expectations. Even more so, just because location marketing never stops to present the location from its very best side, especially pointing to soft factors, the new entrants will have developed high expectations. And living is easy in the first place, when company and managers have many helping hands to their avail. But the higher the expectations, the deeper the case. What is needed, then, is first to promote realistic expectations both for companies ("Yes, Austria is bureaucratic and sometimes sloppy") and managers ("No, not everyone rides to work on a Lipizzaner munching Mozartkugeln"). Certainly, this claim is easy to make, but hard to come up with when the location market is become increasingly competitive. This implies a trade-off between current motivating effects brought up by promises and later dissatisfaction because of disillusions.

Secondly, and maybe more importantly, it is necessary to continue to care for and integrate foreign establishments, their managers and knowledge workers beyond the initiation phase. Vienna is a diverse city, people of various nations live and work here – and if we want to have their investments here, we should give them the feeling of being welcome and recognised in the long run as well. Though there are some noteworthy groups like HQ Austria (http://www.headquarters-austria.at/de/index.aspx), more activities are needed that aim at building and, even more so, sustaining an international community of locations' foreign personnel together and mingled with Austrian stakeholders. While most of the existing activities are restricted to special interests of business communities, business topics and high-culture events, I claim to expand connections both to a broader interested community and to common people. On a personal level, and especially for non-expat foreign managers and professionals, this could include topics of day-to-day activities, neighbourhood and family interests.

5.3 Raise sunk cost: investments in people and brands, trust and image

Once a branch is established, the original, mainly economical calculus changes: Investments are sunk costs that only can be regained in the long run and they are (partly) lost when the branch is closed again. Images are developed: Investments in a location represent a public entrepreneurial commitment that may be withdrawn only under high public costs, by damaging the image as a reliable partner and with (possibly) detrimental effects on consumer market and brand image. Both public administration and business partners, political promotors and financial sponsors might be snuffed, with ramifications spreading quickly in social networks. If, and that might be especially true for regional headquarters, the newly established entity develops an identity of its own, it will strive to "survive" as this is the ultimate aim of any social system and thus also the organisation. And last, but not least (personal and emotional) relationships between relevant internal players and the host country evolve.

In addition to these sunk costs, more intangible and long-term costs are associated to a high-trained workforce. Multinational corporations searching for strategic assets regularly employ highly qualified employees, often multilingual and flexible in time and place, who are willing to engage in a non-national based corporate culture. Exactly this segment of the workforce is however willing to change the employer readily, and it is rare on a tightening labour market ("war for talents"). It is therefore in the interest of companies to retain good employees not only with good pay, but above all with the offer of good jobs and opportunities for development and motivation. Investing in personnel, typically further education measures, (personnel-oriented, long-term) infrastructure services (such as child care) and the creation of a specific culture, will pay off only long term. The return on these investments is bound to people, which are attached primarily to the location – and not to the company. People and investments might be lost once the company quits the location.

Through publicly visible activities for attractive jobs, a company builds an entrepreneurial self-commitment to the site. Violating this commitment can have a detrimental effect on employer branding and contribute to an image as unreliable partner. The labour market for high and top quality personnel is increasingly a buyers' market and therefore brand driven, and it's becoming an international market. One would therefore expect rebound-effects on other locations or even the home country.

Attracting high skill employees and creating long-term jobs with close connections to the environment creates a commitment of the company to stay longer and entails high (social and financial) cost when leaving. Thus, the concern for the quality of jobs and the creation of excellent working conditions is an indicator for the long-term stability of the company and the respective location.

5.4 Ally with friends: use micro-politics and networks

Previously, I have highlighted power strategies and micro-political tactics to stabilise and secure the sustainability of a once founded location. In any case, it is important to bear in mind that power is connected to controlling specific resources and zones of uncertainty – and this provides also weaker parties with plenty of room for manoeuvre. What we can learn from eminent sociologists such as Burawoy (1979), Crozier and Friedberg (1979) or Giddens (1984), is that organisations are dependent on a permanent dialectic of control and consensus. Micro-politics in organisations can inter alia be understood as a mutually fruitful arrangement to respect each other's spheres of seignorage while at the same time pursuing one's own goals. Likewise, it provides the organisation with new insights into challenges and opportunities in the countries they have chosen to operate in. As Morgan and Kristensen (2011) put it: "Conformity provides no long-term basis for survival and growth. […] The head office cannot in the long term have both hierarchical control and performance" (1485).

