By Accident or By Design?
Institutional-MNE Co-Evolution within the Subnational Space

Sinead Monaghan, Patrick Gunnigle & Jonathan Lavelle

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Theoretical Underpinnings

• The intersection of international business and economic geography has facilitated greater exploration of firm-location dynamics, especially coevolution

  (Cantwell, 2009; Cantwell, 2014; Phelps & Fuller, 2015)

• IB literature has sought increased attention to the evolution of MNEs towards institutional compatibility within its locational portfolio

  (Cantwell et al., 2010)

• EG offers enhanced understanding of the spatial unit of analysis and its evolution alongside MNEs

  (Phelps & Fuller, 2001; Phelps & Fuller, 2014)

• Given the methodological and theoretical divergence between the two disciplines, most of this previous work has been conceptual and/or based at a national level of analysis
Research Objectives

How does the host subnational institutional environment respond to MNE investment over time?

1. To map the interactive stages of institutional-MNE coevolution at a subnational level
2. To ascertain the underlying implications of host subnational institutional environment evolution alongside MNE investment
Theoretical Framework

1. Subnational Institutional Configuration and Firm Creativity
   - *Firm level creativity*: balancing exogenous and endogenous firm-level characteristics
   - *Subnational Institutional configuration*: local economy is tailored to investment

2. Subnational Institutional Transformation and Firm Experimentation
   - *Firm level experimentation*: behavior to adjust and adapt to potentially uncertain institutional conditions
   - *Subnational Institutional transformation*: active engagement of institutions with MNE

3. Subnational Institutional Entrepreneurship and Firm Innovation
   - *Firm level innovation*: technological development and innovation emerges as MNE responds to its new environment
   - *Subnational Institutions Entrepreneurship*: an instrument by which MNEs innovate within a location
Theoretical Framework

Entrepreneurship  
Transformation  
Configuration

Subnational Institutional activities

Firm Location Dynamics

Institutional Compatibility

Innovation

Experimentation

Creativity

MNIE Activities
Methodology

Research Context: Ireland

- FDI-intensive economy with national consensus on industrial and economic policy
- MNCs have played a key role in economic development
- Evolution of FDI and industrial policies

Contemporary Challenges for Ireland

- Greater geographical competition from emerging markets
- Horizon 2020 strategy:
  Team Ireland & Regional Economic Development

Comparative Case-Study Analysis

- Two neighbouring regions – geographically & physically similar
- Both regions suffered similar administrative, political and economic changes over time
### Case Comparison

<table>
<thead>
<tr>
<th></th>
<th>Region 1</th>
<th>Region 2</th>
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<tbody>
<tr>
<td><strong>Area</strong></td>
<td>8,248.64km</td>
<td>13,801km</td>
</tr>
<tr>
<td><strong>Population (% of national population)</strong></td>
<td>8.2%</td>
<td>9.7%</td>
</tr>
<tr>
<td><strong>Population Density (Population per sq. km)</strong></td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td><strong>FDI</strong></td>
<td>94</td>
<td>61</td>
</tr>
<tr>
<td><strong>Employment in Foreign Owned Enterprises</strong></td>
<td>14,477</td>
<td>18,039</td>
</tr>
<tr>
<td><strong>% Employed in Foreign Owned Enterprises</strong></td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Gross Value Added (GVA) at Basic Prices</strong></td>
<td>7.2%</td>
<td>7.7%</td>
</tr>
<tr>
<td><strong>Main sectors</strong></td>
<td>Manufacturing; Financial Services; Aviation</td>
<td>Biomedical and Life Science; ICT; Entertainment and Media</td>
</tr>
<tr>
<td><strong>Established Regional Development Agency</strong></td>
<td>1959</td>
<td>1958</td>
</tr>
<tr>
<td><strong>Governing Authority</strong></td>
<td>Department of Jobs, Enterprise and Innovation</td>
<td>Department of Arts, Heritage and the Gaeltacht</td>
</tr>
<tr>
<td><strong>EU Regional Status</strong></td>
<td><em>Objective II – Transition Region</em> ‘Regional Competitiveness and Employment Objective’</td>
<td><em>Objective I – Phasing-In Region</em> ‘Convergence Objective’</td>
</tr>
</tbody>
</table>
Methodology

Data Collection:
1. Systematic Regional Profile – Region 1 and Region 2
2. Study of Archival Data – media reports, institutional and company profiles and reports
3. Qualitative Interviews – 59 interviews with 33 subnational institutions
Creative Configuration

1951 – 1970:

1. Subnational Institutional Policy: Initial rudiments of two regional development agencies

2. Industrial Composition: Initial Investment by large MNEs particularly in a newly developed economic free zone

3. Education and Training Activity: Little to no industrial – educational engagement

Configuration of subnational institutional infrastructure was premised on attracting resource-seeking MNE investment (e.g. Manufacturing; Textiles; Life Sciences)
Experimental Transformation

1971–1990:

1. Subnational Institutional Policy: Significant changes and tailoring of regional development agencies to meet the more central role of national inward investment agency

2. Industrial Composition: Greater specialization of investment into each region e.g. emergence of specific clusters

3. Education and Training Activity: National level commitment & investment in education advancements

Subnational regions experienced malleability and experimentation in trying to retain investment, while MNEs sought greater alignment with their location e.g. locational capital
**Innovative Entrepreneurship**

1991 – 2010:

1. *Subnational Institutional Policy*: Subnational institutional infrastructure came under increased pressure

   - resulting in the dissipation of regional development agencies (2012)

2. *Industrial Composition*: Self-perpetuating clusters of industrial activity in both regions

3. *Education and Training Activity*: Specialized research institutes in both regions to meet the localized needs of FDI

Subnational institutions demonstrated greater innovative entrepreneurship in their engagement with MNEs to facilitate and develop a more nuanced relationship
Subnational Firm-Location Dynamics

Creative Configuration

Experimental Transformation

Innovative Entrepreneurship

National Influence

Dynamic Feedback Loop

Corporate Mandate
Subnational Institutional Inertia & Change

Change

1. Compatibility of subnational institutions can parallel the creativity, experimentation and innovation of MNE subsidiaries in their engagement patterns
2. Firm-location dynamics is fundamentally related to the temporality of investment and engagement

Inertia

1. Potential to generate institutional myopia depending on their evolution through the three stages
2. The influence of corporate MNE mandates and national-level influence strongly shapes the success or stunting of subnational institutional compatibility
**Contribution to Knowledge**

- Increased attention on the geography of MNE and endogenity of subnational institutions to the MNE network
  
  *(Beugelsdijk & Mudambi 2013; Monaghan et al 2014)*

- Co-Evolution towards institutional compatibility demonstrates potential inertia and change
  
  *(Cantwell et al., 2010; Phelps & Fuller, 2015)*

- Evidence of spatial heterogeneity and subnational institutional-MNE coevolution
  
  *(Cantwell 2009; Cantwell et al 2010)*
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