Despite the odds of influencing the company headquarters directly still being low, there are some opportunities for low-power actors when targeting the objectives of achieving legitimacy, controlling resources and gaining centrality. At regional and local level the focus shifts from managerial strategies to micro-political tactics. Regional units draw their power from performing managerial functions in the implementation phase of strategies, either by taking the role of integrators or negotiators and particularly brokers. A third way to boost regional autonomy is by declaring it a mere adaptation to local needs. This is in line with observations that local strategies could ultimately be implemented as "pure operation" below the global headquarters' strategic threshold of perception.

Again, host country location policy can do a lot to strengthen the power and thus the sustainability of the local or regional unit, e.g.

- Connect and integrate relevant managers and central players, either in the role of negotiators or brokers, into local networks.
- Help to develop an identity-generating program ("success story") on the local or regional level AND allow for a good local or regional track record.
- Find and encourage spokespersons for local or regional interests in a decent way, thus both to buy them in AND to not comprise them as traitors.

- Establish both formal and informal boundary-spanning instances; provide selected gatekeepers and units with relevant and critical information.
- Promote those being “bi-cultural” and “multi-tongued”, those well versed in the national culture and being able to transfer issues into the organisation and towards the headquarters.
- Create sunk costs and lock-in effects both on organisational and personal level.
- Change conditions in small steps and beyond the global headquarters’ strategic alertness.
- Carefully monitor expats in powerful positions. If you can’t buy them in, try to isolate them.

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Jelena Crnoja / Jeanna Nikolov-Ramirez Gaviria

The Strategic Importance of Managing Ideas in Higher Education Settings – Best Practice, Qualitative Approaches and Success Factors

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Abstract

The paper conceptualizes qualitative idea and innovation management and depicts the particular challenges in educational environments. Based on the experience of implementing qualitative instruments at the University of Applied Sciences BFI (such as process management, quality circles, and introducing an idea management system both for staff members as well as for students) and preliminary survey results among German speaking educational institutions, the paper gives a conclusive overview of which aspects and instruments are suitable to increase and promote innovation in higher education settings and which pitfalls to avoid.

Research question: *What aspects and instruments (with special focus on higher education) are suitable to promote innovation in education (management), and which success factors for idea management can be derived?*

Keaywords – *Innovation, higher education, idea management, quality, life-long learning, organizational development*

> *“Whether success or failure, you need to move forward. The momentum is what is critical.”*
>
> *Frederique Dame*

1. Introduction

In keeping with the socio-economic and cultural changes that are placing increasing and volatile demands on the educational system, in terms of greater diversification, economic pressures, short lifecycles of knowledge and complex expectations by stakeholders, the higher education sector is gradually focusing on quality as a distinctive criterion. In Austria there is a legal obligation to evince the existence of standardized quality processes and criteria (FHStG: Fachhochschul-Studiengesetz), but nonetheless the cultivation of innovative potential in a structured approach is regularly neglected. There is an interesting interdependence between the innovation and output of universities and their organizational ability to innovate. Innovation in economic systems now draws more heavily on fundamental knowledge, an important output of universities, while the institutions perform a substantial share of R&D, especially basic research, in most OECD economies (Mowery 2004).

Particularly higher education institutions find themselves in a globalized market oriented environment with internal and external customers. The need to identify innovative ideas and market/job-relevant know-how becomes an asset that requires harvesting, close monitoring, and enables standing out in a competitive field. Novel concepts for teaching, learning and administrative activities set institutions apart and thus warrant special attention.

2. Definitions - Idea and Innovation Management

When an issue – as in the case of education – is of such overall importance, the popular discussion may easily become disarrayed. Terms are used inaccurately and create confusing generalizations. To avoid this carelessness, we aim to provide some clarifying definitions that discriminate between the components of innovation in order to advance the discussion and enrich the discourse with a dimension of precision. In daily conversation, terms like invention, idea and innovation among others are often used interchangeably. However, for academics and policy makers, there are important distinctions among these terms, and these distinctions give each term a unique meaning.

When we speak about **higher education,** we refer to "any of various types of education given in postsecondary institutions of learning and usually affording, at the end of a course of study, a named degree, diploma, or certificate of higher studies" (Encyclopedia Britannica 2017). Higher-education institutions we considered in this paper include not only universities but also various professional schools that provide preparation in such fields as law, theology, medicine, business, music, and the arts. The focus lay on German speaking institutions and universities of applied sciences for pragmatic reasons.

The term **idea** is fraught with ambiguity – for this paper we use it meaning the following: "An idea is a cognitive impulse enabled by social experience" (Saatcioglu 2002). All innovations begin with ideas. But what is even more important, they do not exist independently of each other, the social component and the "enacting" and active implementation of ideas are vital ingredients for innovation processes which often are part of dynamic processes. Scholars are paying increased attention to the management of ideas as it encapsulates innovation and gains traction in the continuous improvement process underpinning quality management in education.

Idea management is defined as the "process of searching for, generating, and implementing ideas" (Saatcioglu 2002). The process component is something the authors seek to emphasize as higher education is too often viewed in terms of an input-output system, with information being the input factor and diplomas, papers or patents being the output – naturally this is a dramatization. We suggest a more process-oriented view of education; similar to a chemical reaction, where several agents in a social setting arranged within an enabling conducive framework react with one another. The setting is infused with information exchange and ideas, enabling reactions and follow-up processes; sometimes explosive ideas and reactions, propelling progress, sometimes disrupting it. According to Lundvall and Johnson (Lundvall / Johnson 1994), individuals as well as organizations learn through problem solving in connection with regular economic activities. Learning results in explicit knowledge about the world as well as in tacit knowledge about how to do things.

In this paper the term **innovation** stands for the creation of a new way of doing something, may it be concrete (e.g., the development of a new product) or abstract (e.g., the development of a new theoretical approach to a problem). “Innovation can be defined as the effective application of processes and products new to the organization and designed to benefit it and its stakeholders” (Baregh et al. 2009).

The organisational integration of innovation in the corporate structure takes place through **innovation management,** which is typically part of an organization’s upper management and a strategic endeavour. Therefore, innovation management comprises the decisions about innovation and the development of innovation processes (Hauschildt 2004).

Innovation is an *interactive and iterative process,* with feedback from users and early adopters. At the core of the innovation process is collective entrepreneurship, in which several agents interact and work together to introduce change (Christensen / Lundvall 2004). Innovation can involve combining knowledge from different parts of the world, requires great diversity and is a continuous undertaking. The “half-life of knowledge” is shrinking according to American Society of Training and Documentation (ASTD). “The “half-life of knowledge” is the time span between gaining knowledge and it becoming obsolete. Half of what is known today was not known 10 years ago. The amount of knowledge in the world has doubled in the past 10 years and is supposedly doubling every 18 months.” (Siemens 2014) Thus, higher education institutions are also faced with keeping their programs relevant to a variety of backgrounds, students’ needs and age groups. **Life-long learning** (Aspin / Chapman 2000) refers to a society in which learning possibilities exist for those who want to learn (Fischer 2001). In order to understand the real challenges for higher education, it is necessary to take into account that agents learn by doing, using, and interacting. (Lundvall 2008) So, when we talk about innovation, diversity and the currently strongly debated immigration policies appear to be closely linked as they are an eminent building block of diversification, knowledge transfer and a strong enabler for innovation.

3. Qualitative Instruments at the University of Applied Sciences BFI

To pay full justice to such diversity and complexity is, of course, not possible in a brief paper. To allow for an overview, there is a need to combine general principles and insights with a qualitative analysis of the innovation techniques used by higher education providers and their contextualization in the innovation system. Therefore we combine in this paper case study research and qualitative content analysis from various higher education providers as a method of examination of data material allowing for the retention of the holistic and meaningful characteristics of real-life innovation in the higher education sector and reflecting the more process oriented nature of innovation management. We consider this to be in line with the qualitative aspects of research: “a focus on interpretation rather than quantification; an emphasis on subjectivity rather than objectivity; flexibility in the process of conducting research; an orientation towards process rather than outcome; a concern with context—regarding behaviour and situation as inextricably linked in forming experience; and finally, an explicit recognition of the impact of the research process on the research situation” (Kohlbacher 2006).

In the following we will give an overview of qualitative tools and practices in use at the UAS BFI, an Austrian higher education provider, and also discuss some implementation-specific details and best practices collected in the last two years of introducing idea and innovation management techniques to the institution. We will amend these by a brief discussion of their suitability to increase and promote innovation in higher education settings and their particular focus. As this overview was written with an emphasis on the higher education sector, we will outline the differences to a corporate environment where necessary, when discussing the various idea management processes and tools.

3.1 Quality Management

Quality management in higher education is strongly characterized by statutory provisions. The establishment of a quality management system is regulated by law (§ 2 Abs 3 FHStG/Austrian Federal Law on Universities of Applied Sciences). The course providing-body of a UAS is legally bound to implement a quality management system which is tailored to the individual requirements. The appropriate quality management system that suits the institution’s needs is a precondition to obtain an accreditation (§ 8 Abs 2 Z 1 FHStG/Austrian Federal Law on Universities of Applied Sciences).

The Standards and Guidelines for Quality Assurance in the European Higher Education Area suggest to “have a policy and associated procedures for the assurance of the quality […]” and to “…develop and implement a strategy for the continuous enhancement of quality. The strategy, policy and procedures should […] be publicly available.” (ENQA 2009).

The UAS BFI summarizes its fundamentals for quality management including the strategy for continuous improvement in the “QM policy strategy” which is available on the UAS website (Schlattau 2016). The understanding of quality in higher education is defined in the quality statement (Sturm 2013).

The quality management system at the UAS BFI was developed within the scope of a financed project by the municipality Vienna and put into writing with all of its components in the “QM Handbook”. As it is integrative and process-oriented, its aim is to constitute the framework for all quality assurance activities and to detail responsibilities, structures and procedures as well as instruments to ensure ongoing development (Schlattau 2016).

The QM guideline should take several internal and external reference points into consideration:

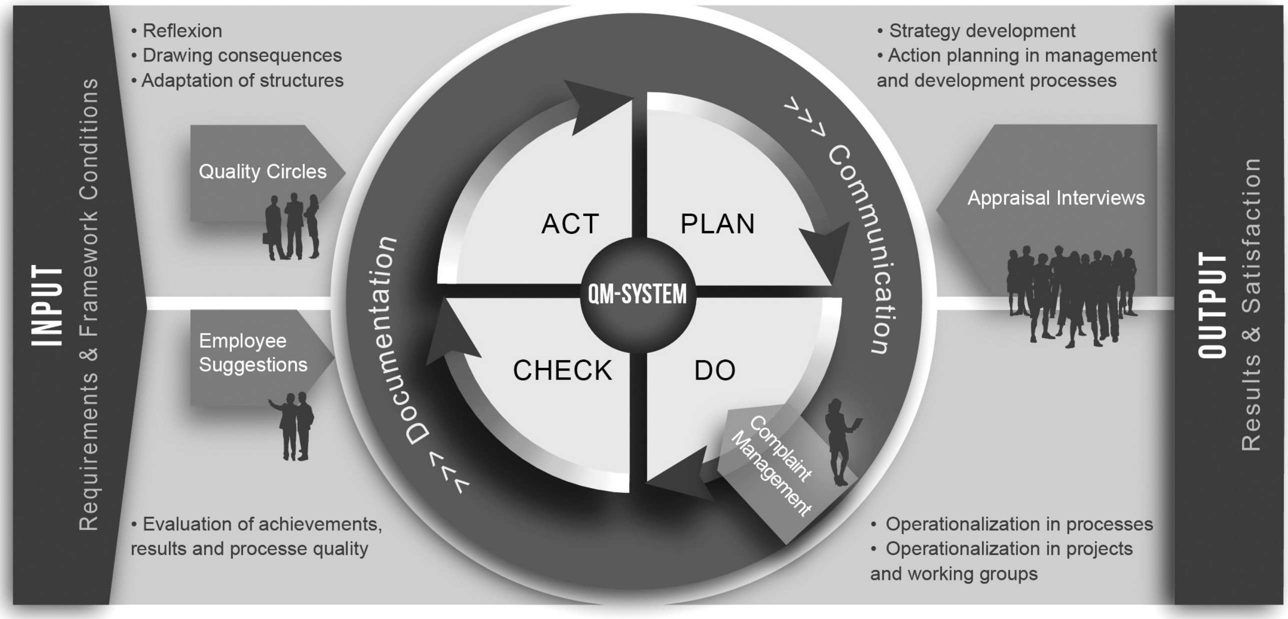
– Student-centered perspective

– Staff-centered perspective

– Social context and societal perspective

It spells out the strategic relevance, assigns clear responsibilities and defines structures and processes for the assurance and further development of quality within the institution. The continuous improvement and innovation management is organized around the PDCA-cycle (Sokovic et. al. 2010) and seeks to reflect on implemented policies and instruments in order to deal with posed challenges in a proactive manner.

Figure 1: QM System of the UAS BFI – Translated Version, the original is in German



Source: Schlattau 2016, Graphic Design by Nikolov

Innovation potential: An outlined QM framework is the best foundation for achieving thriving innovation management.

3.2 Process Management

The process management system at the UAS BFI was implemented in 2004 and since then further developed. “PROMAS” consists of 3 core processes and 7 support and management processes that are sub-divided into over 50 sub-processes with over 170 process descriptions.

Each process activity (=process step) depicts the responsible roles (e.g., who is Responsible, Accountable, Consulted and Informed). PROMAS also displays interfaces to other procedures and processes. Furthermore it provides relevant documents for the stakeholders. For each process a (sub-)process owner is defined. The functions, responsibilities and authorities of these owners are laid down. He/She is fully responsible for the content and execution of the process and ensures the actuality of documents (=up-to-date information).

While the management and support processes are only accessible to staff, the study-relevant processes as well as documents concerning the study programmes (for example templates, guidelines) are made publicly available for students and lecturers via the website.

The process descriptions are not only used for the disclosure of information, they are part of the comprehensive quality management system.

The additional development of the process management system is achieved by using the provided quality management instruments and procedures, for example annual PROMAS reports, internal process audits (“Prozess-Schau”). Thus, PROMAS creates an appropriate framework for innovations and ideas that are continuously assessed and supplemented.

Innovation management and process management strive for superior processes. Both approaches want to bring about changes and to develop the existing procedures and procedures. This enables organizations to react more quickly to changes in the environment and to seize opportunities (Mieke / Wikarski 2011).

Innovation potential: By looking at chains of activities in the organization from a process perspective, more efficient ways can be collaboratively identified and interfaces optimized leading to innovation in the activity chain.

3.3 Project Management

For more than 15 years the project management standards at the UAS BFI have contributed considerably to the quality assurance beyond the line-and-process organisation.

The internal PM standards are an adaption of common PM methods to meet the needs of the organisation and are divided into compulsory standards (for example project assignment, personnel resource plan / financial plan, Gantt chart etc.) and advanced ones (for example work breakdown structure, milestone plan etc.). The former are obligatory for the approval of the project planning.

The PM standards are designed to support the execution of ideas or innovative intentions and thus facilitate the future development of the organisation.

Innovation potential: Project management makes rigid hierarchies more flexible and allows for diverse teams to contribute their perspectives to problem-solving. Innovative and intensive cooperation enables organizations to initiate required measures to adapt to quickly changing circumstances.

3.4 Quality Circles

To promote continuous bottom-up quality assurance and improvement, the UAS BFI implemented quality circles in 2010. Heterogeneous, cross-functional teams discuss, support and develop ideas, improvement suggestions and quality assurance measures of the continuous improvement process in core areas such as research, teaching and infrastructure.

Students and part-time teachers are invited/involved on a case-by-case basis. Employees can directly submit suggestions for improvement to one of the three quality circles by using a standardized form.

All improvement suggestions incl. further treatment of the recommendations are documented and managed centrally by the quality management department.

The purpose and design of the quality circles are put down in the written quality circle guideline.

Innovation potential: The employees' innovation potential can be used to gain improvement recommendations and suggestions. Quality circles are great pools of expertise and discussion and serve idea generation and assessment while also serving as sounding boards for policy and dissemination facilitators at the stage of idea implementation.

3.5 (Collaborative) Idea Management and Idea Competitions

In 2016 the UAS BFI started the first idea competition to further increase its innovation capacity. Employees are invited to voice their own ideas or submit them as a team. The best three contributions are awarded money prizes. The ideas are evaluated both by an anonymous jury and by staff members giving points to preferred ideas in an anonymous online vote.

Criteria for the evaluation of ideas by the jury included

1. Originality/level of innovation
2. Feasibility (effort to implement)
3. Stakeholder satisfaction / work facilitation
4. Impact/reach (benefitting many)
5. PR effect (helps to promote a positive university image)
6. Cost or time efficiency
7. Support of strategic goals and mission statement of the university

After the first run among the employees, the idea competition was rolled out also to students and graduates in a separate call. It serves as a vital source of innovation as it incorporates insights from alumni that have encountered working strategies across a variety of disciplines and work settings and are feeding their experiences back to improve university services.

As the pilot projects were considered successful, the idea competitions will be taking place bi-annually. A jury consisting of both university staff members and student representatives anonymously evaluated the submissions by students/alumni/incoming Erasmus+ students and issued recommendations for implementation.

Innovation potential: Through attractive incentives an organization not only gains new ideas, but also insights into the needs of the employees. Idea competitions motivate employees on the one hand and enable the organization to move towards a greater level of customer satisfaction and innovation on the other hand.

3.6 Evaluations and Students' Feedback

Surveys and evaluations provide a place for improvement suggestions and (innovative) ideas to be submitted. Stakeholder feedback is of high importance for the further development of the organisation. The UAS is legally obliged to evaluate the course / study program (§ 10 Abs 3 FHStG/ Austrian Federal Law on Universities of Applied Sciences).

This course evaluation applies at two levels:

- Interim evaluations (conducted by the lecturers)
- Online course evaluation

Further student surveys, including e.g.:

- Annual field evaluations in the summer semesters or
- Follow-up student surveys which take place at the end of a study program

facilitate feedback on topics such as teaching, examining, workload, internationalization, services, professional activity, student life etc.

The evaluation results are part of the semester-based evaluation interviews between the program directors and student representatives. Appropriate improvement measures are defined (if needed) to be discussed and reviewed at various management levels.

The international office surveys incoming and outgoing students about their satisfaction with the provided services while asking for suggestions and ideas to optimize the support.

A graduate survey is conducted every two years by an independent institute. Moreover, the participation in Europe-wide externally conducted student surveys that focus on students' perceptions offer a benchmark with other universities.

Innovation potential: An external view via surveys and benchmark evaluations prevents organizational blindness and boosts the capacity for innovation.

3.7 Networking Opportunities and Gender and Diversity Management

Some research – under the label connectivism – suggests in tune with embodiment theories and social cognition (Fiske 2013), that because of the rapidly changing landscapes of knowledge the very nature of our knowledge acquisition and innovation capability might be based in the network and the connections between professionals, rather than in individuals themselves. "Connectivism is driven by the understanding that decisions are based on rapidly altering foundations. New information is continually being acquired. The ability to draw distinctions between important and unimportant information is vital. The ability to recognize when new information alters the landscape based on decisions made yesterday is also critical." (Siemens 2004)

Infrastructure provisions such as social rooms, community kitchens, but also projects, working groups and quality circles provide opportunities to network and exchange knowledge in diverse settings resulting in improved overall performance and innovative impulses.

Innovation potential: When stakeholders from diverse backgrounds interact, arising problems can be viewed from various perspectives. The information exchange enriches the social and cultural discourse in the institution, stimulates novel insights and leads to creative approaches in tackling complex subjects.

3.8 Suggestion Boxes and Community Boards (Swarm Intelligence)

(Example: QM Tools UAS BFI)

In order to increase corporate community commitment among staff members, suggestion boxes or community boards are pools to welcome ideas and contributions regardless of hierarchical structures. At the UAS BFI e.g., "toolbox boards" were installed in regularly frequented social rooms and kitchens temporarily encouraging employees in a low-threshold manner to share quality tools they use in their everyday work. This made the topic widely visible and sparked discussions on the nature of quality and on useful quality tools.

Figure 2: Community Board at the UAS BFI gathering QM tools used by staff

Innovation potential: The engagement created by suggestion boxes and community boards draws on the various experiences of higher education professionals and can facilitate discussion while making implicit knowledge visible. Otherwise neglected issues are able to surface and be addressed in a low threshold manner.

3.9 Complaint Management

As an often overlooked component of idea generation and management, complaint management is actually a direct contact point to costumers and stakeholders providing an immediate communication channel. It is an eminent reference value of the current state of affairs/state of minds and indicates gaps in service quality. Identifying a responsible institutional agent for complaint management and discussing criteria for escalation is crucial. The more distinctly and consistently true complaints are differentiated from inquiries or other communication attempts, the more value can be derived from a complaint database in helping to identify operational or service weaknesses and provide the opportunity to take steps that enhance service quality and demonstrate responsiveness to stakeholders. Personnel interacting with key stakeholders must be trained to recognize complaints and have access to processes and systems designed to document complaints for purposes of (complaint-) escalation to head management staff, analysis, response and resolution. The UAS BFI has a multi-channel approach to complaint-handling (oral, mail, and phone complaints) and a designated ombudsman for issues regarding research complaints but is still working on developing general operational policies on complaint classification and escalation.

Innovation potential: Stakeholder complaints are chances to interact with stakeholders. Using their input to improve performance and innovate services enhances efficiency and reduces failure costs.

4. Other Qualitative Instruments in Innovation Management

Using a questionnaire and gap analysis interviews, some further innovation management techniques used in higher education institutions were identified:

4.1 MOOCs

Massive Open Online Courses (MOOCs) have recently been considered a potentially disruptive new format for higher education institutions, as both posing a threat and possibly expanding the reach and services of existing higher education institutions. “There is also an opportunity here for open education where less traditional lecturing and more facilitative and guided approaches to education can find a place in this new landscape of online learning where increased fees for established models may act as a deterrent to students.” (Yuan et al. 2013)

The innovative potential in MOOCS lies both in the new approaches to offer education and didactical concepts and in the expansion of reach and access for groups not being able to afford or attend a traditional higher education facility.

4.2 Design Thinking

Design thinking refers to a novel creative strategy utilized predominantly by designers, but increasingly also in the business, social and educational realm. It is used to solve problems and generate novel approaches when designing or launching a new service/product. Design Thinking is user-centered and favors ideation (the generation of ideas) and rapid prototyping. Design Thinking is currently being taught at over 60 universities and colleges (Goldman et al. 2014) and promotes problem solving by synthesis rather than pure analysis (Cross 1982). Cross tried to outline the differences between the appropriate methods in Science, Humanities and Design:

- Sciences: controlled experiment, classification, analysis
- Humanities: analogy, metaphor, evaluation
- Design: modeling, pattern-forming, synthesis

In higher education settings, Design Thinking can take three forms: helping administrators solve institution-based problems, aiding educators develop more creative didactical plans, and engendering design thinking skills in students. It can be considered a proven catalyst for idea management.

4.3 Incubators

Incubators help businesses develop and are a catalyst for either regional or national economic development. They nurture young (startup) institutions, mostly firms during their early months or years and provide affordable space, shared offices and services, hand-on management training, marketing support and, often, access to some form of financing. They are rather uncommon in higher education settings.

4.4 Think Tanks

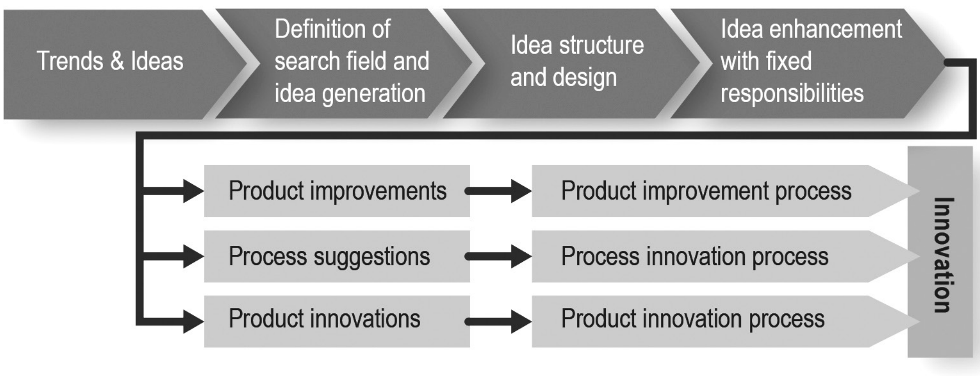
Think tanks are groups of experts providing advice and ideas on specific problems. They can be an institute, corporation, or a group organized to study a particular subject (such as a policy issue or a scientific problem) and provide information, ideas, and advice. As higher education institutions specialize in research and the provision and transfer of information, they usually do not employ think tanks rather than create diverse working groups from within their body of experts. Think tanks are less common but can be valuable partners in research projects.

This list is to be expanded. Currently the UAS BFI is undertaking a survey among higher education organizations in DACH-countries (German speaking branches of Germany, Switzerland, Austria and including Luxembourg, Liechtenstein) to identify further instruments used in idea and innovation management in higher education settings.

4.5 Discussion

The corporate idea management process according to Brem et al. 2007 can be portrayed as follows:

Figure 3: Corporate idea management process



Source: Brem et al. 2007

Idea management can be seen as a sub-process of innovation management, with the goals of effective and efficient idea generation, evaluation and selection, hence, the key issue is the structured collection and generation of both internal and external ideas as well as the logical evaluation and selection of those that offer the biggest potential for future corporate success.

“The less the instruments are oriented towards incremental improvements of existing processes, the better they are suited to promote innovation.” was an answer that the qualitative survey yielded when asking about instruments most suitable to increase and promote innovation. This suggests that we have to step out of routines and gathered experience in order to generate new ideas. Indeed, idea generation liberated by preconceived notions seems to be at the core of innovation processes.

The formal innovation process appears to be a contradiction in itself. A process that recurs is bound to be less innovative with time. Thus, when considering idea management and creativity research, there usually are two separate approaches. One is a process concerned with internal innovation (suggestion boxes, quality circles, process improvements), directed towards incremental innovation for a university’s activities and programs. The other one is an external one, seeking or researching new ideas outside the current scope, increasing value or yielding new activities currently not offered (basic research, projects, stakeholder collaborations, think tanks).

Changes in organization and organizational structures may be less dramatic than scientific discoveries but are equally important in terms of enabling innovation, promoting efficiency and productivity. Political scientist Sandford Borins proposed several characteristics typical of organizations that are successful at innovation that could be applied to the higher education sector just as well:

1. Top management supports innovation and provides leadership in this area.
2. Individuals who push for innovation are rewarded.
3. The organization dedicates resources specifically to innovation rather than expecting it to happen as a matter of course.
4. The organization has a diverse workforce and welcomes ideas from outside the mainstream.
5. The organization’s bureaucratic layers are closely connected so that innovations can be easily communicated and implemented.
6. The organization is willing to experiment with different ways of doing things with the understanding that not all will be successful. (Borins 2001)

Successful innovative organisations are good at managing change to achieve sustainable competitive advantages in the form of new content and services or the operational processes. Innovation thus plays a key part in the formation, development and growth. This holds especially true in research and development, and is key in knowledge institutions such as universities.

5. Conclusion and Further Work

This paper gave a case study based overview of tools in action that have demonstrated benefits for idea and innovation management in higher education settings. Further work is needed to evaluate the status of implementing idea and innovation management in higher education universities across disciplines – we are currently undertaking a survey to uncover the degree of rollout of idea management at DACH universities. There is a need for more inclusive, hybrid approaches to innovation and learning systems and categorization of idea management techniques and their integration in a strategic manner.

Embedding innovation and idea management as corporate culture takes time, perseverance, a clear buy-in and strategic backing from top management. Oddly enough, the birthplace of innovation and change is oftentimes vulnerability and the necessity to adapt to (a usually unpleasant) new development (Gleick 1987). Network analysis has shown that innovation frequently comes from the fringes or at disciplinary boundaries (Barabasi 2002). So how can top management, which most often is administratively burdened, promote innovation? The fear of failing, making mistakes, not meeting people's expectations, and being criticized impedes idea generation and innovation and keeps agents and institutions outside of the arena where healthy competition, progress and striving unfolds. So a tolerance for experimentation and (low) risk is essential. Some general conducive success factors include:

– An atmosphere enabling experimentation and a (low) level of risk
– Permeability and diversity in teams and working groups such as project teams
– Delivery of value by the innovation process

Most importantly, if idea management does not create tangible value to staff members or students the initiative will perish. The idea management is a means, not an end, and it should benefit the organization. Therefore, sustainability is the ultimate key success factor for making idea management an integrative part of strategy.

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